CROSSMARK GLOBAL INVESTMENTS

# GLOBAL EQUITY INCOME

Global Equity Income is a separately managed account investment strategy

Commentary – 3/31/2019

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- U.S. equities rebound sharply from the previous quarter
- Q4 earnings grow at 13%
- Fed likely on hold until next year

## Performance

The first quarter of 2019 was a sharp rebound to the previous quarter with equities posting double digit positive returns that were broad based throughout the developed markets. The Global Equity Income benchmarks of the S&P Global 1200 and the S&P 500 ended the quarter with returns of +12.27% and +13.65% respectively. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned +10.34%.

## Factors Affecting Performance

The economic outlook in the U.S. appears to be moderating from the strong pace of 2018. While previous year GDP growth was nearly 3%, 2019 estimates are now looking for 2.5% GDP growth. The Fed appears to be putting future rate hikes on hold until possibly next year. This shift has come in part due to low inflation data, particularly the core CPI which ticked up only 0.1% in February. This is despite the fact that employee compensation has been moving up in response to a tighter job market. Canada's economy received a boost from the labor market as it generated a second straight month of strong job gains in February with the creation of 55,900 net new positions. The oil and housing sectors however remain weak with the fourth quarter GDP slowing to its worst performance in two years. Moving overseas to the Eurozone, the ECB is responding to weaker prospects for both growth and inflation. This comes on the heels of a particularly slow growth period in the second half of 2018. In the UK, prime minister May was forced to ask for an Article 50 Brexit extension after Parliament repeatedly voted down her proposed withdrawal agreement. UK lawmakers currently appear to have no agreement on how they should separate from the EU leaving significant uncertainty on the eventual outcome. Japan continues to struggle with low inflation however the BOJ has left its policy unchanged. The BOJ has shifted from trying to hit its inflation target to merely trying to keep inflation on a rising path.

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Company earnings as represented by the S&P 500 have posted a 13% growth rate for the fourth quarter marking a significant slowdown from the previous three quarters. Earnings growth for the full year of 2018 however came in at a robust 20%. The energy sector continues to lead the group in the fourth quarter with a growth rate of 94%. Almost every sector has posted a positive growth rate for the year with utilities being the only exception.

The Global Equity Income strategy underperformed the S&P Global 1200 but outperformed the MSCI World High Dividend Yield Index for the first quarter. The portfolio equity allocation at the end of the period was 61% U.S. and 39% international.

Positive relative performance was led by Accenture Plc. +24.83% whose shares climbed after posting solid quarterly results that beat expectations. Revenue growth came in at +9% which was at the high end of guidance. The Resources segment of this consulting and outsourcing company which serves various energy and materials industries led overall growth. The company also raised its forward guidance for fiscal year 2019. Pembina Pipeline Corp. +25.40% shares rose consistently through the quarter based on continuing growth initiatives coupled with a reasonable valuation. The integrated energy transportation and midstream infrastructure company has solid, long-term visible growth prospects with a diversified client base. The company has raised its dividend for eight consecutive years with a three year dividend growth rate of 7.6%. Shares of General Mills, Inc. +34.51% jumped on strong quarter results that

posted positive organic sales growth and significant operating margin expansion. The company was able to raise prices in order to offset the effects of supplier inflation. In addition to its classic brands, General Mills owns a number of organic products where consumers are willing to pay a higher price.

Negative contributors to relative performance included ResMed Inc. –8.34%. Shares dropped after the medical-device company announced its fiscal second quarter results. The company posted earnings higher than analyst estimates but the revenue came in well below expectations. Results were solid in the U.S., Canada and Latin America but fell short in Europe, Asia and other international markets. Even with this drop, the company is up more than 120% over the last 5 years. The focus going forward will be on successfully launching their new products and integrating their recent acquisitions. Shares of Encompass Health –4.91% slid as the healthcare sector was the weakest performer for the quarter. Reported earnings and revenue for the quarter however surpassed analyst expectations. The company provides post-acute healthcare services and it operates through inpatient rehabilitation hospitals as well as Medicare-certified home nursing and specialized home care. The Global Equity Income strategy has met performance expectations and will continue to seek high quality dividend paying companies that provide superior results over the long-term.

### Top 10 Model Holdings [1]

Microsoft Corp.
McDonald's Corp.
Intel Corp.
Accenture PLC
Unilever NV
Taiwan Semiconductor Mfg Co.
Pepsico, Inc.
Boeing Co.
Raytheon Co.
Smith & Nephew PLC

% of Total Portfolio: 23%

## Global Equity Income Strategy

The Global Equity Income strategy pursues its objective through the investment in U.S. and non-U.S. dividend-paying stocks that have demonstrated the ability to maintain a higher yield, increase dividends over time and generate significant earnings. These companies also represent a broad spectrum of the global economy. The objective of this strategy is to provide current dividend income and the potential for capital appreciation at lower than overall market risk.

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2019.

### Our Firm

Crossmark Global Investments is an innovative investment management firm. We provide 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 values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas and manages approximately $4.9 billion in AUA.

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