



CROSSMARKGLOBAL.COM

September 2017

MONTHLY COMMENTARIES

Market Commentaries Overview

The month of August was a roller coaster ride for our Houston-based firm on several levels. But with this being an August Monthly Market Commentaries letter, we will save the best for last (a brief thank you and personal note regarding Hurricane Harvey) after previewing what to expect in each of our portfolio managers' August Monthly Commentaries.

With that said, those seeking respite from weather and/or solar eclipse related news in August would have found a similar roller coaster-esque experience in following U.S. politics, geopolitics, Central Bank tea leaves, and/or social issues in the U.S. and abroad. Each of these issues – from the U.S. debt ceiling and healthcare/tax reform overhangs, to North Korea nuclear tensions, to Federal Open Market Committee (FOMC) rate hike speculation, to Charlottesville and the terrorist attacks in Spain – recurrently found their way in and out of the overall market narrative throughout August, “trigger[ing] nerves and boost[ing] volatility” (**Covered Call Income** commentary). By mid-August the S&P 500 whipsawed lower by nearly -2% while the VIX had spiked ~55% since the start of the month. However, simply looking at month beginning vs. ending prices, one would have assumed a relatively stable month for markets (S&P 500 +0.31% and VIX +3.2%) – it was not. But by the end of August it was clear that – as stated in the **Large Cap Core Growth** commentary – “the market continues on its tear since the November election.”

In both the, **Taxable Fixed Income** and **Municipal Bond** commentaries, we reiterate our positioning in higher credit quality corporate and municipal securities. Furthermore, despite interest rates reaching their 2017 lows in August, both taxable and municipal fixed income portfolios are unchanged in their approach to taking a more conservative short duration position relative to comparable benchmarks in order to reduce volatility and interest rate risk. In our Municipal Bond Commentary, you may be relieved to hear that, “to date, not a single municipal borrower that was rated by Moody’s has defaulted due to a natural disaster”. This implies that substantial local, state, and federal aid will be put to work assisting municipalities in rebuilding areas affected by recent natural disasters (hurricanes, floods, and wildfires).

Large Cap Core Growth Commentary

The market continues on its tear since the November election. Impressively, the S&P 500 has not suffered one down month since the election although there have been some close calls. The Russell 1000 Growth Index, our benchmark, has followed the same path except on steroids, as we noted last month. It has surpassed the S&P 500’s performance by 723 basis points year-to-date through August. Our Large Cap Growth model portfolio has “split the difference” by solidly outperforming the S&P 500 while lagging the Russell benchmark. Again, stellar performance certain technology stocks including the well-known “FANGs” (Facebook, Amazon, Netflix, and Google/Alphabet) have powered the R1000G Index ever higher.

This information has been provided by Crossmark Global Investments, Inc. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. The views and opinions expressed are those of the portfolio manager at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing. Past performance does not guarantee future results.

Our models best performing sectors for August were Healthcare, up 3.72%, and Information Technology, which rose 3.45%. Conversely, lagging sectors were Energy, down 4.75% and Industrials, down 3.48%.

Top performing stocks included Rockwell Collins, which soared 23.34% for the month on the announcement that United Technologies, the defense company, would acquire it for \$140 per share. Charles River Labs jumped 10.79% on a strong earnings report. Lagging stocks included Toro, the lawn care company, fell 13.24% on general weakness in industrial stocks and a sales miss. Nike was also weak as bad news continued to plague the athletic shoe sector in August.

Adjustments to the Large Cap Core Growth model in August included the sale of our General Electric position due to poor performance and additions to both Abbott Labs and Activision Blizzard.

Covered Call Income

Historically August is the worst performing month of the year in relation to the S&P 500. However, there is a historic trend that shows the markets usually do better than average after a strong month of July and that is exactly what was delivered. After the S&P 500 returned over 2% for the month of July, the index followed that up with a +.31% return for August, which is the fifth positive month in a row. The traditionally low-key summer months were interrupted by an upsurge of political risk led by mounting U.S. and North Korea tensions and the terrorist attacks in Spain, which triggered investor nerves and boosted volatility. The unfortunate events at the demonstrations in Charlottesville served to also increase disarray within the Trump administration. All that being said, the U.S. continued to demonstrate solid growth.

Covered Call Income (Theta Growth) had another positive performance month as the strategy outperformed both the S&P 500 covered call index and the BXM. A few individual names in the strategy that produced positive performance for the month of August were Gilead Sciences (GILD), Microchip Technologies (MCHP) and Cerner Corp. (CERN) with returns of 10.01%, 8.92% and 5.27% respectively. Gilead Sciences followed up a nice month of July with an even better month of August as it continued to perform well over the summer. Nike (NKE) was down -10.26% for the month as it traded off in the sector following Foot Lockers (FL) horrendous earnings announcement. Lowes Cos. (LOW) seems to follow up one good earnings announcement with a poor one as the stock was down -4.53% on poor earnings that were announced this month. Covered Call Income benefitted from having a slight overweight to the technology sector as that sector returned 2.92% for the month of August.

After seeing the VIX index hit a lifetime low of 8.84 during the third week of July and close with a 9 handle for ten straight days, the VIX soared over 40% on North Korea tensions to 16.04 on August 10th. The index then retraced back before spiking again on the Spain terrorist attacks. When the month of August was over the VIX index was back under 11. The volatile month gave the Covered Call Income team trading opportunities to boost income levels for the strategy.

