CROSSMARK GLOBAL INVESTMENTS

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2Q25 Investment Update

Bob is a financial services industry veteran with over 40 years of experience managing large cap equity strategies as well as long and long-short equity strategies. His weekly, quarterly, and annual investment commentaries focus on key themes and risks driving equity markets, monetary policy, and the global economy. Bob is a regular guest and contributor to multiple media outlets such as CNBC, Bloomberg TV, Moneywise, and Fox Business News.

2024 returns

Index	2024 (%)	1Q25 (%)
90-Day Treasury Bills (Bloomberg U.S. Treasury Bill 1-3 Month TR)	5.3	1.0
10-Year U.S. Treasury (Bloomberg U.S. Treasury 10+ Yr TR)	-1.7	4.0
U.S. Bonds (Bloomberg U.S. Agg Bond TR)	1.3	2.8
High-Yield Corporate Bonds (Bloomberg U.S. Corp High Yield TR)	8.2	1.0
S&P 500 TR Index	25.0	-4.3
S&P 500 Equally Weighted	13.0	-0.6
MSCI World Ex. U.S. (MSCI World Ex USA NR)	4.7	6.2
MSCI Emerging Markets (MSCI EM NR)	7.5	2.9
Commodities (DJ Commodity TR)	5.4	8.9
Gold	27.2	19.0
Bitcoin	122.5	-11.7

Source: Bloomberg as of March 31, 2025

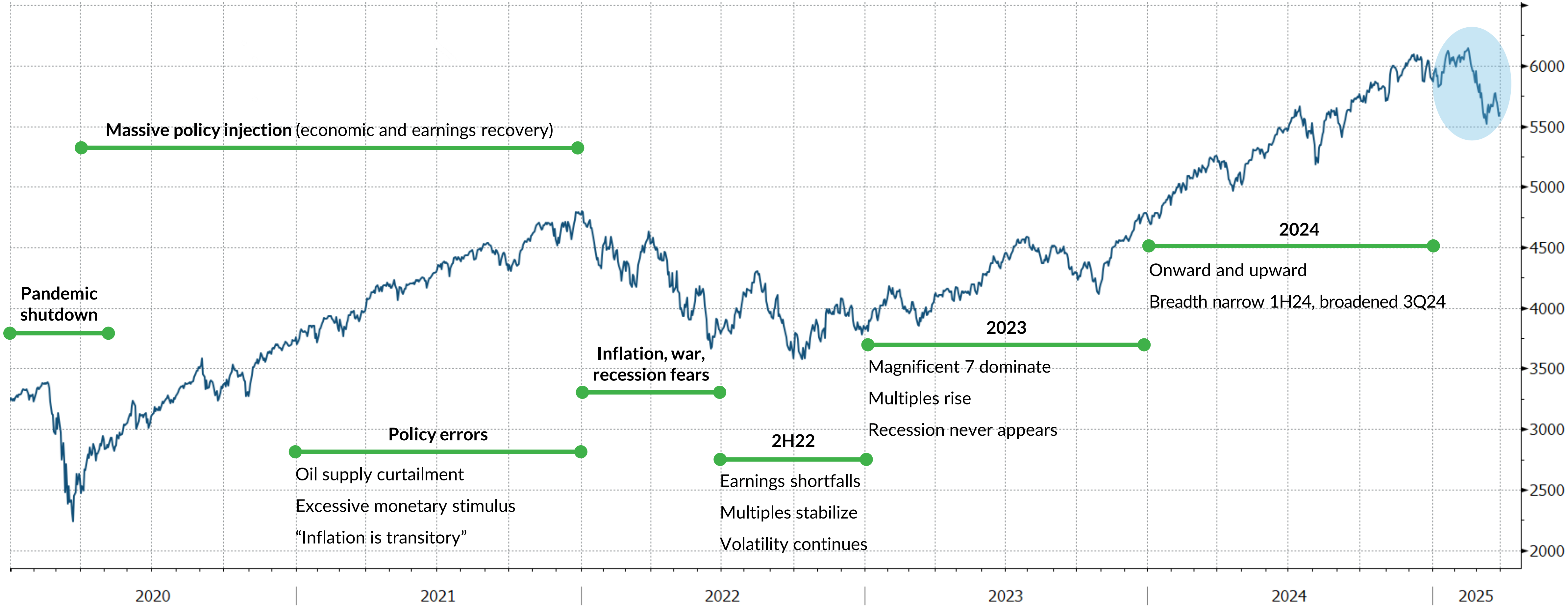
1Q25 observations

1. Risk assets (especially equities) fell.
   - Growth estimates cut.
   - Inflation estimates raised.
2. Uncertainty increased discount rate (probability of recession rises).
3. Magnificent 7 underperformed significantly.
4. U.S. lagged ROW significantly (worst relative quarter for U.S. in 23 years).
5. Impact of economic slowdown has barely hit earnings expectations.

"Regardless if tariffs come in better or worse than expected, we believe tariff uncertainty will linger for at least a few months. In the meantime, the focus will shift to the U.S. economic outlook while markets remain hyper-sensitive to any news flow. We remain concerned that a weaker payrolls report over the next month or two will be a downward catalyst for markets."

– Wolfe Research, March 31, 2025

S&P 500 5¼-year history



Source: Bloomberg as of March 31, 2025

Let me start with a bit of radical honesty: **I have no idea what's going to happen now.** I am not an economic journalist, an economist, a trade expert, nor a tariff expert, and our modern globalized world has never experienced any major power trying anything like this. So I just don't know what is going to happen, and despite the confident predictions you may hear from some corners, I don't think anyone does know.

– Isaac Saul, The Tangle

Some stray market thoughts

1. In waterfall declines we have experienced, technicals are more important than fundamentals.
2. End of waterfall declines usually requires sentiment extremes, indiscriminate selling, and capitulative price action. These all evidenced themselves on Friday.
3. Tactical low evidence:
   - Put-call ratio began on Thursday to show fear. That accelerated on Friday.
   - The VIX registered 45 on Friday. (Much higher than more normal 15–20.)
   - Recession calls picked up.
   - 70% of S&P 500 stocks showed two standard deviation declines (very high).
   - Until Thursday/Friday, action was distributive. Thursday/Friday became more capitulative.
4. What's next? Typically, a rally follows the "**BANG**" (Thursday/Friday). After the rally, another decline usually happens but with much less vigor ("**WHIMPER**"). This sequence often takes days, sometime weeks.
5. Then fundamentals kick in—if the economy is deemed to be okay, the bang/whimper lows are generally **THE LOW**. If the economy points to recession, lower lows can follow.
6. Either way, we are very unlikely to record a new high anytime soon.
7. Lots of earnings estimate reductions are likely to come.

Possible paths forward

1. Trump starts cutting deals and tariffs are reduced.
2. Courts or Congress block the tariffs.
3. Trump stays the course, creating a historic realignment of global trade.

