COVERED CALL INCOME
COMMENTARY | QUARTERLY UPDATE: 3Q 2022

Separately Managed Account

written by
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Top 10 Crossmark Covered Call Income Model Account Holdings[1]	
Apple, Inc.	4.6%
NVIDIA Corp.	4.0%
Merck & Company	3.8%
Electronic Arts, Inc.	3.8%
Amazon.com, Inc.	3.7%
Morgan Stanley	3.5%
Microchip Technology, Inc.	3.4%
CVS Caremark Corp.	3.2%
Coca Cola Co.	3.1%
Bank of America Corp.	3.0%
Total % of Portfolio	**36.1%**

Markets and Performance

Equity markets rallied in July, driven by resilient corporate earnings before turning lower and registering negative returns for the quarter. Any hopes of interest rate cuts were dashed during the August Jackson Hole summit where the Federal Reserve confirmed its commitment to fighting inflation. The Fed raised the federal funds rate by 75 basis points at the September FOMC meeting, the third consecutive 75 bps increase and signaled rates will continue to rise to levels higher than expected. This sent stocks spiraling during the second half of the quarter. Geopolitical concerns also put pressure on equities in September as Russia escalated the war in Ukraine by announcing a 300,000-person mobilization from the general Russian population. The August CPI report, which was released in September, showed a slight increase in prices, implying that inflation was not declining as rapidly towards the Fed's target number as anticipated. Ultimately the move higher in July and early August was nothing more than a "Bear Market Rally". Markets will continue to remain volatile until there is some relief from all of these headwinds. The Crossmark team took advantage of all the volatility during the third 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 Crossmark Covered Call Income model portfolio outperformed the primary benchmark of the BXM as well as the S&P 500 during the third quarter returning -2.12%, -7.59%, and -4.89%, respectively. The option overlay was the biggest contributor to return along with the model's sector neutral approach during the third quarter. Financials, energy and healthcare sectors had positive contributions to return from a sector standpoint. Some individual stocks that had a strong positive contribution to return during the quarter were Starbucks (SBUX) (2.8% of total net assets), Microchip Technology (MCHP) (3.4% of total net assets), Marathon Petroleum (MPC) (2.2% of total net assets), Morgan Stanley (MS) (3.5% of total net assets) and Wal-Mart (WMT) (2.9% of total net assets). Industrials and communication services were among the weakest performing sectors during the quarter with Western Digital (WDC) (1.8% of total net assets), Verizon (VZ) (2.1% of total net assets) and Comcast Corp. (CMCSA) (1.9% of total net assets) generating negative contributions to return during the third quarter.

Looking Ahead

The combination of high inflation, sharply rising interest rates, growing recession risks, and rising geopolitical tensions will most certainly keep volatility front and certain as we enter the final quarter of the year. Corporate earnings results will start to hit the street in October. Despite high inflation and lingering supply chain issues, the majority of Q2 earnings beat estimates and were holding up much better than expected. Could we potentially see a replay with Q3 results? Let us hope for a less-aggressive Fed and resilient corporate earnings entering the fourth quarter. 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.

[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 9/30/2022.

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. 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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