

COVERED CALL INCOME COMMENTARY 2Q 2020



Covered Call Income is a separately managed account investment strategy



written by
Paul Townsen, Managing Director

No one could have predicted the substantial variation of performance in the markets during the first two quarters of 2020. While the first quarter of 2020 saw the S&P 500 Index fall -35%, the second quarter contained a 44% rally making it the third strongest quarter on record, behind 1975 and 1987. As the markets continued to rise over the second quarter, the strategy generated 4.40% in income from dividend payments and strategic trading of the option overlay. The option overlay positioning allowed for an 80% upside capture of the gains experienced by the S&P 500 Index. Therefore, the strategy enjoyed a nice quarter, not only from an income perspective but also from a total return standpoint, as it outperformed the benchmark of the CBOE S&P 500 BuyWrite Index.

Regarding attribution for S&P sectors, the strategy had positive contributions to return from the financial, material, and energy sectors and only had slight negative contributions from healthcare, technology, and communication services. Negative contributors included names the strategy could not own due to price constraints, such as Apple (AAPL), Amazon (AMZN), and Google (GOOG). Several individual names that performed well during the second quarter were Lowes (LOW), PayPal (PYPL), Activision Blizzard (ATVI), and Dupont (DD). Due to Lowes and PayPal's impressive performance during the quarter, both stocks became too expensive and were called away at June expiration. They were replaced by Wal-Mart (WMT) and Fiserv (FISV), respectively, which have performed well since they were purchased.

As we bring the second quarter to a close and head to the heat of the summer, there are several events worth mentioning that we believe will affect the markets one way or another. Earnings season kicks off in earnest towards the second week of July, and we will continue to monitor daily COVID data in the US. We believe a rebound in economic output, an increase in corporate earnings, and ongoing monetary policy stimulus should provide support for the markets soon. However, volatility will be prevalent over the next several months, sparked by new virus concerns, setbacks in reopening the economy, and potential political issues in Washington. The Crossmark trading team will continue to monitor volatility, with the intent to strategically place option spread trades to maximize income and reduce market risk where possible. Duration remains short within the option overlay for the time being, as implied volatility is still high, and premiums paid for short-term options are attractive. We believe the volatility we have seen is unlikely to stabilize anytime soon, and we will continue to have both historical up and down days.

Covered Call Income Top 10 Model Holdings ¹

Microchip Technology, Inc.
 Micron Technology, Inc.
 Nike, Inc.
 Fiserv, Inc.
 Medtronic PLC
 Abbott Labs
 Qualcomm, Inc.
 DuPont de Nemours, Inc.
 Target Corp.
 Walmart, Inc.

% of Total Portfolio: 38%

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 6/30/2020.

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