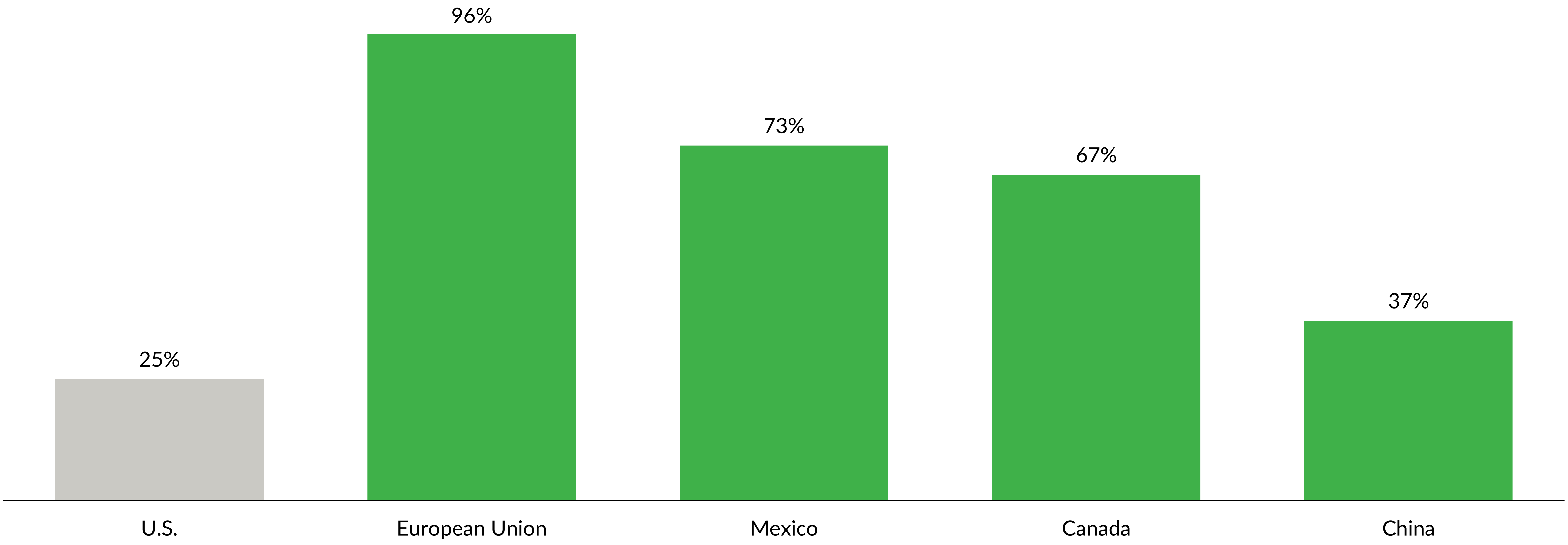
What to watch

1. Tariff developments
2. Credit spreads
3. VIX and other technical factors

Scenario analysis—fair value

	P/E	2026 earnings		Probability
Bear case (Recession)	16x	$250	= 4,000	30%
Base case	18x	$270	= 4,850	50%
Bull case	20x	$290	= 5,800	20%
		Weighted avg	**= 4,800**	

Trade as a share of GDP



Sources: Strategas, World Bank as of Dec. 31, 2023

2025 premises

1. The U.S. to remain the global growth engine.
2. The business cycle, while advanced, continues to expand.
3. The Fed and other central banks are poised to lower rates further.
4. AI is driving a CapEx boom.
5. A more favorable regulatory backdrop should aid business growth.
6. More oil supply will likely lower energy prices.
7. Earnings growth should broaden.
8. Possible policy actions and executive orders create considerable uncertainties.
9. Equity valuation levels are very high.
10. Higher equity volatility and dispersion are likely.
11. A large renovation of federal government will be attempted.
12. Foreign policy will be “America first.”

Sources: JPMorgan, Crossmark

The bar is high for a strong 2025 equity market

1. Growth expectations for 2025 are higher than they were going into 2023 and 2024.
2. Rate cuts from the Fed and the ECB are already priced in and we are getting closer to neutral policy rates.
3. Long-term inflation expectations are fixed around target.
4. The massive rally of the last two years means valuations are noticeably stretched.
5. Policy uncertainties are many and are high.

Source: Deutsche Bank

Prediction 1: Economic growth slows as the unemployment rate rises past 4.5%

U.S. unemployment rate total in labor force (seasonally adjusted)

Source: Bloomberg as of Nov. 30, 2024

Prediction 2: Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again

Typical inflation data point	**CPI (%)**
November headline inflation	+0.3
Trailing 12-month headline inflation	+2.7
November core inflation	+0.3
Trailing 12-month core inflation	+3.3

In round numbers, inflation is 3% (not 2%)

Inflation risks

1. Tariffs
2. Deportation
3. Trump policies inflationary (tax cuts, deregulation)
4. Core services ex-housing stubborn ("super core")
5. Wage settlements

Prediction 2: Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again

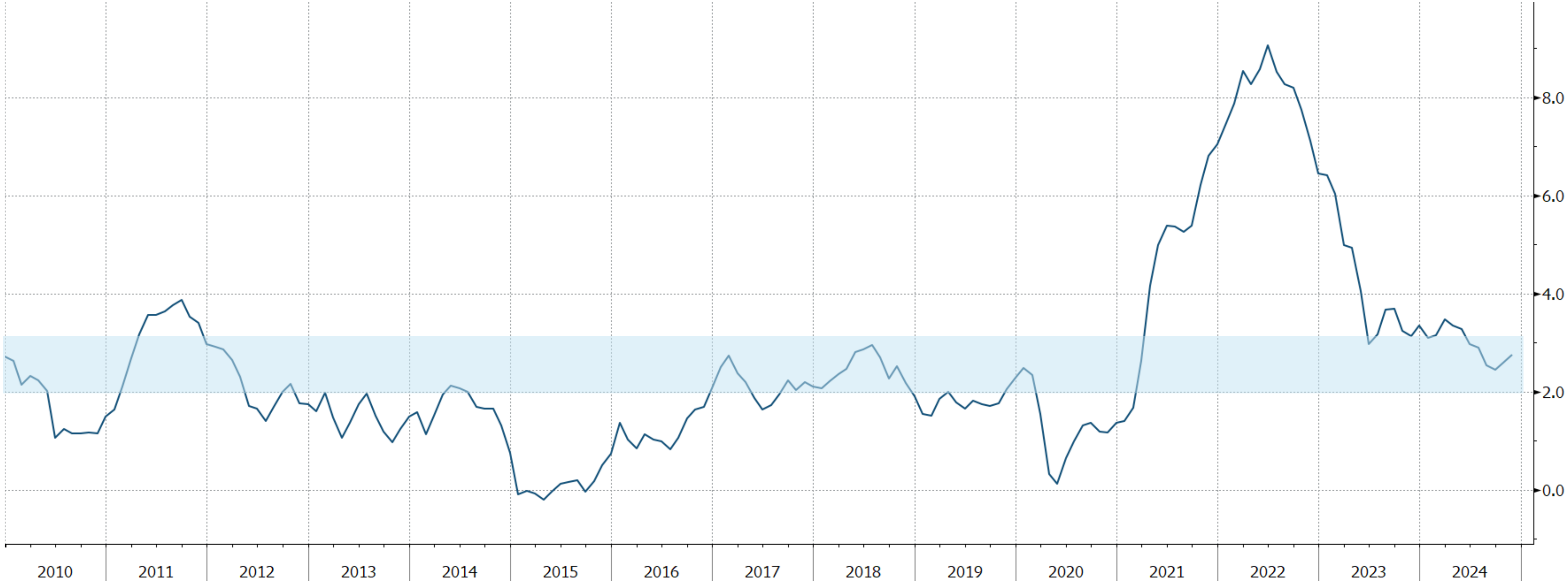
Implied cuts by YE2025

Source: Bloomberg as of April 2, 2025

Prediction 2: Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again

The 2-3% inflation ceiling of the 2010s becomes the 2-3% inflation floor of the 2020s

U.S. CPI inflation year over year (%)



Source: Bloomberg as of Dec. 23, 2024

Prediction 3: Treasury 10-year yields trade primarily between 4% and 5% as credit spreads widen

