# QUARTERLY UPDATE: 1Q 2022
# COVERED CALL INCOME
# COMMENTARY

Separately Managed Account

written by
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**Covered Call Income Top 10 Model Holdings**[1]

| | |
|---|---|
| Apple, Inc. | 5.2% |
| Applied Materials, Inc. | 3.9% |
| Micron Technology, Inc. | 3.8% |
| Electronic Arts, Inc. | 3.7% |
| Bank of America Corp. | 3.7% |
| Morgan Stanley | 3.4% |
| Oracle Systems Corp. | 3.3% |
| Medtronic PLC | 3.3% |
| Cisco Systems, Inc. | 3.3% |
| Merck & Company | 3.2% |
| **Total % of Portfolio** | **36.8%** |

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

### Markets and Performance

From the beginning of 2022, investors experienced a very volatile first quarter, with violent swings in equity, bond, and commodity markets across the globe. Equities sold off as markets began to reassess the potential for the Federal Reserve (the Fed) to launch more aggressive interest-rate hikes to help curb high inflation not seen in over 40 years. The Fed raised interest rates by .25% with the potential for more tightening at the May meeting. Russia invaded Ukraine in February, sending oil and other commodity prices soaring and stocks falling into official correction territory. Bond prices dropped to levels not seen in years. Put all of this together, and you get a market ripe with volatility. The model account took advantage of the increase in volatility during the quarter to generate over 4% in income from the sale of covered call premiums and dividends paid from holdings. Fast forward to the second week of March, and the markets staged a roaring comeback, cutting much of the losses sustained in January and February.

### Positive and Negative Contributors to Performance

The model portfolio slightly underperformed its primary benchmark (the CBOE S&P 500 BuyWrite Index) during the first quarter of 2022, returning -2.65% versus 0.82%, respectively. However, the option overlay helped the model portfolio outperform the S&P 500 index during the same period. The energy and utility sectors were the strongest quarterly performers, with energy being the only sector to register a positive return. The model portfolio received positive contributions to return by owning Chevron (2.2% of total net assets) and Conoco Phillips (1.4% of total net assets) in the energy sector and Exelon (2.2% of total net assets) and Nextera Energy (1.8% of total net assets) representing the utility sector. Technology, communication services, and consumer discretionary were amongst the weakest performing sectors during the first quarter. Stocks the model portfolio held that produced a negative contribution to return were Starbucks (-0.1% of total net assets), DR Horton (-0.2% of total net assets), and General Motors (0.0% of total net assets).

**Looking Ahead**

The strong rebound in March could potentially be good news for stocks. However, the aggressive Fed and the unsettled war in Ukraine will keep volatility front and center for the time being. One other development to watch is the yield curve. Rates for two-year Treasuries briefly rose above those for 10-year Treasuries during the first quarter. Such a move has preceded six of the seven recessions since 1978. The Crossmark team will continue to monitor volatility with the intent to trade the value-added option overlay to maximize income and reduce as much inherent market risk as possible. We expect the second quarter of the year will produce numerous trading opportunities for the option side of the Strategy.

## Our Firm

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