CROSSMARK GLOBAL INVESTMENTS

TAXABLE FIXED INCOME

Core Fixed Income, Current Income Portfolio, Intermediate Fixed Income and Income Opportunities are separately managed account investment strategies

Commentary – 3/31/2019

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- Central banks, US/China trade, Brexit and slowing global growth have once again driven the markets in the first quarter of the year.
- The move lower in yields of roughly 40 basis points for the quarter on the US 10yr treasury was a positive for the market values of fixed income securities.
- We have been working to extend duration in our products as we anticipate that we are approaching the end of the rate hike cycle from the Federal Reserve and look to reposition slightly further out the yield curve.

You already heard it last quarter, but the story remains the same – central banks, US/China trade, Brexit and slowing global growth. These factors once again have driven the markets in the first quarter of the year, although with a different result than what we saw previously. At the end of 2018, investors were concerned over the possibility of higher rates and a recession, pushing equity markets to one of the worst Decembers ever. Flip the calendar and the story began to shift. With a pivot from the Federal Reserve, a pull back from the ECB, optimism towards a deal with US and China and some Chinese data that may represent a bottom forming for that EM economy, we had the best 1st quarter for the equity markets in years.

The anticipation that the Federal Reserve will remain on hold for the rest of 2019 led to a shift lower in yields across the treasury curve both in the US and globally. We actually saw the 10yr German Bund move into negative territory as risk-off sentiment in the fixed income markets made a strong showing. We did see an inversion in the 3month-10yr part of the yield curve, although that has since reversed and we currently sit with that spread at around 9 basis points and the 2-10yr part of the yield curve exhibiting steepness of around 18 basis points. The move lower in yields of roughly 40 basis points for the quarter on the US 10yr treasury was a positive for the market values of fixed income securities although we have moved off the lows posted at the end of March of around 2.36%.

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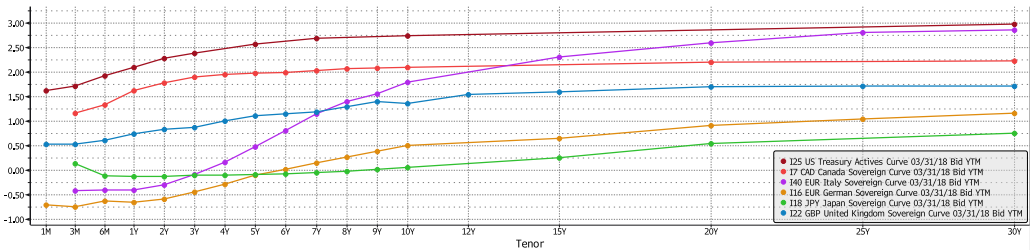
At Crossmark, we utilize a four-step process to determine our investment strategy, which has led us to a more conservative approach in our holdings. This has been accomplished by purchasing higher quality securities with strong levels of income while reducing our exposure to interest rate risk. This worked well for us last year with all of the volatility in yield movements. This past quarter, with yields dropping by about 40 bps, we had positive performance across all taxable fixed income products, although underperforming the comparable benchmarks due to our shorter duration positioning and underweight in treasury notes. For the Current Income Product and Income Opportunities models, however, the allocation to fixed rate preferred securities and the corresponding income from that sector allowed us to outperform the comparable benchmarks for the quarter.

Global 10yr Sovereign Yields - March 31, 2019



Source: Bloomberg

We have been working to extend duration in our products as we anticipate that we are approaching

the end of the rate hike cycle from the Federal Reserve and look to reposition slightly further out the yield curve. If economic reports hold steady in the US and improve on a global basis in the second half of this year, we are not ruling out one more rate hike by the FOMC although we don't see rates moving up to previous year highs of 3.25%. As always, we are here to help guide you through the volatility of the markets and are happy to discuss our models, our outlook and the markets in general with you.

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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