



CROSSMARKGLOBAL.COM

September 30, 2017

# TAXABLE FIXED INCOME COMMENTARY

FIXED INCOME  
INTERMEDIATE FIXED INCOME  
CURRENT INCOME PORTFOLIO  
INCOME OPPORTUNITIES

Everyone, at some time or another, has had that odd feeling of getting in your car and before you know it, you are at your destination and not really sure how you got there. The 3rd quarter of this year could provide that same uncanny feeling if you just looked at the starting point and ending point, ignoring all that happened in between. As a guide for the bond market, we look at the US 10yr Treasury note that was at a 2.35% at the beginning of July and ended September at a 2.33%. This seems somewhat benign until we see that we continuously dropped to a 2.04% during the first week of September and made a strong climb back towards the 200 day moving average over the following three weeks to close the quarter about where we began.

Throughout the 3rd quarter, we continued to face uncertainty on multiple fronts including North Korea, European elections, health and tax reform in the United States and numerous natural disasters, just to name a few. Much of this led to a risk-off sentiment in the markets pushing yields down close to the 2.00% level. However, economic reports began to strengthen slightly in September and the Federal Open Market Committee (FOMC) reiterated its conviction to a third rate hike this year at their meeting on September 20th. Due to the issues mentioned above, futures were only pricing in a 22% chance of a rate hike in December on September 7th – the day the 10yr closed at the low of the quarter of 2.04%. On the 1st day of the FOMC meeting, futures were somewhat more optimistic with a 53% chance of another rate hike this year. If we look today, futures are pricing in close to 75% chance of a rate hike in the final month of the year. Historically, the Fed has followed through on such movements when the futures have priced in at least a 70% chance of the action occurring. Looks like we will get that final hike in a couple months, barring any major market moving events.

Although the economic projections from the FOMC have shown a reduced expectation of rates on the longer-end, we still have some room to move from our current position. With the anticipation of another rate hike this year, and the potential for 3 more in 2018, coupled with potential gains in corporate revenue, higher wages and a strong labor market, our fixed income products are positioned to withstand higher-trending yields over the coming quarters. With a shorter duration than the comparable indices to help reduce interest-rate sensitivity, and a focus on income with strong current yields, our fixed income portfolios can withstand volatility as the yield curve adjusts to new levels. We have seen this in the month of September as yields rose and all of our fixed

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sector and security selection will guide our strategy and allow us to make opportunistic changes to our portfolios as the market allows. We are always here to help guide you and answer any questions you may have regarding portfolios and the markets. So as we begin the final quarter of the year, let's pay attention to the paths we are on and not end up at the final destination wondering how we got there.

income products outperformed their index for the month. Rising yields, as we expect to see in the next few quarters, will continue to serve as a tailwind for our more defensive positioning in the marketplace. As always, our process of using duration targets, yield curve structure,

### 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.

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The U.S. Lipper Fund Awards recognized The Steward Global Equity Income 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.

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