Fixed income strategy

1. Roughly neutral in duration
2. Become more aggressive at 4.75–5%; become more cautious at 4–4.25%
3. Keep quality high
4. Lock in some income at these “high” rates (expect yields to fall at some point)
5. Munis relatively attractive where tax considerations merit

Liquidity perspective

Excess liquidity

"Liquidity bazooka"

Liquidity drain

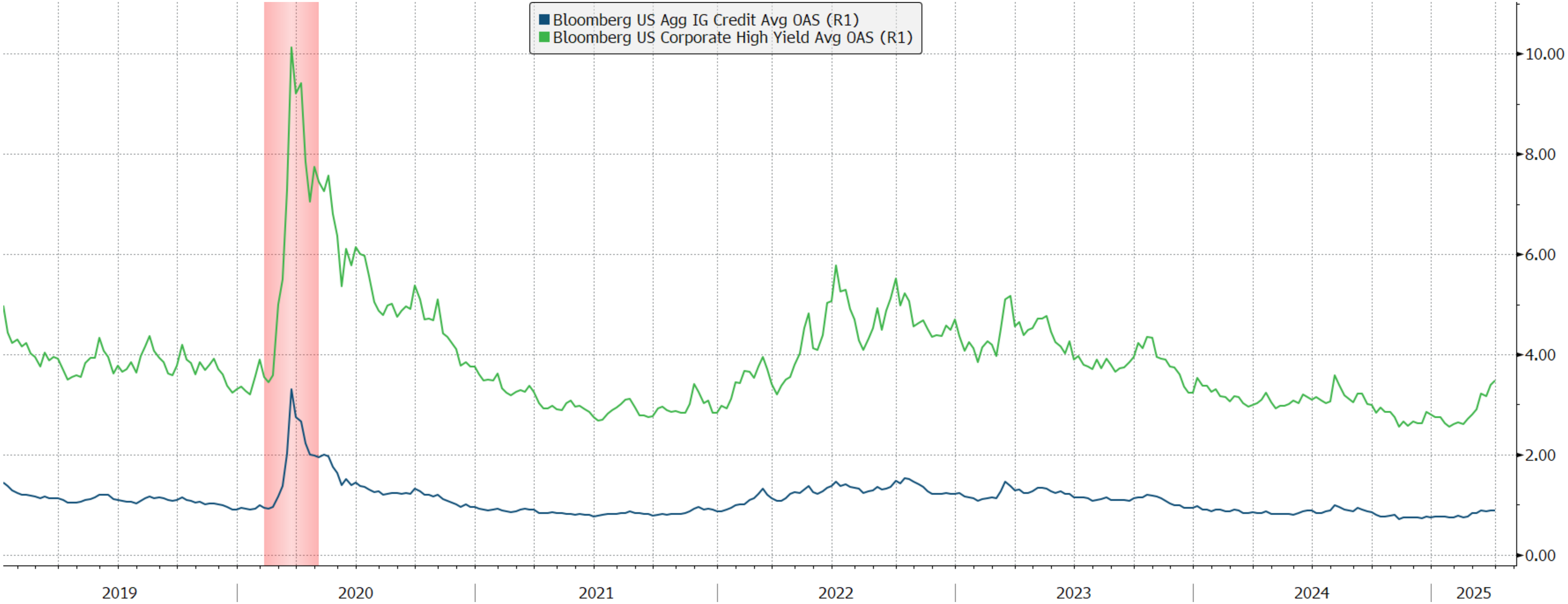
Interest rates fall

Dollar weakness

Rates rise, dollar strengthens

Prediction 3: Treasury 10-year yields trade primarily between 4% and 5% as credit spreads widen

Credit spreads to widen from record tight!



Source: Bloomberg as of March 31, 2025

Prediction 4: Earnings fail to achieve consensus a) 14% growth and b) every sector has up earnings

	Consensus				Our guess	
S&P 500 earnings	**12/31/24**		**3/31/25**			
2023	$217		$217		$217	
2024	$240	+10.6%	$240	+10.6%	$240	+10.6%
2025	$275	+14.6%	$268	+11.7%	$265	+10.4%
2026	$310	+12.7%	$304	+13.4%	$290	+9.4%
3-year compound growth rate		+12.6%		+11.9%		+10.2%

Source: FactSet as of March 31, 2025

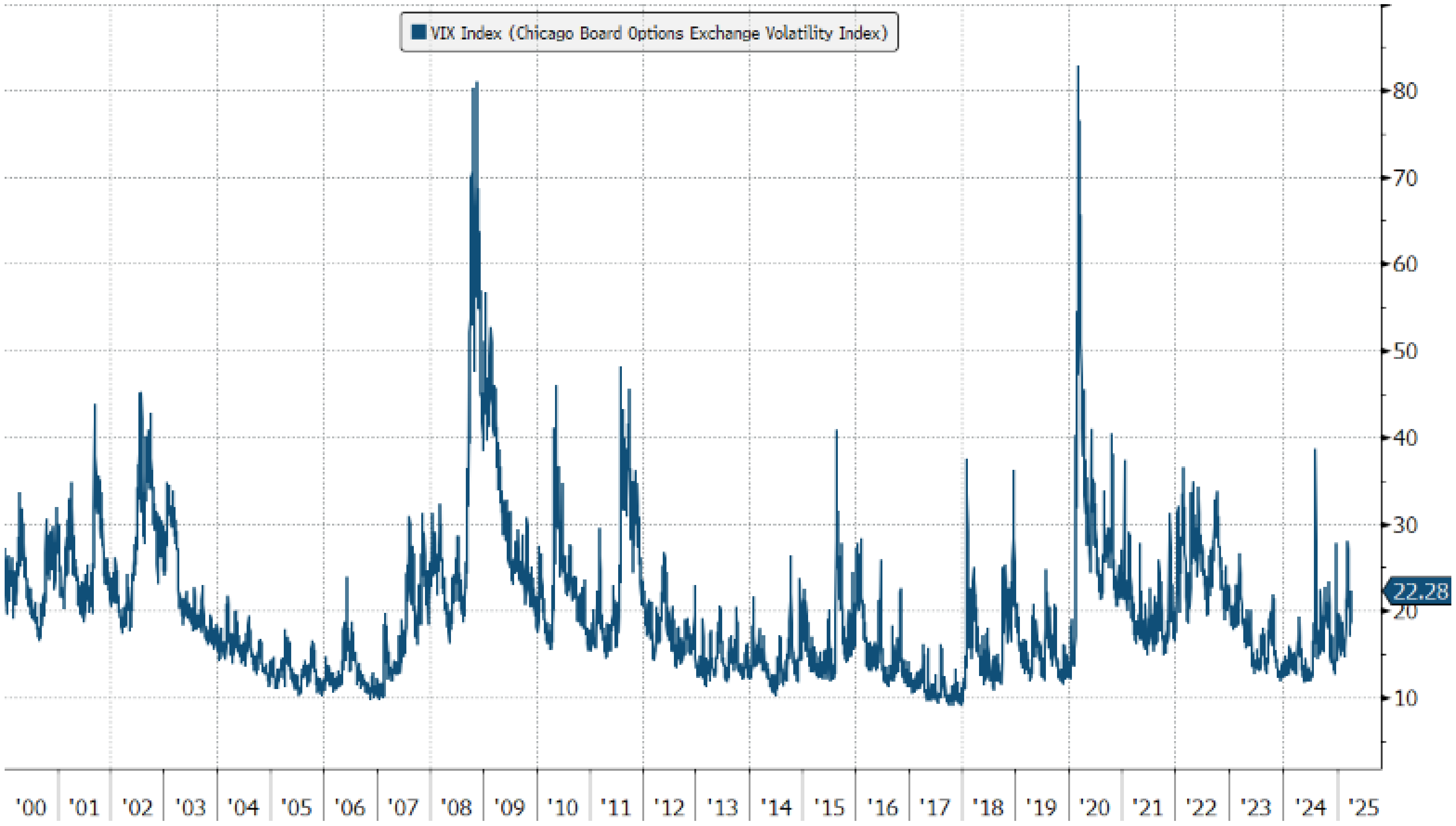
Prediction 4: Earnings fail to achieve consensus a) 14% growth and b) every sector has up earnings

