CROSSMARK GLOBAL INVESTMENTS

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MUNICIPAL FIXED INCOME COMMENTARY

Tax Reform heavily influenced the municipal bond market in December. The municipal bond sector broke away from all other fixed income sectors in terms of yield and traded independently from the rest of the field. The ten-year Treasury moved higher in yield, yet yields moved lower in municipal bonds. This seldom happens unless an outside event places pressure on a sector.

December 1985 was the last time tax reform came into play with a direct influence on municipal bonds. That year, municipalities had the full year to organize an all-out assault on new issuance by bringing a record setting $54.7 billion to market in the month of December. This year, municipalities had two months to rush bonds to the market before year-end with December 2017 breaking the December 1985 record with a total new issuance of $57.5 billion. The heavy increase in new issuance at year end is a contributing factor as to the reason municipal bonds broke away from other fixed income sectors in terms of yield.

The Federal Open Market Committee's (FOMC) talk of a short-term Fed Funds rate increase of 25 basis points overshadowed the Tax Reform legislation. The hawks and doves were circling overhead waiting for their opportunity to make a presence 12/13/17 with a formal announcement of an increase of 25 basis points to short-term Fed Funds. This became a secondary act to the Congressional infighting, formally called negotiation, of the Tax Reform proposal. The Congressional infighting is more appropriately similar to a bear and cougar fighting over an animal carcass left by wolves. The fight is full of growls, snarls and fierce sounds associated with a real encounter. Blows will be exchanged, fur will fly and one proud animal will limp away with cuts and bruises as the victor feasts on the winnings. It will be a sight to witness as most people rarely see this in the wild or in Congress.

Financial writers have been promoting a potential loss of new issues coming to the market beginning in January 2018 should Tax Reform's final draft eliminate or severely restrict advance refunding of municipal bonds. Keep in mind that this data is probably accurate on the single subject of advance refunding as municipalities flooded the December calendar with new issues brought to the market to get ahead of the Tax Reform enactment. Data suggests nearly one third of the issuance will be restricted in 2018 and beyond, however it does not eliminate advance refunding when an issue is within 30 days of its first call date. Financial writers are focusing on the dramatic potential reduction of new issuance that may result in the first quarter 2018. In perspective, most advance refunding was beginning to wane as most municipalities have been heavily engaged in this activity of advance refunding with rates at historical lows. As interest

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rates rise, advance refunding and bonds being called subsides. Another potential factor that current articles are not including is the fact that infrastructure has not yet been addressed across America. The Society of Civil Engineers suggest that over $3.7 trillion dollars of repair to infrastructure is needed over the next 7 to 10 years to bring America's tired infrastructure up to an acceptable standard. That alone would require a lot of new issuance of bonds that would probably offset at least a substantial portion of the current loss of refunding. The final version of Tax Reform might eventually turn the focus to infrastructure going forward. With a flood of new issuance in November, followed by a large number of issues maturing and being called in December, (again followed by a potential record new issuance in December), the result could be heightened volatility in prices for the municipal bond market. Crossmark Global Investments took full advantage of lower pricing in November and December to purchase bonds for portfolio creation and maintenance. Expectations include the early days of January 2018 to see a rush of investors filling the called and matured bond cash showing in accounts.

Another outside factor may be when municipal mutual fund investors get their shareholder statements showing a reduction in value due to the flood of new issuance and dropping prices. Human nature suggests that this group of investors may consider selling "a stale or losing investment" and reposition into equities, "a successful investment that I don't want to be left out of any longer." If municipal bond mutual fund investors sell in January, this will add to the historic supply of new issuance of municipal bonds that came to the market in December, with a reduction of demand forcing prices lower. Crossmark Global Investments will be poised to react to favorable pricing should supply and demand forces develop.

Crossmark Global Investmens continues to find value in the municipal secondary market with bonds rated A or better involved with essential services like water, sewer, power, streets, highways, school education and general obligations. The ideal maturities on the yield curve have moved to the 5 to 10 year range with a call feature between 2019 and 2024. In some cases, non-callable bonds from 2019 to 2021 are yielding more than 5 year maturities. Crossmark continues to hold a shorter duration than the Barclay's Quality Municipal Index with a focus on higher quality municipalities. Crossmark Global Investments continues to use municipal bond market volatility to opportunistically manage the portfolios entrusted to us.

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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