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ECONOMIC AND STRATEGY COMMENTARIES

1Q 2018 Commentaries

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March 31, 2018

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ECONOMIC COMMENTARY

The rocket ride upward in stocks, which started after the 2016 election, came to a screeching halt in the first quarter. The S&P 500 fell over 10% after reaching a new high in late January. The market began plunging in early February with the Dow actually falling over 3,000 points during the turmoil (and over 1,000 points in just one day). Higher interest rates, political fights and talk of a trade war completely changed the character of the markets as if someone had flipped a switch. It also ended the longest quarterly win streak for stocks in 20 years for the Dow Industrials. Fortunately, the economy is still going strong with manufacturing and service PMIs both well above 50. Additionally, we still appear to be in a global synchronized expansion and this typically leads to strong equity performance. Valuation was another matter. The markets had been rallying and PEs were getting a bit stretched. With interest rates rising and the US 10 year yield looking to reach the key 2.90% level, perhaps it was time for a correction to allow corporate earnings to catch up to valuations. The U.S. ten year finally peaked at about 2.95% before giving up ground into the end of the quarter. So far, the S&P 500 has found support at the important 200 day moving average. Breaking that average could signal a trend change in the markets so we will watch this closely going into April. Another key technical level is the initial S&P 500 low of the selloff of 2533 on February 9th. If that level holds in another pullback, that would be considered a successful "retest" of the correction low and would be a bullish sign for the markets. So far it has held, but we should know more in the coming weeks.

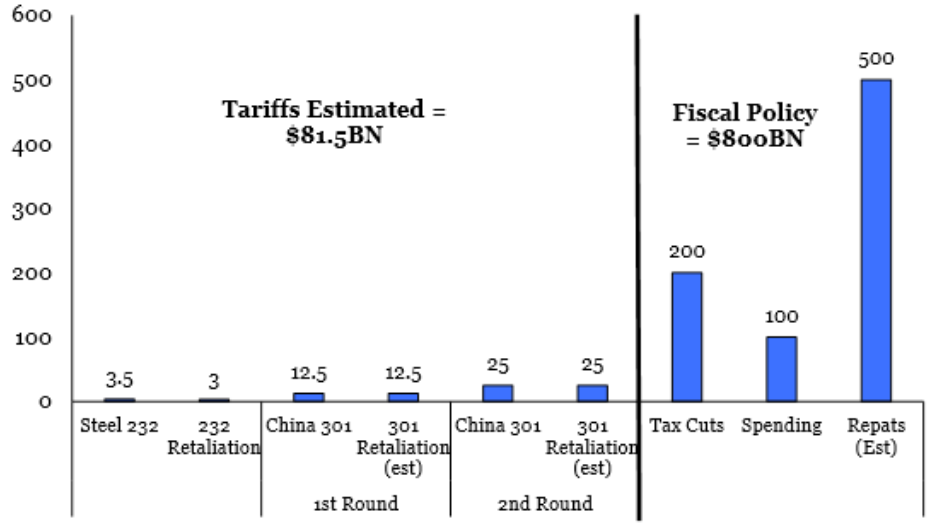
Taking a closer look at the economy, it looks as if the U.S. is hitting on eight cylinders. First, the Markit Manufacturing PMI covering March came in at 55.6, a three-year high. Optimism about the next twelve months also registered a three-year high. The three-month performance indicated the best quarterly results since the third quarter of 2014. One negative however, the talk of tariffs has led to an increase in costs and stockpiling of goods. The Markit Service PMI also indicated a strong expansion of service sector business, posting a reading of 54.0 For March. While down from the previous month, it still points to strong growth. Looking overseas, the Eurozone Manufacturing PMI for March came in at 56.6 while key emerging markets registered expansions as well, so the global synchronized expansion continues, albeit at a slightly moderated pace. This correlates with positive returns for equities. Auto sales for March certainly cast a positive light on the economy. U.S. light vehicle deliveries, driven by a surge in truck demand,