Consensus sectoral estimates	**2024 (%)**	**2025 (%)**
Communication services	+22	+13%
Consumer discretionary	+14	+10
Consumer staples	+3	+4
Energy	-19	+2
Financials	+7	+6
Healthcare	+3	+18
Industrials	+1	+15
Information technology	+20	+21
Materials	-9	+22
Real estate	+6	+5
Utilities	+13	+10
Average	**+8%**	**+13%**

Source: Bank of America Merrill Lynch

Prediction 5: Equity volatility rises (VIX average approaches 20 for only the third year in 14)

VIX since 2000 (and average VIX each year since 2000)



Average VIX	
2020	29.3
2021	19.7
2022	25.6
2023	16.8
2024	15.5
1Q25	18.5
2025E	>20.0

Source: Bloomberg as of March 31, 2025

Prediction 5: Equity volatility rises (VIX average approaches 20 for only the third year in 14)

Why increased volatility?

1. Trade/tariff uncertainties
2. Is it tax cuts or tariffs?
3. Is it cutting expenses or mass deportation?
4. Fed uncertainty—slowing labor markets, sticky inflation
5. High valuation levels
6. Geopolitical hot spots
7. Multiplicity of new policies

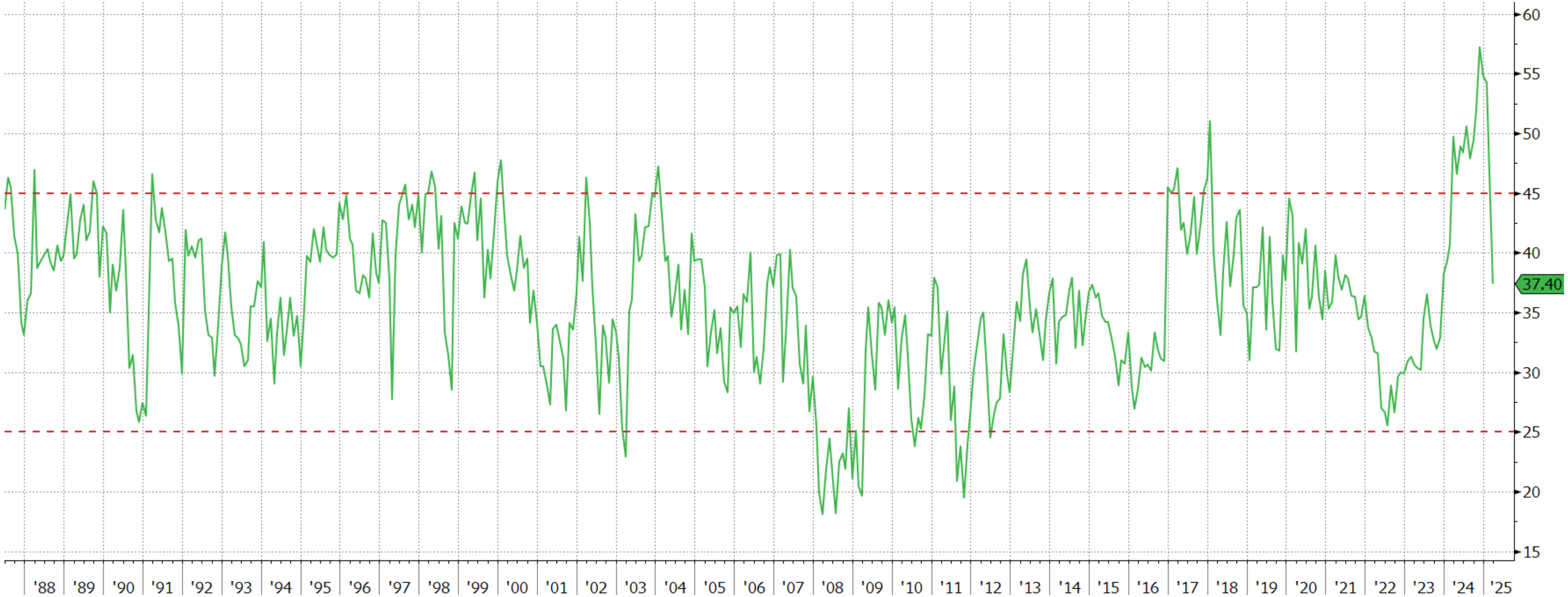
Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)

Strategas bull market top checklist	2000	2007	Current
Blow-off top	✓	✓	
Heavy inflows in equities	✓	✓	✓
Big pickup in M&A	✓	✓	
IPO activity	✓	✓	
Rising real interest rates	✓	✓	✓
Weakening earnings revisions	✓	✓	
Erosion in new high list	✓	✓	
Shift toward defensive leadership	✓	✓	
Widening credit spreads	✓	✓	

Source: Strategas

Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)

Conference board—Consumer expectations of stock price increases



Source: Bloomberg as of March 31, 2025

Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)

2025 risk: The bar of expectations is being raised

Firm	Px target
Wells Fargo	7,007
Yardeni Research	7,000
Deutsche	7,000
BMO Capital Markets	6,700
Nataxis	6,700
HSBC	6,700
BofA Securities	6,666
Barclays	6,600
RBC	6,600
CFRA	6,585
Goldman Sachs	6,500
Morgan Stanley	6,500
BNP	6,300
Average	**6,681**
S&P (as of 12/31/24)	**5,882**
% difference	**+13.6%**
Crossmark	**6,099 (+3.7%)**
S&P (as of 3/31/25)	**5,612**
Consensus	**+19.0%**
Crossmark	**+8.7%**

