



CROSSMARKGLOBAL.COM

June 30, 2018

# TAXABLE FIXED INCOME COMMENTARY

CORE FIXED INCOME  
 INTERMEDIATE FIXED INCOME  
 CURRENT INCOME PORTFOLIO  
 INCOME OPPORTUNITIES

We made it through the first half of 2018 and it's been quite eventful. We have had volatility surges, large market swings, the U.S. 10yr moving above 3.0%, tax cuts and reform, trade issues and historic meetings with North Korea. Quite a large list for the past six months. As we prepare to kick off the summer, we must consider what lies ahead for the rest of the year and how you should be positioned to handle any surprises coming your way.

At Crossmark, our taxable fixed income products have been generating higher levels of income with lower interest rate sensitivity than their comparable indices due to our short duration positioning and a focus on the income component of total return. For the 2nd quarter and year-to-date 2018, all of our taxable products have outperformed their benchmarks with our strong income generation serving as the largest positive contributor to the outperformance, coupled with a benefit from our yield curve positioning. For the CIP and Income Opportunities portfolios, the fixed rate preferred allocation was also a positive contributor with the sector producing strong returns for the quarter.

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There is a constant stream of headlines forecasting how close we are to the end of the market cycle, what the Federal Open Market Committee (FOMC) is going to do and when we

will actually reach 3.0% GDP this year. Although nobody knows the exact answer to these questions, what we do know is that there are some tailwinds to this economy including continued benefit from tax reform and tax cuts, repatriation, growth in capex and low unemployment. This doesn't mean we foresee a market that is off to the races as headwinds are sure to continue to be present such as trade and tariff issues and slower growth around the globe. However, we do anticipate that the FOMC will continue to raise the Fed Funds rate over the coming year. With this outlook for a rising rate environment, our strategy of maintaining a duration shorter than the index while focusing on income generation will continue for the coming quarter.

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To determine our strategy, we utilize a 4-step investment process focused on duration, yield curve, sector and security selection, combined with our outlook for the markets. This strategy remains constant although our inputs to the process such as economic reporting, geopolitical events, growth projections and central bank actions will change and help form the appropriate strategy for our portfolios. We have many events coming up in the second half of the year that can shape the remainder of the business cycle including mid-term elections, big retail shopping days, FOMC meetings, new leaders in other countries, and continued fiscal and monetary policy events. We believe this quarter may be anything but “the lazy days of summer”. As always, feel free to contact us with any questions as we are happy to discuss the portfolios, our strategies and the markets with you.

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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.

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