CROSSMARK GLOBAL INVESTMENTS

Taxable Fixed Income

Commentary | Quarterly update: 1Q25

Separately managed account (Core Fixed Income, Current Income Portfolio, and Intermediate Fixed Income)

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Markets and performance

There is a saying that the markets rejoice from election day to inauguration day, and then reality sets in. It appears we saw that happen during the first quarter of this year. Animal spirits and the expectation of pro-growth policies pushed markets higher, initially. We entered 2025 with a market that was priced to near perfection including high valuations, high growth expectations, and high earnings expectations. However, cracks began to form in this rosy outlook and there were concerns around growth focused on the weakening labor market and the effects of this weakening on the consumer. In addition, there was much uncertainty surrounding policy—fiscal policy, monetary policy, regulatory policy, and trade policy. If there is one thing we know, it is that the markets do not like uncertainty. This cloud of confusion hung over the markets through the end of the first quarter, causing volatility in both equity and fixed income markets.

Positive and negative contributors to performance

The Core Fixed Income and Intermediate Fixed Income model portfolios returned 2.34% and 1.95%, respectively, in the first quarter. Although a solid quarterly return, the model portfolios underperformed the related benchmarks by 39 basis points (bps) and 33 bps, respectively. The largest drag on relative performance for the model portfolios was due to the duration positioning. Although we have moved closer to neutral, we are still slightly short compared to the benchmark duration, which worked against the models when yields dropped as growth concerns for the economy intensified. We have been using a barbell strategy in positioning for the strategies to focus on the shorter and longer ends of the yield curve, as the middle of the curve appeared more expensive. This positioning was the largest positive contribution to relative performance versus the benchmarks. For the Current Income Portfolio, the hybrid fixed-income preferreds were the largest drag on performance, as the hybrid nature of the securities caused them to be greatly affected by the swings in the equity markets as well as spread-widening from the fixed income market. The income from this sector was the largest positive contributor to performance, but the model portfolio underperformed for the quarter, returning 1.32% versus 2.42% for the benchmark.

Looking ahead

As we move through the 2Q25, the uncertainty continues, and decisions will need to be made on how to move forward with tariffs, tax cuts, the debt ceiling debate, and budget deals. At Crossmark, we see this as translating to continued volatility, although we do believe that perhaps the high point for the U.S. 10-year Treasury yield has been reached for the year. With that outlook, we have moved our duration positioning close to neutral and increased the Treasury allocation to take advantage of potential yield fluctuations. Our investment process continues to focus on the four steps of determining duration, yield curve placement, appropriate sectors, and security selection, allowing us to evaluate the economy and participate in opportunistic trades as appropriate, while monitoring our exposure to rate volatility.

Composite performance (%)	Quarter	YTD	1-year	3-year	5-year	10-year	Since inception
Core Fixed Income (Wrap) – Gross	2.34	2.34	4.71	1.86	1.13	1.95	3.97
Core Fixed Income (Wrap) – Net[1]	1.59	1.59	1.65	-1.15	-1.86	-1.07	0.89
Bloomberg U.S. Govt/Credit Index	2.70	2.70	4.66	0.45	-0.34	1.58	3.81
Current Income Portfolio (Wrap) – Gross	1.32	1.32	4.25	2.45	2.08	2.27	3.63
Current Income Portfolio (Wrap) – Net[1]	0.57	0.57	1.20	-0.58	-0.94	-0.76	0.55
Bloomberg U.S. Govt/Credit Intermediate Index	2.42	2.42	5.65	2.18	0.86	1.81	3.11
Intermediate Fixed Income (Wrap) – Gross	1.95	1.95	5.54	2.55	1.22	1.77	3.50
Intermediate Fixed Income (Wrap) – Net[1]	1.20	1.20	2.46	-0.47	-1.77	-1.24	0.43
Bloomberg U.S. Govt/Credit Intermediate Index	2.42	2.42	5.65	2.18	0.86	1.81	3.55

1 Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00%, with a deduction of 0.25% from each month's return. Gross performance is shown as supplemental information and represents pure gross returns, as they have not been reduced by transaction costs or fees. Wrap fees include Crossmark's portfolio management fee, trading costs, custody, and other administrative fees. Due to the effect of compounding, annual returns shown net of fees may be lower than the return that would be shown if the fee were deducted from the gross return at a single point in time.

Crossmark uses a model account to manage the individual client accounts that have selected this investment strategy. All performance information shown is composite performance derived from the aggregate of all accounts included in the composite.

Our firm

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

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Crossmark claims compliance with the Global Investment Performance Standards (GIPS®). Prospective clients can obtain a GIPS Composite Report by sending a request to: advisorsolutions@crossmarkglobal.com.

The U.S. Dollar is the currency used to express performance. The performance reflects the reinvestment of dividends and other earnings to the extent that client accounts included in the composite elected to reinvest dividends and earnings. Performance figures shown gross of fees do not reflect the payment of investment advisory fees.

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