CROSSMARK GLOBAL INVESTMENTS

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COVERED CALL INCOME COMMENTARY

First Quarter Review 2018

The markets picked up right where they left off in 2017, sprinting to more record highs in January before trailing off at the end of the month. The S&P 500 was up another 5.72% in January on top of the fourth quarter of 2017 that saw the S&P 500 up 6.64%. The broad based markets were off to the races again as investors continued to passively ignore news around the globe that more often than not affect the markets. The technology and consumer discretionary sectors led the way with rate sensitive utility and telecom sectors lagging in January. Despite the continued success of the markets, the last week of January saw back to back declines that had been very uncommon. The Dow lost 540 points over a two day span and up until January 29th the S&P 500 had enjoyed a record long streak without consecutive declines of .50%. The VIX index ran up to its highest level since August hitting close to 35. The pullback in the markets seemed to give investors a breather for the time being.

Then the calendar flipped to February, and the happiness surrounding the long bull-run in the markets was shattered by one piece of economic data. Annual wage growth jumped unexpectedly, igniting inflation fears and setting off a chain of events that eventually saw a 10% correction in the equity markets around the world. Volatility made an all-important appearance following historical low levels over the past few years which caused widespread panic. A rapid change in investor sentiment towards concerns over the Fed tightening monetary policy faster than previously anticipated played a role in the violent swings seen daily in the markets. All that being said, the global economy

VIX vs S&P 500

Source: Bloomberg

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- Annual wage growth jumped unexpectedly, igniting inflation fears and setting off a chain of events that eventually saw a 10% correction in the equity markets around the world.
- A rapid change in investor sentiment towards concerns over the Fed tightening monetary policy faster than previously anticipated played a role in the violent swings seen daily in the markets.

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continued to show growth, corporate earnings were still strong and the potential growth catalyst provided by the end of 2017 tax legislation had already shown signs of coming to fruition.

Historically, March had been one of the better performing months of the year. History proved to be wrong for March of 2018. Risks of a trade war increased with more stocks benefitting from free trade than are likely to benefit from protectionist policies. Trade policy could very well be the biggest risk factor facing stocks in the near term which was supported by the market volatility throughout the second half of March. Fed Chair Powell conducted his first meeting and investors viewed the rhetoric as the Fed possibly raising rates more than the expected 3 times for the year. While trade wars and the Fed policy are legitimate concerns, it sure seemed like investors had more of a knee-jerk reaction as seen by how the markets rebounded the last week of the month. The positive momentum was a welcome relief after nearly weeks of wide ranging volatility throughout the markets.

The Covered Call Income strategy slightly lagged the primary benchmark of the S&P Covered Call Index in January as the markets raced off to another great start to the year. Overall for the first quarter, the Covered Call Income strategy outperformed both the primary benchmark of the S&P Covered Call Index and the secondary benchmark, which is the BXM. From an attribution standpoint, the strategy was affected in the following ways in regards to the S&P 500 sector breakdown:

Positive Attribution:	Negative Attribution:
Energy	Consumer Discretionary
Technology	Financials
Industrials	
Materials	

Looking ahead to Q2

Based on the momentum in the markets in the last week of March, we can only hope that carries over into the first month of the second quarter. There are still looming market factors that need to be watched closely with a few of those being potential trade wars and the continued fallout from the Facebook data breach. The consensus view from the Fed still sees rates rising 2-3 more times in 2018 as well. Volatility looks to be around at least through the first part of the summer. Volatility is healthy for the markets and important for covered call strategies. Continue to see the Covered Call team look for trading opportunities as they present themselves to increase option income. To say the first quarter of 2018 was boring would be quite the understatement. We move on to the second quarter with much anticipation.

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Covered Call Income Commentary

Top 10 Model Holdings [1]	Weight
1. Microsoft Corp.	4.02%
2. Abbott Labs	3.52%
3. Paypal Holdings	3.34%
4. Gilead Sciences, Inc.	3.32%
5. Delta Airlines, Inc.	3.22%
6. Pfizer, Inc.	3.13%
7. Intel Corp	3.06%
8. Emerson Electric Co.	3.01%
9. Citigroup, Inc.	2.97%
10. Activision Blizzard, Inc.	2.97%
Total of Portfolio	32.56%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model.

Covered Call Income strategy is designed for investors who want equity market participation with enhanced income potential. This approach is appropriate for investors looking for higher yields, capital appreciation and reduced risk levels.

Writing calls on securities held in the portfolio maximizes the gains that can be realized if the price of a stock increases, and investing in equity securities involves market risk, including the possible loss of principal.

Definitions:
"Up and Out" – This occurs when the original call option is repurchased and another call option is sold. The new option is sold with a higher strike price and a later expiration date than the original option.

"Rolling Down" – This involves buying back the current call option and selling another call option with the same expiration date. The only difference between the two call options is the strike price. In this case, the new option has a lower strike price.

"At-the-Money" – Options with a strike price, or exercise price, equal to the price of the underlying asset. Theoretically, these options have a delta around 50%.

"In-the-Money" – Options with a strike price, or exercise price, lower than the price of the underlying asset. These options have a theoretical delta greater than 50%.

"Out-of-the-Money" – Options with a strike price, or exercise price, greater than the price of the underlying asset. These options have a theoretical delta less than 50%.

"Delta" – One of the "Greeks" derived from the Black-Scholes model for option pricing. Theoretically, it states how much the price of the option will change given a $1 change in the price of the underlying asset. It is also commonly referred to as the "hedge ratio."

About Crossmark's 30 Year History
Crossmark Global Investments is an innovative investment management firm. The firm provides a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in responsible investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

For more information contact our
Advisor Solutions Group:
advisorsolutions@crossmarkglobal.com
888-845-6910

Crossmark Global Investments, Inc.
3700 W. Sam Houston Parkway S., Suite 250, Houston, Texas 77042
800.262.6631 info@crossmarkglobal.com
crossmarkglobal.com