Now 5,500

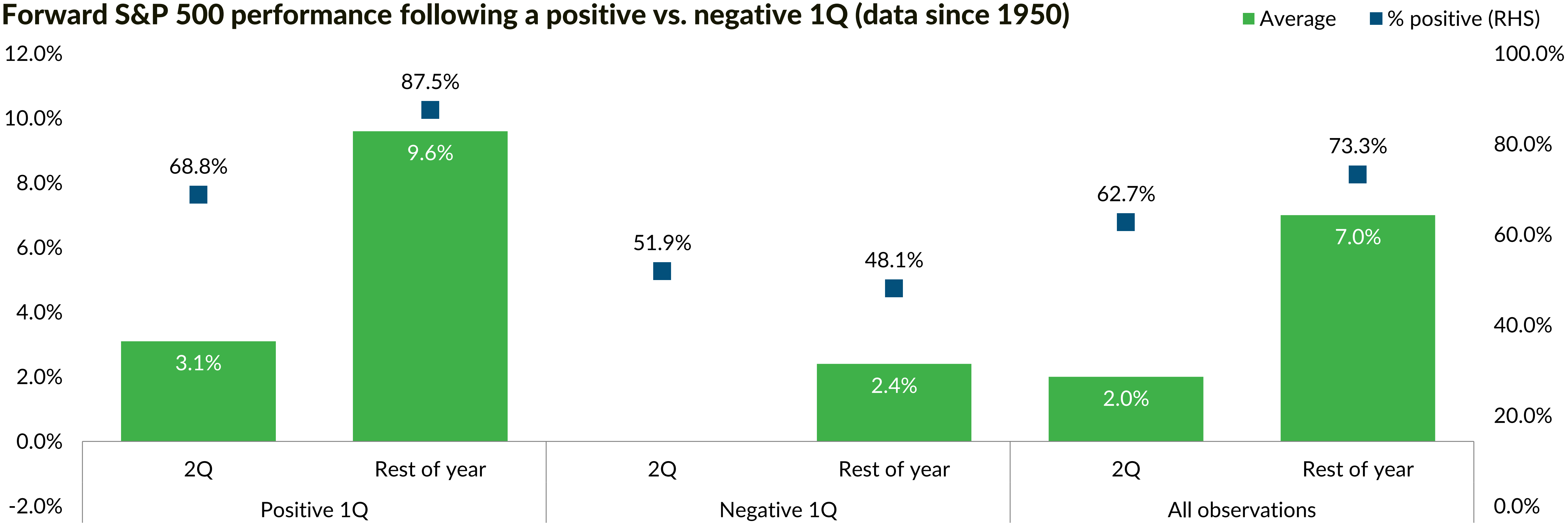
Sources: Strategas, Crossmark

"Our 6,099 year-end S&P target is lower than any of the Wall Street strategists (see below), and if accurate, will record a down year, but would require a nice rally from current levels. We expect a test back to 5,500 [the area of the recent low (or maybe 5,200–5,400)]. After that, the trajectory of the economy and earnings will be key. If the economy is okay, that could be the low for the year. Conversely, if we experience a recession, the S&P 500 could sport a "4" handle. After two back-to-back years of approximately 25% returns, 2025 is shaping up to be a much more difficult year in which to make money."

– Bob Doll, March 26, 2025

Historical reality of down 1Q

Forward S&P 500 performance following a positive vs. negative 1Q (data since 1950)



Source: Strategas as of April 1, 2025

Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)

Valuation metric	S&P 500 Index		Historical percentile (%)	
	12/31/24	3/31/25	12/31/24	3/31/25
Forward P/E	22.2x	20.3x	93	81
EV/EBITDA	16.5x	15.1x	96	92
EV/sales	3.3x	3.1x	98	94
Free cash flow yield	2.8x	3.2x	84	78
Price/book	5.1x	4.8x	99	94
U.S. market cap/GDP	209%	196%	96	91

Source: Bloomberg as of March 31, 2025

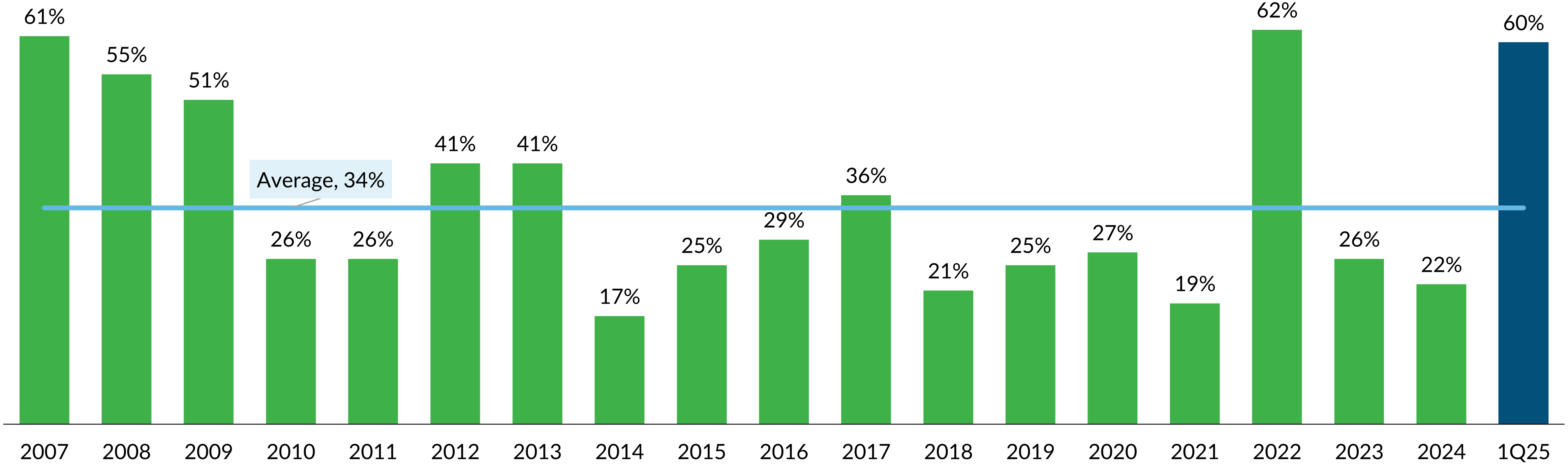
Prediction 6: Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract)

	S&P 500 average forward returns (%)			
Starting P/E	1-year	3-year	5-year	10-year
<10x	13.4	11.2	12.3	11.5
10-12	14.9	13.0	10.4	10.5
12-14	10.5	9.1	8.5	9.6
14-16	12.4	10.9	9.8	9.3
16-18	6.4	6.3	5.4	5.7
18-20	7.7	6.0	5.9	4.4
>20	5.2	4.8	5.5	3.0

Source: Strategas

Prediction 7: Equal-weighted portfolios beat cap-weighted portfolios (average manager beats index), and value beats growth

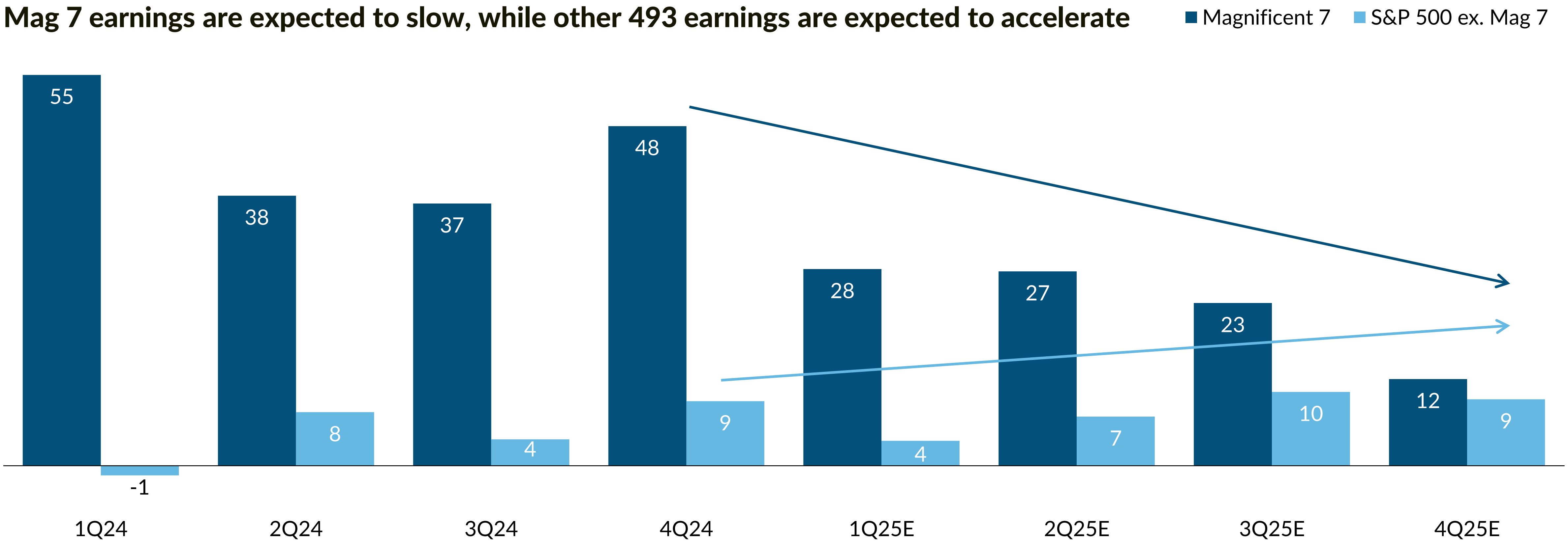
Percent of large cap mutual funds outperforming the S&P 500