- The economy is still going strong with manufacturing and service PMIs both well above 50.
- The Market Manufacturing PMI covering March came in at 55.6, a three-year high.
- Global synchronized expansion continues, albeit at a slightly moderated pace.
- The February employment results indicated that the U.S. economy added 313,000 jobs, the most since July 2016.

jumped 6.4% for the best gain since February 2016. The seasonally-adjusted annualized sales came in at 17.49 million for the seventh straight month of over 17 million units. A volatile stock market, higher interest rates and higher gas prices were not enough to dissuade car buyers in March. The employment outlook is also healthy. The February employment results indicated that the U.S. economy added 313,000 jobs, the most since July 2016. Data for December and January were also revised upwards by 54,000. The unemployment rate held steady at 4.1% for the fifth consecutive month as over 800,000 entered the workforce due to improved conditions. Economists expect the good news to continue with unemployment falling as low as 3.5% over the next few months. On the flip side, it looks as if gross domestic product for the first quarter may dip a bit from the last couple of quarters. Analysts are looking at something in the 2.0%-2.5% area, down from 2.9% in the fourth quarter of 2017. However, with the strong auto sales bolstering numbers, GDP may come in a bit better than anticipated. Also, much has been said about the negative impact of Trump's proposed tariffs. As Strategas Research notes, the tariffs currently total about $81.5 billion. The fiscal stimulus the U.S. should experience from tax cuts, spending and repatriation of overseas profits is estimated to total about $800 billion which should overwhelm the negative tariff impact. Lastly, we would note that while the yield curve has flattened some recently, it is still solidly positively-sloped and this remains a positive for the economic outlook.

Higher interest rates, political fights and talk of a trade war completely changed the character of the markets as if someone had flipped a switch.

Comparing The Size of Tariffs With Incremental Fiscal Policy, CY 2018, $BN



Source: Strategas

If the U.S. economy is hitting on eight cylinders, corporate profit growth seems to be hitting on twelve cylinders. For the first quarter of 2018 the S&P 500 is expected to report earnings growth of 17.3%, a nice way to kick off the New Year. If achieved, that would be the highest growth rate since the first quarter of 2011. The expected growth on December 31 was "only" 11.4% but analysts raised estimates significantly in January as the impact of tax reform worked its way into the mix. Higher oil prices also helped and the upward revisions were led by the energy sector. Typically, estimates decline from the beginning of a quarter to the end of the quarter by about 4%-5%, so to see it increase by several percentage points shows a lot of bullishness.

Economic Commentary

Quarterly EPS Growth	
1Q 2018	17.3%
2Q 2018	19.1%
3Q 2018	20.9%
4Q 2018	17.1%
Full Year	18.5%

Source: FactSet

Coming into the New Year, the market had been on a tear ever since the 2016 election, posting positive total returns for 14 months in a row and January made it fifteen. All this in spite of the failure of Congress' new healthcare plan, the failure the new tax plan until late December, continued gridlock in Washington, D.C. and all manner of serious weather calamities including hurricanes, floods and fires. After adding another 5.73% in January, the S&P 500 was stretched out on a valuation basis, especially with the Federal Reserve planning several rate hikes for 2018 and a pickup in inflation was evident, as well. After losing over 10% in February the S&P 500 PE ratio dropped from about 18.0x to 16.1x, relieving some of the pressure on stocks. Still, the 10 year average PE is about 14.3x so we could see some more PE compression which could offset some of the strong earnings growth we are expecting. The keys are (1.) do we make a successful retest of the lows around 2533? or (2.) does the 200 day moving average provide solid support and then form a "W" pattern (double bottom) and resume the uptrend as we have in the last several corrections? The next couple of months should tell the tale.

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. The firm provides a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in responsible investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

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March 31, 2018

TAXABLE FIXED INCOME COMMENTARY

CORE FIXED INCOME
INTERMEDIATE FIXED INCOME
CURRENT INCOME PORTFOLIO
INCOME OPPORTUNITIES

Do you ever feel like you are stuck in a rut and need something to change in order to break the monotony? Well, the U.S. Treasury market sure did during the first quarter of the year with the 10yr yield stuck in the range of 2.80-2.95% for 22 continuous trading sessions. Following higher wage numbers during the beginning of February, yields trended upward as the expectation of higher inflation became the dominant theme in the fixed income markets.