Taxable Fixed

We spoke last month about the recent trading range of 2.20%-2.40% on the US 10yr Treasury yield that has held pretty consistently over the past months. However, with increasing concerns over North Korea and some lower trending economic numbers that could cause the FOMC to take pause on rate hikes for the rest of the year, we broke this range to the downside and saw yields finish out the month of August around 2.12%. The more conservative approach taken by our taxable fixed income models to reduce interest rate risk provided a tailwind of outperformance versus the comparable indices during the month of July. Although the models continued to post positive monthly returns in August, this same approach did serve as a headwind over the past month as rates fell to new lows for the year.

This information has been provided by Crossmark Global Investments, Inc. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. The views and opinions expressed are those of the portfolio manager at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing. Past performance does not guarantee future results.

As our investments focus on high-quality, investment grade corporate securities, the income component of total return was a positive contributor to performance for the month of August. Our short duration positioning to protect from interest rate volatility was the largest negative contributor with a decline in rates of about 17bps during the month. With the debt limit issue appearing to be resolved for now and increasing cooperation with other countries in dealing with North Korea, we may see rates shift and begin to trend higher as we head towards the end of the quarter. Retail sales and consumption may tick higher as Houston and surrounding areas begin the process of rebuilding, although the labor market appeared to take a slight hit for the same reason. Uncertainty is still rearing its ugly head with monetary and fiscal policy, along with geopolitical issues, which translates to Crossmark remaining in a conservative stance versus volatility and interest rate shocks.

The four-step investment process utilizing duration targeting, yield curve structure, sector evaluation and security selection continues to be our guiding philosophy through all market cycles. We will continue to monitor the markets, updating our inputs into the process and determining any opportunistic changes for the portfolios. As always, we are here to assist you through these uncertain markets, so feel free to contact us with any questions you may have.

Municipal Fixed Income

Hurricane Harvey, Irma, Jose and Katia as well as numerous wildfires in the west and northwest are events that have yet to unnerve the municipal bond market. Investors appear to be mostly confident that various aid, increased rates and a quick recovery will keep municipalities and the borrowers for such investments from default. To date, not a single municipal borrower that was rated by Moody's has defaulted due to a natural disaster. State and Federal aid will be used heavily to help affected areas to rebuild.

What we have seen in the municipal bond market is that bond pricing has strengthened, even in the face of all the natural disasters. Insurance companies have sold large blocks in anticipated claim payments but this action is prudent and understandable. A few individual bondholders have been nervously reacting but we see Separately Managed Account Portfolio Managers, municipal bond mutual funds and institutions continue to acquire bonds at a reasonable price. Demand continues to outpace supply for the month of August.

Texas is a large state so narrowing it down to the disaster area, S&P grades 25 of the 54 counties in the declared emergency areas of Texas. According to S&P, the disaster could place a negative impact initially on the various governments but also added that state and Federal aid, along with insurance payments tend to offset the impact of the disaster.

Municipal Utility District bonds have come under scrutiny since Hurricane Harvey left up to 25 trillion gallons of water trying to find a way to the Gulf of Mexico. MUD's, as they are called in bond lingo, are bonds issued to finance infrastructure for new housing developments with the debt being repaid through a portion of homeowner's property taxes. If too many people move from the districts then debt payments could be hindered. This was a primary concern during the S&L banking crisis when people couldn't find jobs in Texas and moved away. Today, the Houston/Dallas/Austin areas are growing rapidly which is fueling tax coffers for debt repayment. Crossmark Global has invested in Municipal Utility Districts in Texas with the bulk of the bonds being short term in nature, usually with a maturity in 2018 thru 2020 with insurance from companies with an A or better rating. Too early to see how many people decide to move from the affected areas of Texas but it looks like recovery is moving steadily in the right direction. Crossmark Global will be monitoring all areas of the country affected by natural disasters.

Crossmark Global Investments 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 10 to 20 year range with a call feature between 2019 and 2026. 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.

On a Personal Note

Thank you to everyone for all the prayers and well wishes for our colleagues here at Crossmark Global Investments as the city of Houston and surrounding communities were impacted by Hurricane Harvey. Amid the destruction and trials of Hurricane Harvey, it was an amazing and powerful sight to witness people risking everything to try and save and help those in need. Houstonians and Texans are a strong and resilient group and will recover and rebuild better than ever. Thank you again!

About Crossmark's 30 Year History

Crossmark, previously Capstone Asset Management Company, is an independent investment advisor headquartered in Houston, Texas. Founded in 1987, Crossmark has a multi-decade legacy of providing portfolio solutions for financial advisors and institutional investors with values-based, SRI and ESG values and factor-based strategies. 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. Crossmark manages approximately \$5 billion in assets with clients nationwide.

For more information contact our
Advisors Solutions Group:

888-845-6910

This information has been provided by Crossmark Global Investments, Inc. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. The views and opinions expressed are those of the portfolio manager at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing. Past performance does not guarantee future results.

The Crossmark Steward Funds are distributed by **Crossmark Distributors, Inc., member FINRA and SIPC**. Crossmark Distributors is an affiliate of Crossmark Global Investments, Inc., the Steward Funds' investment adviser. Crossmark Global Investments is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients.

Before investing in a mutual fund, you should read the fund's prospectus carefully and consider the fund's investment objectives, risks, charges and expenses. The prospectus contains this and other information about the fund. A copy of the Steward Funds' prospectus may be obtained free of charge by calling Crossmark Distributors at 800-262-6631.

The U.S. Lipper Fund Awards recognized The Fund on March 31, 2015, March 22, 2016 and March 23, 2017 for delivering consistently strong risk-adjusted performance, relative to its peers, for the 5-year period. Chosen out of 66 others in 2015, 80 others in 2016, and 22 others in 2017, the Fund achieved the highest Lipper Leader for Consistent Return (Effective Return Net of Expenses) value over an individual time period in its classification.

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.