

# QUARTERLY UPDATE: 1Q 2021 COVERED CALL INCOME COMMENTARY



Covered Call Income is a separately managed account investment strategy



written by

**Paul Townsen**, Managing Director – Head of Trading & Investment Operations

## **Markets and Performance**

The first quarter of 2021 is not looking much different from where we finished in 2020. U.S. equity markets experienced some volatility but for the most part continued to advance with cyclical stocks leading the way, building on outperformance that started with positive vaccine news last November. Market volatility from last month seemed to center around the potential for higher inflation, rising bond yields and the collapse of the investment firm Archegos Capital. The strategy benefitted from the rise in volatility by strategically executing trades on the option overlay to maximize income and limit as much risk as possible. By actively trading the option overlay, the Covered Call Income model generated just shy of 4% in income for the quarter between the sale of covered calls and dividends. The model put together an impressive quarter, outperforming its primary benchmark (the CBOE S&P 500 Buy/Write Index) by 236 basis points and also outperforming the S&P 500 by 194 basis points.

## **Positive and Negative Contributors to Performance**

Having a sector-neutral weighting towards the S&P 500 was a boost to performance last quarter, as was not owning the mega-cap darlings from 2020, names such as Amazon and Tesla. More specifically, there are several sectors and individual stocks worth highlighting. For the quarter, all S&P 500 sectors returned positive performance, but the model portfolio was led by strong returns from the energy, financial and industrial sectors. Several stocks the model portfolio owns in these sectors that performed well were Chevron (1.10% of total net assets), Bank of America (2.50% of total net assets), Capital One (2.70% of total net assets), Morgan Stanley (2.50% of total net assets), Delta Airlines (2.00% of total net assets), and Emerson Electric (2.00% of total net assets). The highest single-name contributor to relative outperformance for the quarter was Applied Materials (4.20% of total net assets). The model portfolio incurred a negative contribution to return by owning Apple, Inc. (3.90% of total net assets), which was down 7.80% for the first quarter.

## **Looking Ahead**

As we look ahead to the second quarter (April in particular), investors will be seeking solid evidence that the economic recovery is firmly in place. Earnings season will be in full swing in a few weeks with the street wanting to see a continuation of momentum from the fourth quarter of 2020. Historically, April has been the second strongest month for performance on average. Outside of earnings announcements, April could witness market-moving news coming from the COVID vaccine rollout and the reopening of the economy. The Crossmark team will continue to monitor volatility with the intent to trade the option overlay to maximize income and reduce market risk.

## Covered Call Income Top 10 Model Holdings <sup>1</sup>

Applied Materials, Inc.	4.20%
Nike, Inc.	4.20%
Apple, Inc.	3.90%
Activision Blizzard, Inc.	3.90%
Abbott Labs	3.80%
Medtronic PLC	3.80%
Oracle Systems Corp.	3.70%
Micron Technology, Inc.	3.70%
Starbucks Corp.	3.50%
Microchip Technology, Inc.	3.30%

% of Total Portfolio: 38.00%

<sup>1</sup> Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2021.

## Our Firm

Crossmark Global Investments is a faith-based boutique investment management firm that provides a full suite of investment strategies to institutional investors, financial advisors, and the clients they serve. For over 30 years we have delivered uniquely constructed products based on our proprietary, disciplined, and repeatable process. We are especially known for helping our clients align their investments with their values by creating socially conscious, responsible investment strategies. Founded in 1987, we are headquartered in Houston, Texas.

## Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888.845.6910

**Crossmark Global Investments, Inc. (Crossmark)** is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client. **All investments are subject to risks, including the possible loss of principal.** This content may not be reproduced, copied or made available to others without the express written consent of Crossmark.

**All investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** The Covered Call Income strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. 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).

Options are not suitable for every investor. Writing call options to generate income and to potentially hedge against market declines by generating option premiums involves risk. These risks include, but are not limited to, potential losses if equity markets or an individual equity security do not move as expected, and the potential for greater losses than if these techniques had not been used. If the market price of a security increases, a call option written against that security limits the gain that can be realized. And, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives.

These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

This content may not be reproduced, copied or made available to others without the express written consent of Crossmark.

**Crossmark Global Investments, Inc.**  
15375 Memorial Drive, Suite 200, Houston, TX 77079  
888.845.6910 advisorsolutions@crossmarkglobal.com  
[crossmarkglobal.com](http://crossmarkglobal.com)

SMA-CCI-COMM 4/21