CROSSMARK GLOBAL INVESTMENTS

CROSSMARKGLOBAL.COM

December 31, 2017

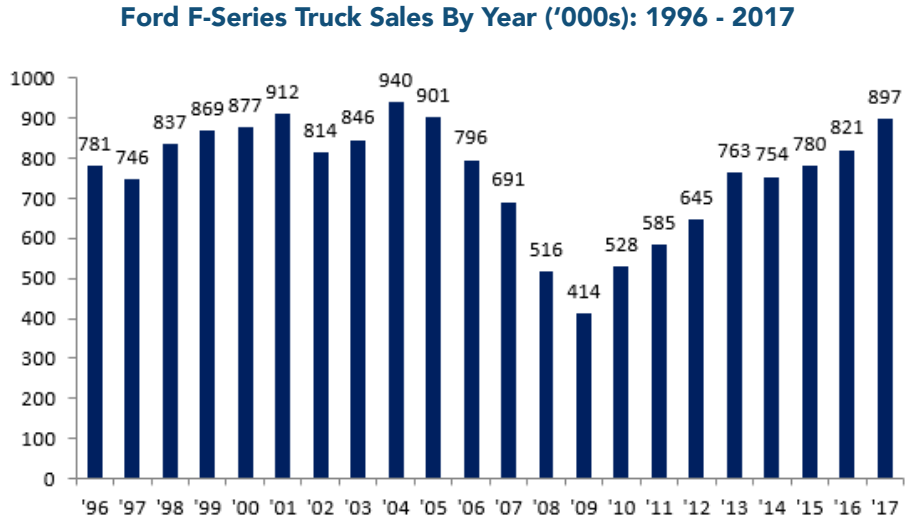
LARGE CAP CORE GROWTH COMMENTARY

This rocket ride upward in stocks, which started after the November 2016 elections, continues to astonish while it breaks record after record. For the year, the S&P 500 earned a total return of 21.8%. The S&P 500 has now posted positive returns for nine years in a row, an unprecedented feat. It has also posted positive returns on a total return basis for every month since the election, an unprecedented 14 months now. Stocks outperformed bonds for the seventh consecutive year and that is, you guessed it, unprecedented. The Trump administration's economic policies have been pro-business, perhaps more so than any previous president with the possible exception of Ronald Reagan. Simply, the promise of less regulation is helping to bolster equities. Nonetheless, the fact that the stock market accomplished this consistently month after month is still very impressive considering everything that was thrown at it. We had the failure of the Congress's new healthcare plan, the failure of the tax plan until late December, continued gridlock between the Republicans and Democrats, and all manner of serious weather disasters including hurricanes, floods and fires. We now appear to be in a synchronized global expansion with most major countries around the world registering expanding growth on various economic measures. These synchronized expansions historically correlate quite well with strong equity performance and this time is no exception. To illustrate further, Bespoke Investment Group recently completed a study of world markets using 35 ETFs around the world and found all but two were in uptrends.

Turning to our Large Cap Core Model Portfolio, once again we "split the difference" with the indexes. We outperformed the S&P 500 nicely but underperformed our benchmark, the Russell 1000 Growth Index. During the quarter, our top performing stocks included Deere & Co., which rose 25.1% for the period on a series of positive analyst reports and strong fourth quarter results. Coming in number two in the performance derby was Lennar Corp., the home builder, also on strong earnings results and analyst recommendations. The stock jumped 21.09%. After suffering for months, Nike also spiked after a good earnings report and a positive change in sentiment regarding the athletic shoe market, rising 21.0% for the quarter. On the flip side, stocks that held back performance included Celgene, usually a star performer for us, but it came under pressure after the failure of its much acclaimed treatment for Crohn's Disease. Amgen was also down after it announced weak sales for a couple of key drugs. Adjustments to the LCCG Model included the sale of Dr. Pepper Snapple. The proceeds were put into Polaris Industries, the off road vehicle and motorcycle maker, and added to Ecolabs, an existing holding. We also trimmed our positions in CDW Corp. and Thor Industries, both because they had become oversized holdings due to excellent performance. We also added to existing positions in Texas Instruments, Cisco, Lennar and Coca Cola.

- For the year, the S&P 500 earned a total return of 21.8%.
- The December unemployment rate was unchanged at 4.1%, essentially full employment and extending a 17-year low reading.
- Estimated earnings for the fourth quarter of 2017 are currently for 10.5% growth.
- The stocks market's technical indicators are pointing mostly towards higher prices in the months to come.

Despite all the political infighting and gridlock (or perhaps because of it) the U.S. economy is hitting on eight cylinders. First, the ISM Manufacturing Index jumped to 59.7 in December, up from 58.2 in November. Note that any reading above 50 is indicative of an expanding economy. Also impressive was the production sub-index which rose 1.9 points to 65.8. New orders jumped a full 5.4 points to 69.4. Recent data from Commerce Department revealed that construction reached $1.257 trillion, up 2.4% over last year's November report, and a new record. We also expect manufacturing to be bolstered by Congress's eleventh hour passage of the $1.5 trillion tax cut which fortunately became much more pro-growth in the final days before passage. It was the largest revamp of our tax code in 30 years. On a more micro note, Ford F-Series truck sales were strong for the best December since 2005. Note that trucks are a good economic indicator because they are often purchased by contractors and small businesses so they give a good read on the small business sector.