As the quarter began to wind down, additional uncertainties including tariff issues, a higher than expected dot plot from the Federal Reserve, new fiscal policy and an elevated LIBOR level combined with a large short position in the treasury market and repositioning due to quarter-end to push the U.S. 10yr treasury below its most recent range and break the 50 day moving average. Even with this move, the quarter came to a close with higher yields across the curve than where it started. In a rising rate environment, our fixed income portfolios outperformed their comparable indices for the quarter with our shorter duration positioning and the income component as the largest contributors to the outperformance.

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Our 4-step investment process focuses on duration, yield curve, sector and security selection, combined with our outlook for the markets. We will maintain our current conservative positioning of the taxable fixed income portfolios with a reduced exposure to the increased levels of volatility we have seen this year in combination with a higher level of income versus comparable indices. This strategy will help to reduce market value fluctuations in a rising rate environment – an environment we anticipate will continue over the coming quarters, although not in a straight line as we move through this mid-term election year cycle. As always, feel free to contact us with any questions as we are happy to discuss the portfolios, our strategies and the markets with you.

- Following higher wage numbers during the beginning of February, yields trended upward as the expectation of higher inflation became the dominant theme in the fixed income markets.
- Our 4-step investment process focuses on duration, yield curve, sector and security selection.
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MUNICIPAL FIXED INCOME COMMENTARY

Crossmark Global Investment's municipal bond product outperformed the benchmark for 1Q18 due to the shorter duration and conservative nature of concentrations in general obligation and essential services revenue bonds. With the 10 year Treasury moving from a 2.43 percent to begin the year to 2.74 percent at the end of the quarter, shorter duration portfolios outperformed.

For the quarter, the 10 year Treasury produced an impressive range as it moved from 2.43 percent to begin the year to a high of 2.94 percent on February 21, holding a rather tight range until the last few days in the quarter when the global equity markets became very volatile prompting a flight to safety. The quarter end volatility pushed the 10 year Treasury to 2.74 percent to the finish. As expected, the Federal Open Market Committee raised the short-term interest rate by 25 basis points. This represented the sixth rate hike since December 2015.

Municipal bond rates remained uncoupled from other fixed income sectors as prices moved very little when compared to the wide range for the 10 year Treasury until March. The uncoupled municipal bond market was down 1.4 percent while the comparable 10 year Treasury was down 2.1 percent. With new issuance down a reported 38 percent, the spread on municipal bonds widened as trading firms added concession in an attempt to make up for the lack of trading volume. The drop in new issuance is primarily from the advance refunding side of the market, which had probably largely played out with interest rates rising. Foreign investors continued to purchase municipal bonds but in much less volume than seen in 4Q17. Domestic investors appeared disciplined by being selective during the quarter. Crossmark Global Investments remained disciplined with trading during the quarter with transactions occurring in concentrated activity when inventory presented opportunity. Most of the concentrated activity occurred prior to and immediately after three day weekends as senior traders were off the desks and individuals were attempting to sell, which is a normal pattern prior to tax reporting in April.

December 2017 municipal bond new issuance broke a record at greater than $62 billion, the best December since 1985. It was anticipated that most of the issuance slated for 1Q18 had been pushed into December. Fortunately, the forward new issuance calendar looks to be improving as we head into 2Q18 which could bring the uncoupled municipal bond market back towards the remaining fixed income sectors. Municipal bond pricing may not move much during the forward quarters if the 10 year Treasury drops enough to test the 2.63 percent support since the pricing was already slightly higher than other fixed income sectors. While support at 2.63 percent may be tested during 2Q18 and into

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Municipal Fixed Income Commentary

There is a lot of volatility left to be placing a narrow range for the year end number this early as Crossmark Global Investments will be taking advantage of the opportunities that present themselves.

3Q18, there are research firms suggesting the 10 year Treasury could end calendar year 2018 above the 3.00 percent level. There is a lot of volatility left to be placing a narrow range for the year end number this early as Crossmark Global Investments will be taking advantage of the opportunities that present themselves.