Source: Strategas as of April 2, 2025

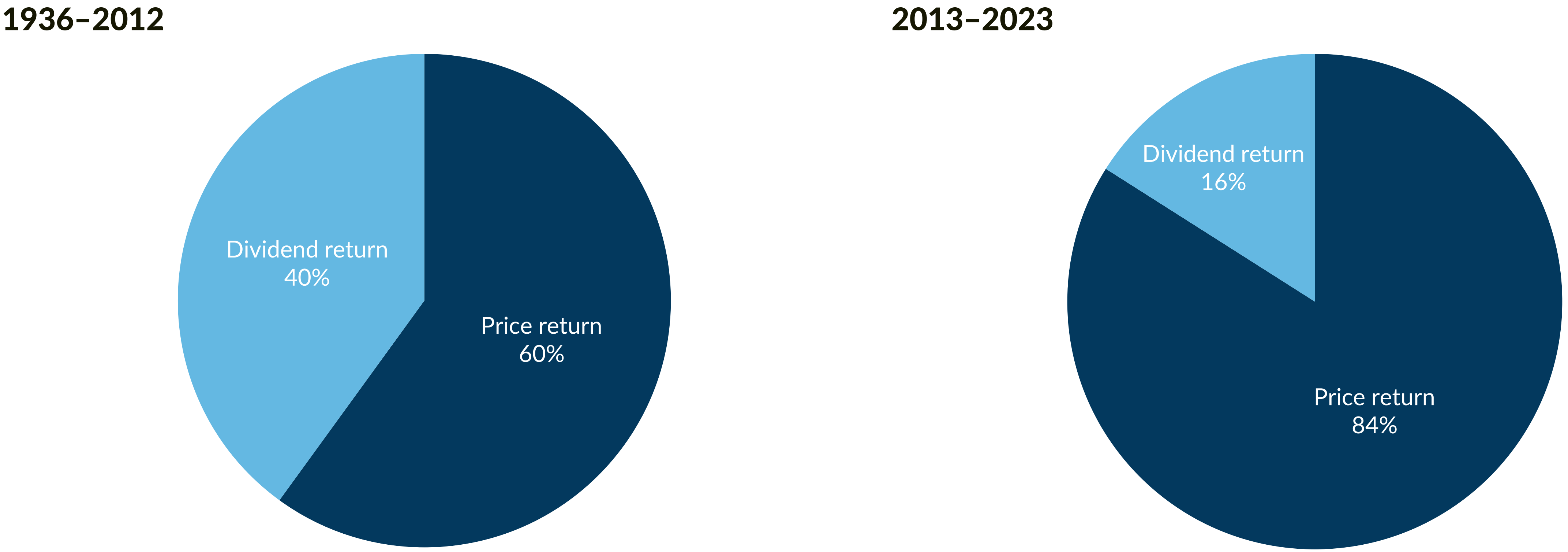
Prediction 7: Equal-weighted portfolios beat cap-weighted portfolios (average manager beats index), and value beats growth

Mag 7 earnings are expected to slow, while other 493 earnings are expected to accelerate



Sources: FactSet, Bloomberg

Prediction 7: Equal-weighted portfolios beat cap-weighted portfolios (average manager beats index), and value beats growth



Dividends should contribute more to total returns than 2013–2023.
Dividend payout ratio currently 30% vs. 50% long term

Sources: Bloomberg, BofA U.S. Equity & Quant Strategy

Prediction 8: Financials, energy, and consumer staples outperform healthcare, technology, and industrials

Overweights	1Q25 (%)	Underweights	1Q25 (%)
Financials • Winner of deregulation • Upward topline and bottom revisions • Relatively good balance sheets Risk: Overbought	+3.5	**Healthcare** • Policy risk • Patient expirations/pipeline weak • Overvalued (despite underperformance) Risk: Lagged miserably; are they due?	+6.5
Energy • Decent yields and cash flow • Non-OPEC production slowing • Contrarian bet; underowned Risk: Low oil prices	+10.2	**Technology** • Expensive • Peak globalization (sector very multinational) • Regulatory overhang Risk: Good sector growth story	-12.7
Consumer staples • Stable/defensive • Cheap, generally good cash flow • Neglected, underowned Risk: Little pricing power, consumers trade down	+5.2	**Industrials** • PMIs weak • Trade/tariff risks • Highly owned/mixed valuation Risk: Manufacturing recovering	-0.2
Average	+6.3	**Average**	-2.1

Source: Strategas as of April 1, 2025

Prediction 8: Financials, energy, and consumer staples outperform healthcare, technology, and industrials

Sector earnings vs. capitalization comparison

	Earnings weight	Sector weight	Difference
Financials	20%	13%	+7%
Energy	6%	3%	+3%
Consumer staples	7%	6%	+1%
	33%	**22%**	**+11%**
Healthcare	10%	10%	0%
Technology	7%	12%	-5%
Industrials	9%	8%	+1%
	26%	**30%**	**-4%**

Source: Strategas as of Dec. 10, 2024

Prediction 9: Congress passes Trump tax cut extension, reduces regulation, but tariffs and deportation are less than expected

Trump policy timeline

Components

- Tax cuts
- Deregulation
- Tariffs
- Immigration

Positives

- Rising business confidence
- Rising consumer confidence
- Productivity improvement
- Small business improvement

Risks

- Protectionism
- Deficits
- Higher interest rates
- Weakening employment

Election aftermath:	Euphoria
Implementation (1H25):	Reality/uncertainty
Results (2H25):	Outcome/adjustments

Source: Wolfe Research

Prediction 9: Congress passes Trump tax cut extension, reduces regulation, but tariffs and deportation are less than expected

Trump upside risks

- Extend tax cuts + additional
- Deregulation
- Rising productivity
- Small-business upside

VS.

Trump downside risks

- Protectionist trade policies
- Anti-immigration policies
- Higher deficits
- A spike in interest rates

