

QUARTERLY UPDATE: 3Q 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 S&P 500 Index hit new all-time highs during the third quarter as investors looked past the uptick in the Delta variant of the COVID-19 virus and focused more on the economic recovery, strong corporate earnings, and continued support from the Fed. Market volatility came back swiftly during the end of September with a reminder that any transition to a post-pandemic “new normal” will not always be smooth sailing. The Crossmark Covered Call Income model portfolio took advantage of the volatility during the quarter (most notably the last few weeks of September) to generate over 3.50% in income between the premiums generated from the sale of covered calls and dividends paid.

Positive and Negative Contributors to Performance

The model portfolio returned -1.00%, underperforming the CBOE S&P BuyWrite Index which returned +1.35% during the third quarter. This resulted from many factors, but the Strategy still provided an 11.89% return year-to-date through the end of the quarter. The technology sector names in the model portfolio that performed well during the first part of the year gave back some performance – these included Western Digital (WDC) (2.90% of total net assets), Micron Technologies (MU) (3.60% of total net assets), and Applied Materials (AMAT) (3.90% of total net assets). The same issues hampered the model portfolio within the consumer discretionary sector as well. Companies like Nike (NKE) (4.50% of total net assets), DR Horton (DHI) (2.60% of total net assets), and General Motors (GM) (1.60% of total net assets) contributed to negative performance for the quarter. However, not owning Amazon (AMZN) due to share price constraints did help with performance. On the flip side, there were some positives to note. The healthcare sector was the most significant contributor to relative performance, with names like Abbot Labs (ABT) (2.40% of total net assets) and Medtronic Inc. (MDT) (3.80% of total net assets) contributing to positive performance. The two names with the largest positive return contribution were Oracle Corp. (ORCL) (3.60% of total net assets) and Morgan Stanley (MS) (4.00% of total net assets).

Looking Ahead

As we head into Fall and the fourth quarter, portfolio managers will continue trying to keep their heads around a monetary and economic environment that seems to be constantly transitioning. This uncertainty is playing out in sector rotation, with a drop in the economic recovery theme relative to the S&P 500. All this should lead to heightened volatility across the broad equity markets. The Crossmark team will continue to monitor volatility with the intent to trade the option overlay to maximize income and reduce as much inherent market risk as possible. The fourth quarter looks to be ripe with trading opportunities.

Covered Call Income Top 10 Model Holdings ¹

Nike, Inc.	4.5%
Apple, Inc.	4.3%
Morgan Stanley	4.0%
Applied Materials, Inc.	3.9%
Bank America Corp.	3.9%
Medtronic PLC	3.8%
Oracle Systems Corp.	3.6%
Micron Technology, Inc.	3.6%
Starbucks Corp.	3.4%
Activision Blizzard, Inc.	3.2%

% of Total Portfolio: 38.2%

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 9/30/2021.

Our Firm

Crossmark Global Investments is a faith-based 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, the firm has delivered uniquely constructed products based on its proprietary, disciplined, and repeatable process. Crossmark is especially known for helping its clients align their investments with their values by creating socially conscious, responsible investment strategies. Founded in 1987, the firm is headquartered in Houston, Texas. For more information visit: www.crossmarkglobal.com

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. 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

SMA-CCI-COMM 10/21