Oil price increases are usually met with disgruntled users ranging from drivers as they fill vehicles at the pump to topping off heating oil in northeast states where winter just refuses to relinquish to spring. There are eight major oil producing states that will benefit from rising oil prices. Alaska, Louisiana, Texas and North Dakota are the largest that will be direct beneficiaries and could see continued economic growth this year as oil rebounds from the lows produced two years ago. All eight major oil producing states will likely see their economies expand with Texas leading the group with an anticipated 4 percent growth according to HIS Markit cited by S&P. These states rely on energy production as a key driver of their economies and for taxes levied directly on the oil industry. Municipal bond investors have demanded less compensation on at least two oil producing states debt, signaling that credit risk may be abating.

Crossmark Global Investments continues to find value in the municipal secondary market with bonds rated A or better involved with essential services like water, sewer, power, streets, highways, school education and general obligations. The ideal maturities on the yield curve have moved to the 10 to 20 year range with a call feature between 2019 and 2024. Crossmark continues to hold a shorter duration than the Barclay's Quality Municipal Index with a focus on higher quality municipalities. Crossmark Global Investments continues to use municipal bond market volatility to opportunistically manage the portfolios entrusted to us.

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GLOBAL EQUITY INCOME COMMENTARY

Performance

The first quarter of 2018 ended with moderate declines in the equity markets while experiencing some volatile swings along the way. The Global Equity Income benchmarks of the S&P Global 1200 and the S&P 500 ended the quarter with returns of -1.02% and -0.76% respectively. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned -2.95%.

Factors Affecting Performance

Significant factors in the U.S. for the quarter included a strong February jobs report. The non-farm payroll count of 313k exceeded expectations while upward revisions to previously reported job growth added to the momentum. Consumer spending numbers have been coming in weak, but this is likely a result of some delays in tax refunds. The Federal Reserve has raised interest rates another 25bp in March which was widely anticipated. The Trump administration has made a decision to levy tariffs on steel and aluminum imports. These tariffs exempt imports from Canada, the largest supplier of both metals, conditionally on NAFTA talks being completed. While the impact of these specific metals tariffs should only have a negligible economic drag impact, the broader implication is that these trade disputes could become more widespread. Global GDP growth moved higher last year posting the largest gain in seven years. This is reinforcing the view that global developed economies are growing in a synchronized manner. GDP estimates, however, for 2018 are showing slowing growth outside the U.S. The Eurozone, which in 2017 grew at 2.5%, is expected to slow to 2.3%. Japan managed to get to 1.7% growth in 2017 but is expected to slow to 1.3% growth in 2018. Overall global economic growth still appears to be resilient.

Company earnings as represented by the S&P 500 have come in stronger than expected for the fourth quarter posting a robust growth rate of 15%. Earnings growth for the full year of 2017 is coming in at nearly 11%, reflecting another upward revision. The strong rebound of the energy sector led the way with a growth rate of 254% and all other sectors also posting positive earnings growth.

The Global Equity Income strategy outperformed the S&P Global 1200 and significantly outperformed the MSCI World High Dividend Yield Index in the first quarter. The strategy continues to do well against its global dividend benchmark. The portfolio equity

CROSSMARK STWARD GLOBAL EQUITY INCOME FUND

Institutional (SGISX)

BEST GLOBAL EQUITY INCOME FUND AWARD WINNER

FOR 5-YEAR PERIOD

2018 THOMSON REUTERS LIPPER FUND AWARDS UNITED STATES

FOURTH CONSECUTIVE YEAR

Thompson Reuters recognized the Crossmark Steward Global Equity Income Fund at the U.S. Lipper Fund Awards on February 27, 2018 for delivering consistently strong risk-adjusted performance relative to its peers in the Global Equity Income Funds category for the three-year and five-year periods ending 11/30/2017. The number of peer funds included in the category was 36 for the three-year category and 31 for the five-year category. Each award was based on the Fund achieving the highest Lipper Leader for Consistent Return (Effective Return Net of Expenses) value over the stated time period.