Trump agenda: Positives outweigh the negatives

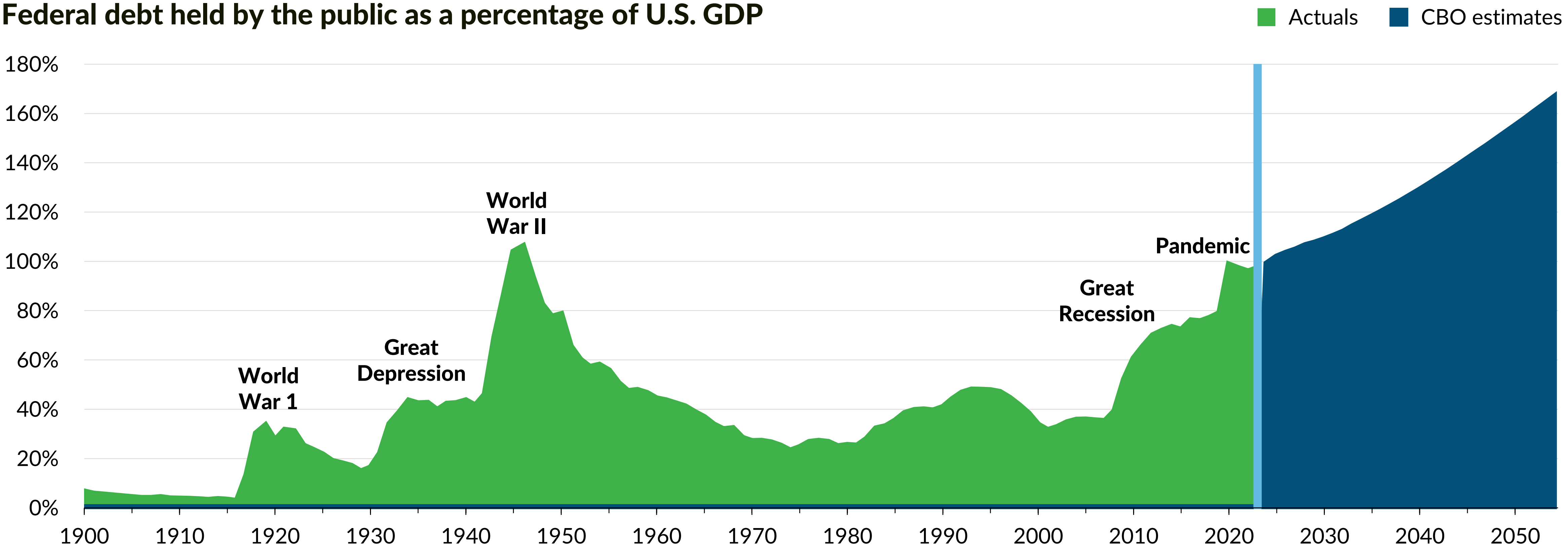
Source: Wolfe Research

Trump policy

Now	**Tariffs** Risk: Recession	**Short-term pain**
Eventually	**Tax cuts** Deregulation	**Long-term gain**

Prediction 10: DOGE efforts make progress but fall woefully short of $2T per year of savings

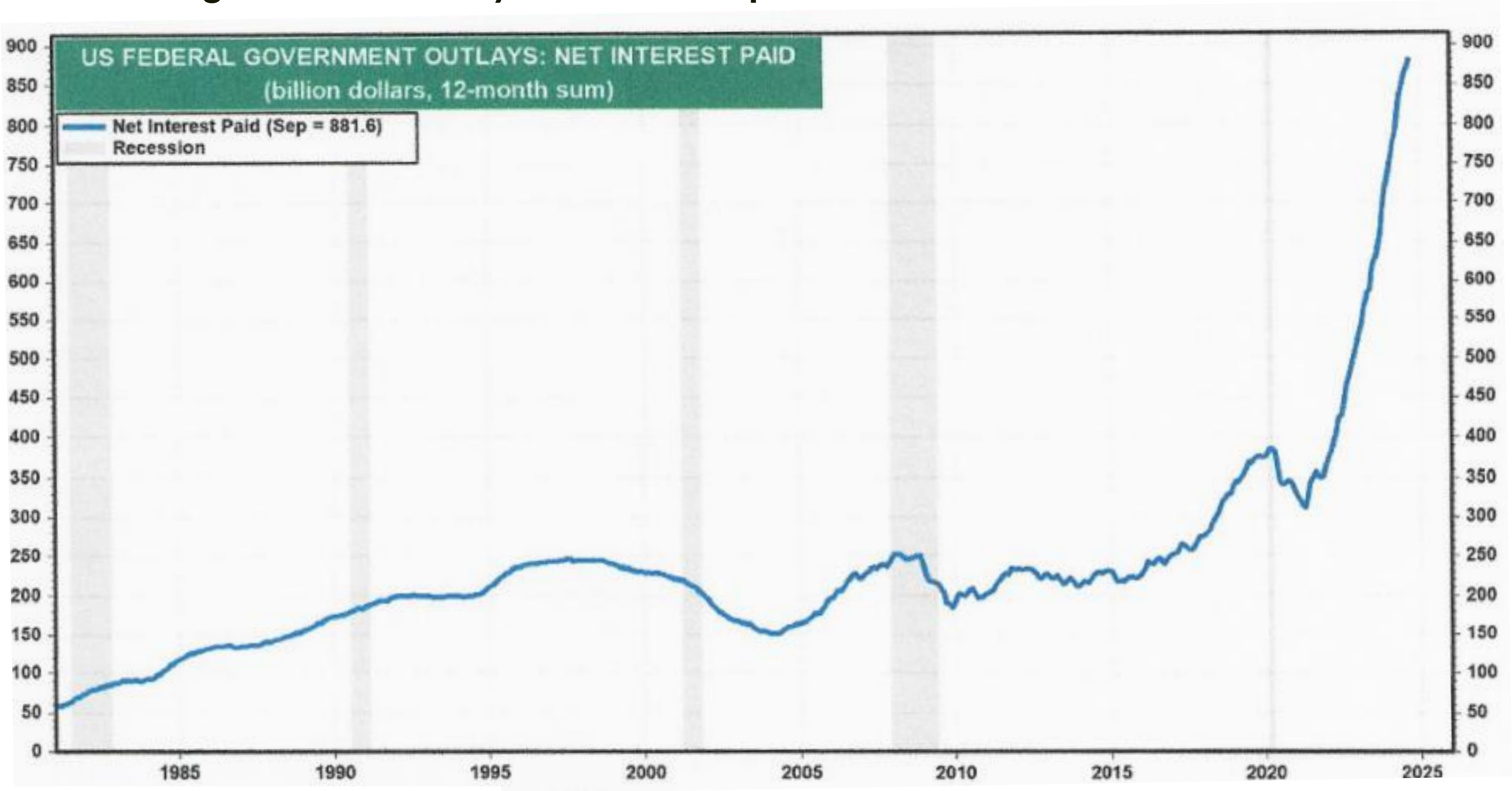
Federal debt held by the public as a percentage of U.S. GDP



Source: Congressional Budget Office (CBO)

Prediction 10: DOGE efforts make progress but fall woefully short of $2T per year of savings