Source: Bespoke Investments

One potential fly-in-the-ointment was the December job growth number which came in at a less-than-expected 148,000 new jobs. Still, that result is well above the level of 75,000 to 100,000 that the Fed estimates is needed for the unemployment rate to hold steady. Additionally, at 87 straight months of positive job growth, it extends the trend for the record for positive job growth. The December unemployment rate was unchanged at 4.1%, essentially full employment and extending a 17-year low reading. With many economists expecting the unemployment rate to fall below 4.0%, we could begin to see businesses really compete for workers which, in turn, could give a nice boost to wages. As for GDP, the economy grew at its fastest pace in more than two years in the third quarter, clocking in at 3.2%. This also marked the first time since 2014 that GDP bested 3% for two consecutive quarters. Looking to 2018, many economists believe that GDP could exceed 3.0% for the full year, especially with the new tax cuts stimulating demand. And none other than Jamie Dimon, the CEO of JP Morgan, stated recently that 4% GDP growth in 2018 would not surprise him.

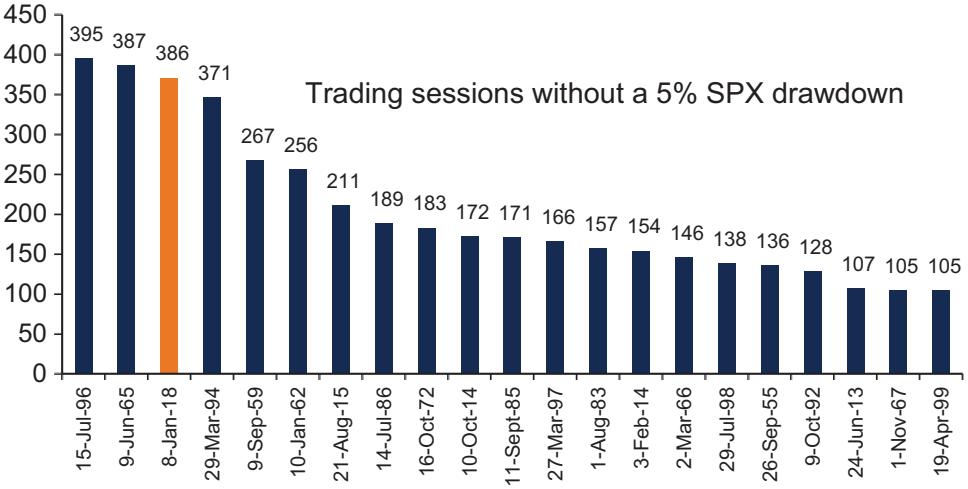
Turning to corporate profits, estimated earnings for the fourth quarter of 2017 are currently for 10.5% growth, according to FactSet, a nice way to finish the year. All eleven sectors are expected to finish in the black. For the quarter, analysts made the smallest cuts to their estimates of any quarter since 2010. Note that analysts almost always seem to cut estimates as they get more information as the quarter progresses. Looking to 2018, all four quarters are, as of now, expected to generate low double-digit growth. While this all sounds great, it also means that analysts have set a high bar for corporate America to jump over so, hopefully, their optimism will not be misplaced.

We now appear to be in a synchronized global expansion with most major countries around the world registering expanding growth on various economic measures.

To go along with the economic data, the stock market's technical indicators are pointing mostly towards higher prices in the months to come. The S&P 500 made 62 new closing highs in 2017, the second highest number ever, only to be bested by the Dow Jones Industrial Average which hit 71 new highs. Historically, this sort of market momentum means higher prices ahead. We have now seen the S&P 500, Dow Industrials, Dow Transports, Russell 1000, Russell 2000 and Nasdaq all making new highs simultaneously. So the markets are "in gear," which is quite bullish. As you would expect, the NYSE Advance/Decline Line (the number of advancing stocks versus declining stocks) is also following suit with new all-time highs. This is considered to be an excellent confirmation of the uptrend. The overall stock market almost never peaks before the A/D line and usually not until the A/D line has deteriorated for some months. Now as we like to note,

a 5% to 10% drawdown is always a possibility, and we think it would be healthy for the longer-term viability of the bull market. It allows earnings to catch up to prices and brings prices down to more comfortable levels. Also, we are overdue for a pullback. At year end we had gone for about 380 trading days without a 5% or greater downdraft, the second longest streak on record. The existing record is 395 days which we expect to surpass in January.

Another Record Likely to Fall



Source: BofA Merrill Lynch Global Research. Data from 2-Jan-1928 to 8-Jan-2018

As we have noted in 2017, valuations have gotten a bit stretched out. At year end the S&P 500 closed on a slight down note at approximately 2673. With the consensus 2018 earnings estimate at $147 the index's price/earnings ratio was about 18.2x at the end of the year. This is certainly high by historical standards, but during periods of unusually low interest rates and inflation, PEs often can rise to 20x or higher, especially with a backdrop of a growing economy and earnings base. On that basis, the wind is certainly at the stock market's back. There is an old adage that "bull markets don't die of old age.' meaning until something negative happens (often a mistake by the Federal Reserve) the markets can continue to rise over time. From our perspective, unless the Fed overtightens or earnings tumble, the Bull should continue.

With many economists expecting the unemployment rate to fall below 4.0%, we could begin to see businesses really compete for workers which, in turn, could give a nice boost to wages.

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. Additionally, Crossmark is the exclusive manager of the Crossmark Steward Funds, which is a fund family that applies an overarching values-based screening methodology to its suite of equity and fixed income funds, including its award-winning Steward Global Equity Income Fund - named Lipper's "Best Global Equity Income Fund" for the last three consecutive years.

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

Crossmark Distributors, Inc.
Member FINRA/SIPC.