allocation at the end of the period was 61% U.S. and 39% international. Performance was again led by individual holdings and the largest positive contributor for the quarter was Raytheon Co. +15.38%. Shares of the company have continued to rise substantially since the November 2016 presidential election. Increased spending by the Pentagon is the catalyst for the surge in the stock price, and lawmakers have reached a deal in February on a long-term budget to support it. Shares of China Petroleum & Chemical Corp. +20.59% rose on fourth quarter reported earnings despite an exploration and production impairment loss. The negative impact was offset by stronger than expected profitability in refining and chemicals. This helped the company post a nearly 10% full-year profit while also paying out an unexpected record-high dividend. ResMed Inc. +16.71% shares soared following reported earnings that significantly outpaced consensus expectations. The company has achieved strong global revenue growth over the past few quarters on robust sales of sleep devices, respiratory care devices, mask systems and software solutions.

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Holdings in the portfolio that had negative relative performance included General Mills, Inc. –23.37%. The Minneapolis based packaged food company reported that a higher than expected increase in freight and commodity costs would diminish full-year profit to a larger degree than it had originally forecast. The company was moving to reduce costs by improving its distribution network and cutting costs globally to improve margins. Shares of RELX PLC -11.86% declined on dollar weakness and broker downgrades related to concerns over a dispute with German universities regarding pricing of scientific journals. The company, however, has reported solid growth across all its divisions and an overall improvement in margins. RELX also stated that it will complete another round of share buybacks in 2018 equal to that of the previous year. The Global Equity Income strategy has performed extremely well on a risk adjusted basis over the quarter once again validating the effectiveness of the disciplined methodology.

Global Equity Income Strategy

The Global Equity Income strategy pursues its objective through the investment in U.S. and non-U.S. dividend-paying stocks that have demonstrated the ability to maintain a higher yield, increase dividends over time and generate significant earnings. These companies also represent a broad spectrum of the global economy. The objective of this strategy is to provide current dividend income and the potential for capital appreciation at lower than overall market risk.

Global Equity Income Commentary

Top 10 Model Holdings [1]	Weight
1. Valero Energy Corp.	3.24%
2. Microsoft Corp.	3.19%
3. Raytheon Co.	2.61%
4. Taiwan Semiconductor Mfg.	2.46%
5. McDonalds Corp.	2.38%
6. Intel Corp.	2.33%
7. Unilever NV	2.27%
8. Sumitomo Mitsui Financial Grp.	2.21%
9. 3M Company	2.16%
10. Quest Diagnostics, Inc.	2.15%
Total of Portfolio	25.00%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model.

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Thompson Reuters recognized the Crossmark Steward Global Equity Income Fund at the U.S. Lipper Fund Awards on February 27, 2018 for delivering consistently strong risk-adjusted performance relative to its peers in the Global Equity Income Funds category for the three-year and five-year periods ending 11/30/2017. The number of peer funds included in the category was 36 for the three-year category and 31 for the five-year category. Each award was based on the Fund achieving the highest Lipper Leader for Consistent Return (Effective Return Net of Expenses) value over the stated time period.

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March 31, 2018

COVERED CALL INCOME COMMENTARY

First Quarter Review 2018

The markets picked up right where they left off in 2017, sprinting to more record highs in January before trailing off at the end of the month. The S&P 500 was up another 5.72% in January on top of the fourth quarter of 2017 that saw the S&P 500 up 6.64%. The broad based markets were off to the races again as investors continued to passively ignore news around the globe that more often than not affect the markets. The technology and consumer discretionary sectors led the way with rate sensitive utility and telecom sectors lagging in January. Despite the continued success of the markets, the last week of January saw back to back declines that had been very uncommon. The Dow lost 540 points over a two day span and up until January 29th the S&P 500 had enjoyed a record long streak without consecutive declines of .50%. The VIX index ran up to its highest level since August hitting close to 35. The pullback in the markets seemed to give investors a breather for the time being.