U.S. federal government outlays: Net interest paid



Sources: LSEG Datastream, Yardeni Research, US Treasury

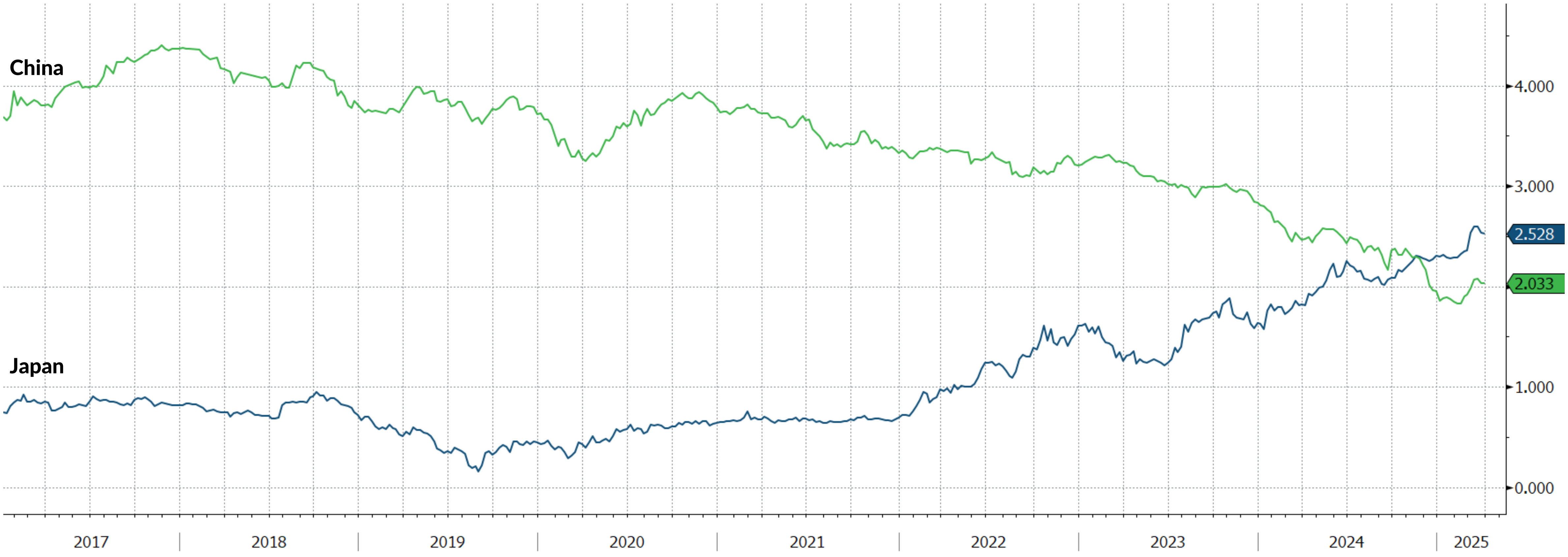
Prediction 10: DOGE efforts make progress but fall woefully short of $2T per year of savings

Conclusion: If Social Security, Medicare, Veterans Affairs, Defense, and net interest are off the table, "ONLY" $800B remains.

- Shuttering significant numbers of government bureaucracies is unlikely.
- Mass firings of federal employees won't happen.
- The **ONLY** way to fix the problem is to tackle entitlement programs.

Will China/Japan switch places?

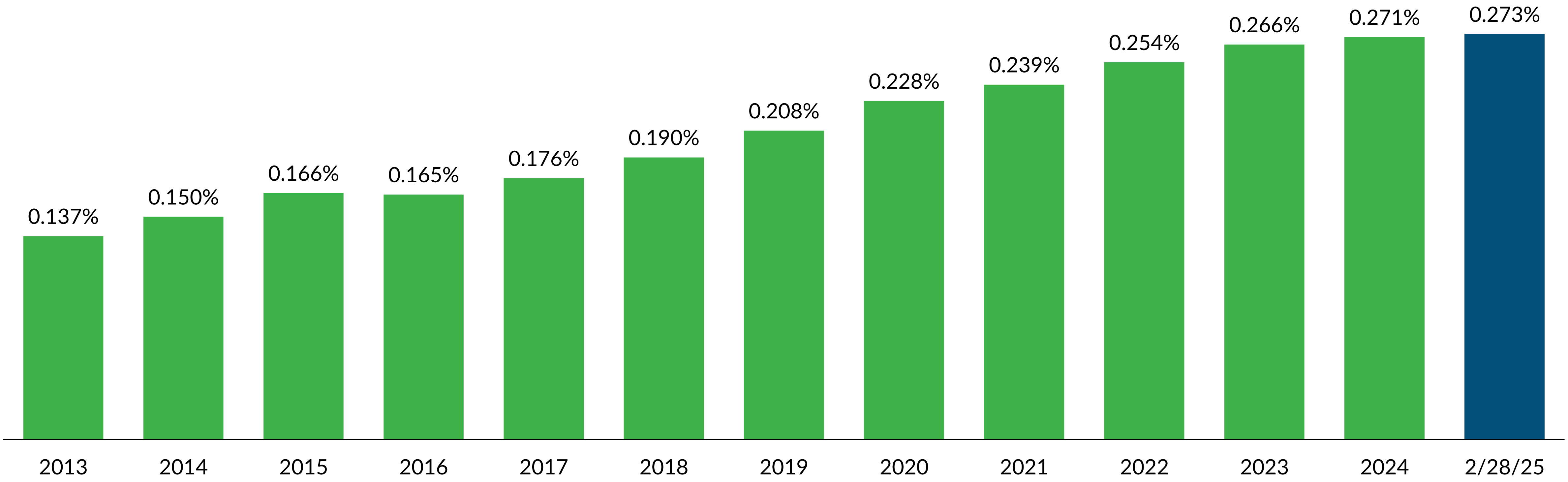
Japan and China government 30-year simple yield (%)



Source: Bloomberg as of March 31, 2025

Faith-based share of industry AUM rises for eighth year in a row

Faith-based market share (percentage of total industry AUM)



Sources: Morningstar, Crossmark as of Feb. 28, 2025

Strategy summary

		Revision
The Fed	0–2 cuts in 2025	
Inflation	Remains sticky; stays closer to 3% than 2%	Or higher
Economic growth	2–2.5%	1%
Employment	Labor market weakens	
Earnings	Good, but not great	
Valuation	Expensive	
Style	Value > Growth, broader participation	
Best sectors	Financials, energy, consumer staples	
Policy	Extension of expiring tax cuts and some small further cuts Selected tariffs	Major tariffs

Conclusions/observations

1. A resolution of the heightened uncertainty (largely, but not exclusively, tariff-driven) is necessary to avoid a recession.
2. Inflation will remain sticky (and may even rise some due to tariffs).
3. As the 10-year yield approaches 4%, bonds become less interesting.
4. The expiration of the “liquidity bazooka” may cause a rise in rates and the dollar.
5. Earnings expectations remain too high.
6. While down some, valuation of U.S. stocks remains high.
7. We expect a choppy year for stocks with above-normal volatility.
8. The Magnificent 7 are lagging as their earnings and, more importantly, cash flow growth slows.
9. International stocks are under owned in most U.S. portfolios.
10. The administration is attempting to front load the “pain” (tariffs) and then move to the “gain” (tax cuts and deregulation).

Conclusions

1	Uncertainty on many fronts (not just tariffs) is hurting risk assets.
2	Recession risks increases each day uncertainty prevails.
3	Inflation is unlikely to fall to 2% absent a recession. (stuck at 3%)
4	The Fed lowers rates, but once again, less than expected.
5	Earnings fall short of expectations for the third year in a row.
6	Stocks are expensive (or very expensive) on most measures.
7	Own stocks with good earnings predictability, good earnings persistence, and strong cash flow.
8	Do some dollar-cost averaging into international.
9	Expect high volatility given policy uncertainties.
10	Get “buy” list ready

What to do?

1. Expect choppy (choppier) markets (buy dips/trim rallies).
2. Expect lower returns.
3. Focus on earnings growth and free cash flow (not P/E expansion).
4. Diversify across asset classes, styles, and geographies.
5. Own high-quality value and less expensive growth.
6. Consider an absolute return strategy (and alternatives in general) to complement market exposure.
7. Step up to significant weakness.

Equity investors

Receive:	Tolerate:
≈ 8% annual return	3 corrections of 5% per year
	1 correction of 10% per year
	1 correction of > 15% once every 3 years
	1 correction of > 20% once every 6 years

S&P 500 "batting average" (i.e., % of positive calendar years) since 1926: 75%

Source: JPMorgan

Important information

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All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.

Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

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).

Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

Crossmark funds' or strategies' values-based screening policies exclude certain securities from the universe of otherwise available investments. As a result, the funds or strategies may not achieve the same performance they otherwise may have in the absence of the screening process. If the funds or strategies have invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss for the fund. Further, the funds' values-based screening policies may prevent the funds from participating in an otherwise suitable investment opportunity. With respect to Steward Equity Market Neutral Fund, the values-based screening policies apply only to long positions.

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Q&A

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