

Covered Call Income

Commentary | Quarterly update: 4Q 2023

Separately managed account



Paul Townsen, Managing Director – Portfolio Manager

Top 10 portfolio holdings (%)	
Amazon.com, Inc.	4.96
Advanced Micro Devices, Inc.	4.82
D.R. Horton, Inc.	3.72
QUALCOMM, Inc.	3.54
Oracle Corp.	3.44
Electronic Arts, Inc.	3.35
Apple, Inc.	3.14
Morgan Stanley	3.05
PayPal Holdings, Inc.	3.01
Microchip Technology, Inc.	2.95
Total % of portfolio	35.99

Markets and performance

The fourth quarter got off to a fairly slow start as investor sentiment and confidence declined. Then the calendar flipped to November and the markets were off and running with the release of positive economic data coupled with better than feared corporate earnings results. On top of that, inflation data began to soften faster than anticipated and neutral monetary policy guidance from the Fed led to a rapid change in investor sentiment allowing for one of the more powerful rallies in both the stock and bond markets than we have seen in recent years. The “Magnificent Seven” accounted for a large portion of the positive returns for the quarter after losing some steam in September and October. The potential for rate cuts in 2024, which got quite a bit of attention, also played a factor in the year-end rally.

Positive and negative contributors to performance

The Covered Call Income composite outperformed the primary benchmark of the CBOE S&P 500 BuyWrite Index (BXM), returning 7.63% and 4.19% respectively for the quarter ending Dec. 31, 2023. Financials and Information Technology had positive contributions to return from a sector standpoint. Some individual stocks worth mentioning that had positive contributions to return during the quarter were Wells Fargo (2.51% of total net assets), Advanced Micro Devices (4.82% of total net assets), and Western Digital (2.23% of total net assets). Consumer Staples and Utilities were among the weakest performing sectors during the quarter, with Exelon Corp. (1.53% of total net assets), Walmart (2.68% of total net assets) and Exxon Mobil (2.55% of total net assets) generating negative contributions to return. 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 some mild volatility in October by resetting multiple option strikes, allowing for a continued increase in cash flow.

Looking ahead

As we close out 2023 and head into the new year, it seems as if the U.S. economy has so far side-stepped the feared recession and an acceleration of inflation, and the Fed has gone from a hawkish tone to more neutral one. It remains to be seen how many rate cuts we see in 2024. If the economy continues on an upward trend, the Fed may not feel the need cut as many times as the markets are anticipating. However, if the Fed cuts too much and too quickly, that could definitely imply the economy was in a much weaker state than expected. Either way, expect to see some volatility through the first quarter of 2024, which will allow for methodical option trading and strategies that will benefit the Covered Call Income strategy.

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.

Composite performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Covered Call Income (Wrap) – Gross	7.63	16.09	16.09	8.84	10.60	7.61
Covered Call Income (Wrap) – Net ¹	6.85	12.69	12.69	5.60	7.31	4.41
CBOE S&P 500 Buy/Write Index (BXM)	4.19	11.82	11.82	6.09	6.08	5.58

¹ Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00% by deducting 0.75% 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.

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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Crossmark claims compliance with the Global Investment Performance Standards (GIPS®). Prospective clients can obtain a GIPS Composite Report by sending a request to: advisorsolutions@crossmarkglobal.com.

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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