

# COVERED CALL INCOME

## COMMENTARY | QUARTERLY UPDATE: 1Q 2023

Separately Managed Account



written by  
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Top 10 Crossmark Covered Call Income Portfolio Holdings	
Apple Inc.	4.65%
Microchip Technology Inc.	3.94%
Amazon.com, Inc.	3.89%
Advanced Micro Devices, Inc.	3.69%
Qualcomm, Inc.	3.60%
Oracle Corporation	3.50%
Electronic Arts, Inc.	3.40%
Morgan Stanley	3.30%
Exxon Mobil Corporation	3.09%
Merck & Co., Inc.	3.00%
<b>Total % of Portfolio</b>	<b>36.06%</b>

Crossmark uses a model account to manage the individual client accounts that have selected this investment strategy. The portfolio characteristics shown are based on the model account. The characteristics of any individual account may differ from those of the model account. All performance information shown is composite performance derived from the aggregate of all accounts included in the composite.

\* Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00% by deducting .75% from the last month of each quarter. Gross performance is shown as supplemental information and is stated as pure gross of all fees as the returns have not been reduced by transaction costs. Wrap fees include Crossmark's portfolio management fee as well as all charges for 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.

### Markets and Performance

It is hard to imagine that the markets actually posted single digit gains during the first quarter of the year. The path higher wasn't smooth and the outlook remains quite uncertain as investors deal with high inflation and the unknowns surrounding the banking sector. The markets in the first quarter of 2023 were in a constant tug of war battle with data showing inflation at insanely high levels, as well as expectations of still more Fed rate hikes. Things quickly turned even more volatile in March as the continued rate hike cycle contributed to stresses in the banking system which resulted in the collapse of three regional banks and a forced takeover of Credit Suisse. While volatility was extreme within certain equity sectors, mainly financials, the VIX index actually didn't move that much. The VIX closed with a high of 26.52 before closing the quarter under 19. On top of all of that news, crude oil surged on unexpected production cuts announcements made by OPEC.

### Positive and Negative Contributors to Performance

The Covered Call Income composite underperformed the CBOE S&P 500 BuyWrite index benchmark for the quarter ending March 31, 2023 returning 4.92% and 5.95%, respectively. Energy and Information technology served as positive contributions to return from a sector standpoint. Some individual stocks worth mentioning that had positive contributions to return during the quarter were Advanced Micro Devices (3.69% of total net assets), Applied Materials (2.31% of total net assets), Microchip Tech (3.94% of total net assets), and Marathon Petroleum (2.54% of total net assets). Financials, Industrials and Consumer services were among the weakest performing sectors during the quarter with CVS Corp (2.10% of total net assets), Charles Schwab (0.99% of total net assets) and Bank of America (2.42% of total net assets) generating negative contributions to return during the first quarter. From an option overlay standpoint, we continued to be opportunistic trading certain names and sectors with the plan being to stay short in duration. We also took advantage of the volatility throughout the quarter, especially during March, by resetting multiple option strikes allowed for a continued increase in cash flow.

### Looking Ahead

As we head into the second quarter of the year, a key variable for investors to digest will be the impact of the banking crisis on the economy. Monetary tightening is either at, or close, to an end but the markets will also be anxiously looking for an increase in leading economic indicators that could lead to a viable move higher in the markets. Last month the Fed pushed forward with another 25bps rate hike, bringing the total number of rate hikes to 19 in just 12 months. The probability of another rate hike currently sits around 55-65%, but what is important to note, are the conversations shifting to when and how fast the Fed begins to cut rates. How markets react will largely depend on the rhetoric driving the upcoming rate cut season. The Crossmark team will continue to look for trading opportunities on the option overlay with the goal of increasing income through call option premiums and reducing overall volatility.

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Covered Call Income (Wrap) - Gross	4.92%	4.92%	1.61%	16.47%	7.73%	7.81%
Covered Call Income (Wrap) - Net*	4.14%	4.14%	-1.52%	13.00%	4.51%	4.61%
CBOE S&P 500 Buy/Write BXM	5.95%	5.95%	-6.86%	12.25%	4.25%	5.83%

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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. If the market price of a security increases, a call option written against that security limits the gain that can be realized. And, there can be 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.

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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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