

# Covered Call Income

Commentary | Quarterly update: 1Q24

Separately managed account



**Paul Townsend** Managing Director – Portfolio Manager

Top 10 holdings (%)	
Advanced Micro Devices, Inc.	4.10
Amazon.com, Inc.	4.09
QUALCOMM Incorporated	3.84
Oracle Corporation	3.80
D.R. Horton, Inc.	3.73
Micron Technology, Inc.	3.57
Bank of America Corp	3.16
Applied Materials, Inc.	3.12
PayPal Holdings, Inc.	3.04
Electronic Arts Inc.	3.01
<b>Total % of portfolio</b>	<b>35.46</b>

## Markets and performance

The first quarter of 2024 started off with a continuation of the same storylines from 2023. The bulls kept running in the stock markets, and the ongoing threat of interest rates staying higher for longer couldn't stop the momentum. Stocks posted impressive returns in the first quarter, gaining over 10%. Investors went into the new year with cautious optimism regarding a "soft landing," which would avoid a recession, and improving inflation numbers. Labor markets remained historically strong; economic growth continued near long-term trends; and wage growth continued to outpace overall inflation, which in turn helped consumers spend more and absorb higher prices. As the markets continued to run, questions surrounding the Fed and "When will the rate cuts start?" kept getting pushed back. As the calendar flipped to 2024, the consensus on the street was that rate cuts would start in March. That obviously didn't come to fruition, and now a first cut in June seems to have lost quite a bit of steam. Geopolitical events also continued to hover over the markets.

## Positive and negative contributors to performance

The Covered Call Income composite outperformed the primary benchmark of the CBOE S&P 500 BuyWrite Index (BXM) for the first quarter of 2024, returning +6.76% vs the BXM's +6.02%. Information technology and energy had positive contributions to return from a sector standpoint. Some individual stocks worth mentioning that had positive contributions to return during the quarter were Advanced Micro Devices (4.10% of total net assets), Micron Technology (3.57% of total net assets) and Valero Energy (2.71% of total net assets). Healthcare and utilities were among the weakest performing sectors during the quarter with Gilead Sciences (2.33% of total net assets), Electronic Arts (3.01% of total net assets), and Nike Inc. (1.49% of total net assets) having 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 at the end of March by resetting multiple option strikes, allowing for a continued increase in cash flow.

## Looking ahead

Given the continued strong start to the year in the broad equity markets, the potential for a pullback in the second quarter has to be on the table. With the consolidation of gains likely, this should be considered healthy for the markets and a probable buying opportunity for investors. The prospect of rate cuts has more than likely been priced into the markets, so it's important for the upcoming earnings season to continue to drive the markets higher. Expect to see some volatility as we head into the second quarter. That should allow for methodical option trading strategies that should 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 (%)	Quarter	YTD	1-year	3-year	5-year	10-year
Covered Call Income (Wrap) – Gross	6.76%	6.76%	18.12%	8.29%	10.04%	7.90%
Covered Call Income (Wrap) – Net <sup>1</sup>	5.98%	5.98%	14.68%	5.07%	6.77%	4.69%
CBOE S&P 500 BuyWrite Index (BXM)	6.02%	6.02%	11.89%	6.18%	5.93%	5.94%

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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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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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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