Then the calendar flipped to February, and the happiness surrounding the long bull-run in the markets was shattered by one piece of economic data. Annual wage growth jumped unexpectedly, igniting inflation fears and setting off a chain of events that eventually saw a 10% correction in the equity markets around the world. Volatility made an all-important appearance following historical low levels over the past few years which caused widespread panic. A rapid change in investor sentiment towards concerns over the Fed tightening monetary policy faster than previously anticipated played a role in the violent swings seen daily in the markets. All that being said, the global economy

VIX vs S&P 500

Source: Bloomberg

- The markets picked up right where they left off in 2017, sprinting to more record highs in January before trailing off at the end of the month.
- Annual wage growth jumped unexpectedly, igniting inflation fears and setting off a chain of events that eventually saw a 10% correction in the equity markets around the world.
- A rapid change in investor sentiment towards concerns over the Fed tightening monetary policy faster than previously anticipated played a role in the violent swings seen daily in the markets.

Trade policy could very well be the biggest risk factor facing stocks in the near term which was supported by the market volatility throughout the second half of March.

continued to show growth, corporate earnings were still strong and the potential growth catalyst provided by the end of 2017 tax legislation had already shown signs of coming to fruition.

Historically, March had been one of the better performing months of the year. History proved to be wrong for March of 2018. Risks of a trade war increased with more stocks benefitting from free trade than are likely to benefit from protectionist policies. Trade policy could very well be the biggest risk factor facing stocks in the near term which was supported by the market volatility throughout the second half of March. Fed Chair Powell conducted his first meeting and investors viewed the rhetoric as the Fed possibly raising rates more than the expected 3 times for the year. While trade wars and the Fed policy are legitimate concerns, it sure seemed like investors had more of a knee-jerk reaction as seen by how the markets rebounded the last week of the month. The positive momentum was a welcome relief after nearly weeks of wide ranging volatility throughout the markets.

The Covered Call Income strategy slightly lagged the primary benchmark of the S&P Covered Call Index in January as the markets raced off to another great start to the year. Overall for the first quarter, the Covered Call Income strategy outperformed both the primary benchmark of the S&P Covered Call Index and the secondary benchmark, which is the BXM. From an attribution standpoint, the strategy was affected in the following ways in regards to the S&P 500 sector breakdown:

Positive Attribution:	Negative Attribution:
Energy	Consumer Discretionary
Technology	Financials
Industrials	
Materials	

Looking ahead to Q2

Based on the momentum in the markets in the last week of March, we can only hope that carries over into the first month of the second quarter. There are still looming market factors that need to be watched closely with a few of those being potential trade wars and the continued fallout from the Facebook data breach. The consensus view from the Fed still sees rates rising 2-3 more times in 2018 as well. Volatility looks to be around at least through the first part of the summer. Volatility is healthy for the markets and important for covered call strategies. Continue to see the Covered Call team look for trading opportunities as they present themselves to increase option income. To say the first quarter of 2018 was boring would be quite the understatement. We move on to the second quarter with much anticipation.

Volatility is healthy for the markets and important for covered call strategies.

Covered Call Income Commentary

Top 10 Model Holdings [1]	Weight
1. Microsoft Corp.	4.02%
2. Abbott Labs	3.52%
3. Paypal Holdings	3.34%
4. Gilead Sciences, Inc.	3.32%
5. Delta Airlines, Inc.	3.22%
6. Pfizer, Inc.	3.13%
7. Intel Corp	3.06%
8. Emerson Electric Co.	3.01%
9. Citigroup, Inc.	2.97%
10. Activision Blizzard, Inc.	2.97%
Total of Portfolio	32.56%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model.

Definitions:
"Up and Out" – This occurs when the original call option is repurchased and another call option is sold. The new option is sold with a higher strike price and a later expiration date than the original option.

"Rolling Down" – This involves buying back the current call option and selling another call option with the same expiration date. The only difference between the two call options is the strike price. In this case, the new option has a lower strike price.

"At-the-Money" – Options with a strike price, or exercise price, equal to the price of the underlying asset. Theoretically, these options have a delta around 50%.

"In-the-Money" – Options with a strike price, or exercise price, lower than the price of the underlying asset. These options have a theoretical delta greater than 50%.

