

Covered Call Income

Commentary | Quarterly update: 3Q24

Separately managed account



Paul Townsen Managing Director – Portfolio Manager

Top 10 holdings (%)	
Advanced Micro Devices, Inc.	4.76
D.R. Horton, Inc.	4.15
Amazon.com, Inc.	4.05
Broadcom Inc.	3.75
Oracle Corp.	3.70
Qualcomm Inc.	3.70
Alphabet Inc. Class C	3.63
NVIDIA Corp.	3.52
PayPal Holdings, Inc.	3.39
Merck & Co., Inc.	3.29
Total % of portfolio	37.95

Markets and performance

Last summer, it looked as if the bull market might actually be in some trouble. However, stocks rebounded after an August and September pullback with a rotation from big tech and growth stocks to value stocks and smaller companies. Value stocks posted strong relative returns over the third quarter. The recovery in September was also fueled by half a percentage point cut to the Federal funds rate to the 4.75–5% range. Uncertain economic conditions and higher unemployment were reasons for the half-point cut, instead of a quarter point, with officials now directing their attention to supporting economic growth versus reducing inflation. This was the first rate cut since the market-related COVID-19 turmoil in March 2020.

Positive and negative contributors to performance

Covered Call Income strategy slightly underperformed its primary benchmark (BXM). Consumer discretionary, consumer staples, and healthcare had positive contributions to return from a sector standpoint. Some individual stocks worth mentioning that had positive contributions to return were DR Horton Inc. (DHI), Wal-Mart (WMT), and Gilead Sciences (GILD). Financials, information technology, and communication services were among the weakest-performing sectors, with Qualcomm (QCOM), Micron Technologies (MU), and Valero Inc. (VLO) having negative contributions to return. From an option overlay standpoint, we were opportunistic in trading certain names and sectors while continuing to stay short in duration. We also took advantage of volatility spikes in August and September by resetting multiple option strikes allowing for a continued increase in cash flow.

Looking ahead

The equity markets produced impressive returns through the first three quarters of the year with the S&P 500 Index up over 21% year to date, even with a shift in leadership from growth to value. While the overall outlook for 4Q24 is somewhat optimistic, there are several factors that will at some point produce increased volatility in the markets. While the overall outlook for the 4Q24 is somewhat optimistic, several factors will at some point produce increased volatility in the markets, including the highly anticipated presidential election and the ongoing conflicts in the Middle East and Ukraine. Any potential signs of deterioration in employment data could challenge the “soft landing” narrative. Third-quarter company earnings results will also be heavily scrutinized. Expect to see quite a bit of volatility in the markets as we head into the fourth quarter and the end of the year. This will allow for methodical option-trading opportunities that could benefit 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	3.23	11.48	19.99	8.75	10.00	7.81
Covered Call Income (Wrap) – Net ¹	2.47	9.03	16.50	5.53	6.72	4.61
CBOE S&P 500 BuyWrite Index (BXM)	5.54	13.55	18.31	6.39	6.59	6.25

1 Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00%, with a deduction of 0.25% from each month's return. Gross performance is shown as supplemental information and represents pure gross returns, as they have not been reduced by transaction costs or fees. Wrap fees include Crossmark's portfolio management fee, 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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