



CROSSMARKGLOBAL.COM

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TAXABLE FIXED INCOME COMMENTARY

CORE FIXED INCOME
INTERMEDIATE FIXED INCOME
CURRENT INCOME PORTFOLIO
INCOME OPPORTUNITIES

Put on your bell-bottom pants, your go-go boots and your best disco attire while we take you back to 1976. Close your eyes and you can hear Maxine Nightingale belting out “Right Back Where We Started From”. Why this trip down memory lane? Well, because if we look at the U.S. 10yr treasury yield, we ended the year basically where we started – at 2.44%, there is only a 4 basis point difference from beginning to end.

This isn’t to say there weren’t moments of fluctuation as we saw the 10yr yield move up towards 2.63% in March and fall close to 2.0% in September. However, it appears that for much of the year, the bond market was waiting to see how the Federal Open Market Committee would move forward on rate hikes along with potential policy being passed in Washington. As we begin 2018, some of those wait and see moments have been addressed while others continue to hide in the wings. Janet Yellen provided a well-telegraphed playbook for how the Federal Open Market Committee (FOMC) would raise rates and remained steadfast in that plan. As we begin a new era within the FOMC with Jerome Powell at the helm and a rotation of voting members, we will have to determine if it’s more of the same or if a more hawkish tone will emerge.

In addition to the path of rate hikes, there are new fiscal policies that can affect our markets and the outlook for growth. Will the new tax plan indeed generate higher corporate revenues that feed through to wages? If so, does this help spur inflation that has been stuck below the Fed’s 2.0% target even with unemployment at 4.1%? Will we see an infrastructure package presented that, along with favorable terms in the tax plan, help increase manufacturing and industrial production? For now, these are unknowns, but the answers should unfold in 2018 and will surely affect our yield curve. Whether that leads to a flatter or steeper curve, only time will tell.

At Crossmark, our fixed income team anticipates that we will see an increase in wages and inflation in the coming quarters which should provide a steepening push to the yield curve. However, as the FOMC continue to raise the Fed Funds rate, a flattening component comes into play. Until the market has a much stronger outlook of inflation moving higher, the intermediate to longer end of the yield curve may remain somewhat range bound below the 2017 high level of 2.63% for the 10yr yield. That gives us some room to run higher from current levels.

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Based on this outlook and our 4-step investment process focusing on duration, yield curve, sector and security selection, we maintain our conservative positioning of the taxable fixed income

portfolios. Such a positioning allows us to reduce our exposure to volatility due to interest rate movements which we couple with a higher level of income as compared to comparable indices. This strategy will continue until we see yields in that longer part of the curve begin to push to new highs and level off combined with wider corporate spreads that signal a change in the market environment. 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 as we begin a new year together.

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.

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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 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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