"Out-of-the-Money" – Options with a strike price, or exercise price, greater than the price of the underlying asset. These options have a theoretical delta less than 50%.

"Delta" – One of the "Greeks" derived from the Black-Scholes model for option pricing. Theoretically, it states how much the price of the option will change given a $1 change in the price of the underlying asset. It is also commonly referred to as the "hedge ratio."

Covered Call Income strategy is designed for investors who want equity market participation with enhanced income potential. This approach is appropriate for investors looking for higher yields, capital appreciation and reduced risk levels.

Writing calls on securities held in the portfolio maximizes the gains that can be realized if the price of a stock increases, and investing in equity securities involves market risk, including the possible loss of principal.

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March 31, 2018

LARGE CAP CORE GROWTH COMMENTARY

The record-breaking post-election stock market rally finally ended with a bang! In February the S&P 500 dropped just over 10% on a closing basis and the Dow Jones Industrials actually fell over 3,000 during the carnage. Fortunately, the markets settled down and volatility returned to less explosive readings. For the quarter, the S&P 500 lost 0.76% on a total return basis while the Russell 1000 Growth Index, our benchmark, actually gained 1.41% with help from the "FANGs" and other technology stocks. Volatility, which had been so low in 2017, skyrocketed to over 50 from a recent low of 12.50. It settled back to 20 at the end of the quarter. Higher interest rates, political fights and talk of a trade war completely changed the character of the markets as if somebody had flipped a switch in early February. For the quarter, our Large Cap Core Growth model outperformed the S&P 500 but lagged the tech-heavy Russell 1000 Growth Index. Despite the pullback in stocks, the U.S. economy is still looking healthy with both manufacturing and service sector PMIs well above 50, signaling expansion. Additionally, we still appear to be in a global synchronized expansion, and that is generally positive for equity performance. Valuation, on the other hand, has been stretched over the last year or so. With interest rates rising and the U.S. 10 year yield heading towards the key 2.90% level, perhaps it was time for a correction to allow corporate earnings to catch up to valuations. The ten year finally peaked at about 2.95% before giving up ground into the end of the quarter.

Turning to our Large Cap Core Growth model, our best performing sectors were all cyclical. Technology won the day, up 3.94%, followed by Materials which gained 2.46% and then Financials (which benefit from higher interest rates), up 2.34% On the other side of the ledger, lagging sectors were Telecommunications, Energy and Consumer Staples. Note that Telecom and Staples are less economically sensitive areas of the economy. As for individual equities the story was earnings. Top performers included Harris Corp., a player in the strong defense sector that also benefitted from strong quarterly results. Cisco Systems, a networking company, also gained from strong tech sector performance and better than expected earnings. Tapestry, a new holding, also did well. Tapestry is a combination of Coach, Inc. and Kate Spade. Bringing up the rear were Thor Industries which, after more than doubling over the last couple of years, gave in to some profit taking on reports of slowing motorhome demand. Proctor & Gamble, along with much of the staples group, continued to decline despite posting decent earnings. Celgene also lost ground after reporting weaker than expected results.

- The record-breaking post-election stock market rally finally ended in February.
- Higher interest rates, political fights and talk of a trade war instantly changed the character of the markets in early February.
- The U.S. economy is hitting on eight cylinders.

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Adjustments to the portfolio included initiating a position in Dollar General, trimming our Thor Industries position again and initiating a position in Tapestry. We also sold our Proctor & Gamble position in the weak Staples sector and used the proceeds to add to our Nike holdings.

