QUARTERLY UPDATE: 2Q 2022

COVERED CALL INCOME

COMMENTARY

Separately Managed Account

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

Apple, Inc.	4.4%
Merck & Company	3.9%
Electronic Arts, Inc.	3.9%
Coca Cola Co.	3.4%
Morgan Stanley	3.3%
Raytheon Technologies Corp.	3.1%
Oracle Systems Corp.	3.0%
Micron Technology, Inc.	3.0%
CVS Caremark Corp.	3.0%
Bank of America Corp.	3.0%
Total % of Portfolio	**34.0%**

[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 6/30/2022.

Markets and Performance

Equity markets continued their decline in the second quarter, hitting levels not seen since December 2020. High inflation, increases in interest rates, rising recession risks and ongoing geopolitical unrest weighed on the market. The sharp drop in April was for many of the same reasons as during the first quarter, but a new COVID-related lockdown in China added to the sell-off. The severe decline in economic activity in China, coupled with concerns regarding rising interest rates hit the equity markets hard during the month. Selling continued into May as the Federal Reserve raised interest rates by 50 basis points, the single biggest rate hike in over 22 years. Fed Chairman Powell also indicated that the Fed would continue to raise rates to tame inflation, putting added pressure on stocks. The markets rebounded slightly towards the end of the month as some inflation metrics implied prices could potentially be peaking. But relief was short-lived, as the May Consumer Price Index (CPI) report showed inflation had definitely not peaked. The Fed raised rates by 75 basis points at the June meeting which brought even more volatility to the equity markets. The high CPI number combined with increasing rate hikes had the markets selling off sharply into the middle of the month. Volatility will remain until there is some relief from all of these headwinds. The Crossmark team took advantage of this volatility during the second quarter by methodically executing option spread trades to generate increased income and reduce volatility versus the broad equity markets.

Positive and Negative Contributors to Performance

The Covered Call Income model portfolio outperformed the primary benchmark (the CBOE Buy Write Monthly Index) during the second quarter, returning -8.67% and -10.92%, respectively. The option overlay was one of the biggest contributions to return during the second quarter. Communication services, consumer discretionary, energy and utility sectors had positive contributions to return from a sector standpoint. Some individual stocks that had positive contributions to return during the quarter were Electronic Arts (3.9% of total net assets), Coca-Cola (3.4% of total net assets), Exelon Corp. (2.4% of total net assets), and Exxon Mobil (2.8% of total net assets). Technology and financials were among the weakest performing sectors during the quarter, with Micron Tech (3.0% of total net assets), Applied Materials (2.9% of total net assets), and Bank of America (3.0% of total net assets) generating negative contributions to return during the second quarter.

Looking Ahead

High inflation, rising interest rates, growing recession risks, and continued unrest in Ukraine gave the markets their worst first-half performance since 1970. That kind of result is not surprising given that inflation reached a 40-year high and the Fed raised rates at a pace not seen in decades. The S&P 500 Index has declined more than 15% during the first half of a year five times since 1932. Each time, the Index has reversed course and generated solid returns during the second half - hopefully, something positive is on the horizon! Heading into the third quarter, the markets will likely continue to be volatile. We expect many more opportunities to increase income by harvesting that volatility in the coming months.

Our Firm

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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.

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