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Taking a closer look at the economy, it looks as if the U.S. is hitting on eight cylinders. First, the Markit Manufacturing PMI covering March came in at 55.6, a three-year high. Optimism about the next twelve months also registered a three-year high. The three-month performance indicated the best quarterly results since the third quarter of 2014. One negative however, the talk of tariffs led to an increase in costs and stockpiling of goods. The Markit Service PMI also indicated a strong expansion of service sector business, posting a reading of 54.0 For March. While down from the previous month, it still points to strong growth. Looking overseas, the Eurozone Manufacturing PMI for March came in at 56.6 while key emerging markets registered expansions as well, so the global synchronized expansion continues, albeit at a slightly moderated pace. This correlates well with positive returns for equities. Auto sales for March also cast a positive light on the economy. U.S. light vehicle deliveries, driven by a surge in truck demand, jumped 6.4% for the best gain since February 2016. The seasonally-adjusted annualized sales figure came in at 17.49 million for the seventh straight month of over 17 million units. A volatile stock market, higher interest rates and higher gas prices were not enough to dissuade car buyers in March. The employment outlook is also healthy. The February employment results indicated that the U.S. economy added 313,000 jobs, the most since July 2016. Data for December and January were also revised upwards by 54,000. The unemployment rate held steady at 4.1% for the fifth consecutive month as over 800,000 entered the workforce due to improved conditions. Economists expect the good news to continue with unemployment possibly falling as low as 3.5% over the next few months. On the flip side, it looks as if gross domestic product for the first quarter may dip a bit from the last couple of quarters. Analysts are looking at something in the 2.0%-2.5% area, down from 2.9% in the fourth quarter of 2017. However, with the strong auto sales bolstering numbers, GDP may come in a bit better than anticipated. Also, much has been said about the negative impact of Trump's proposed tariffs. As Strategas Research notes, the tariffs currently total about $81.5 billion. The fiscal stimulus the U.S. should experience from tax cuts, spending and repatriation of overseas profits is estimated to total about $800 billion, which should overwhelm the negative tariff impact. Lastly, we would note that while the yield curve has flattened some recently, it is still positively-sloped, and this remains a positive for the economic outlook.

If the U.S. economy is hitting on eight cylinders, corporate profit growth seems to be hitting on twelve cylinders. For the first quarter of 2018, the S&P 500 is expected to report earnings growth of 17.3%, a nice way to kick off the New Year. If achieved, that would be the highest growth rate since the first quarter of 2011. The expected growth on December 31 was "only" 11.4% but analysts raised estimates significantly in January as the impact of tax reform worked its way into the mix. Higher oil prices also helped and the upward earnings revisions were led by the energy sector. Typically, estimates decline from the beginning of a quarter to the end of the quarter by several percent, so to see it increase by six percentage points shows a lot of bullishness.

S&P 500 Quarterly EPS Growth	
1Q 2018	17.3%
2Q 2018	19.1%
3Q 2018	20.9%
4Q 2018	17.1%
Full Year	18.5%

Source: FactSet

Coming into the New Year, the market had been on a tear ever since the 2016 election, posting positive total returns for 14 months in a row with January making it fifteen. All this in spite of the failure of Congress' new healthcare plan, the failure the new tax plan until late December, continued gridlock in Washington, D.C. and all manner of serious weather calamities including hurricanes, floods and fires. After adding another 5.73% in January, the S&P 500 was stretched

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out on a valuation basis, especially with the Federal Reserve planning several rate hikes for 2018. A pickup in inflation was evident, as well. After losing over 10% in February the S&P 500 PE ratio dropped from about 18.0x to 16.1x, relieving some of the valuation pressure on stocks. Still, the 10 year average PE is about 14.3x so we could see some more PE compression and this could offset some of the double digit earnings growth we are expecting. The keys are (1.) do we make a successful retest of the S&P 500 lows around 2533 or (2.) does the 200 day moving average provide solid support and then form a "W" pattern (double bottom) and resume the uptrend as we have in the last several corrections? The next couple of months should tell the tale.

Top 10 Model Holdings [2]	Weight
1. Microsoft Corp.	5.45%
2. Apple, Inc.	4.83%
3. JP Morgan Chase & Co.	3.71%
4. Home Depot, Inc.	3.57%
5. Cisco Systems, Inc.	3.19%
6. Harris Corp.	3.15%
7. Texas Instruments, Inc.	3.14%
8. Honeywell International, Inc.	2.98%
9. Unitedhealth Group, Inc.	2.88%
10. CDW Corp.	2.84%
Total of Portfolio	35.73%

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model.

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. The firm provides a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in responsible investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

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