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ECONOMIC AND STRATEGY COMMENTARIES

3Q 2017 Commentaries

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- Covered Call Income Commentary
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SEPTEMBER 30, 2017

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September 30, 2017

ECONOMIC COMMENTARY

The bull market in stocks, which started after the November elections, continues to amaze. The S&P 500 jumped another 2.06% in September and 4.48% in the third quarter. This marks the eleventh straight month and the eighth straight quarter of positive total returns for the index. And in September, the bull market officially became the second strongest bull since World War II. Also, as noted by strategist Bob Doll, if 2017 trends hold through year end, this will mark the seventh consecutive year that stocks have beaten bonds, something that has never happened before. The market has been quite resilient, powering through the failure of healthcare legislation, fights over tax legislation, continued gridlock in Washington D.C. and a host of other problems. Even three massive hurricanes could not slow this market down. Speaking of hurricanes, there were serious fires in the west, major flooding in Texas and Florida, and an earthquake in Mexico. The only question that remains is "when should we expect the plague of locusts?"

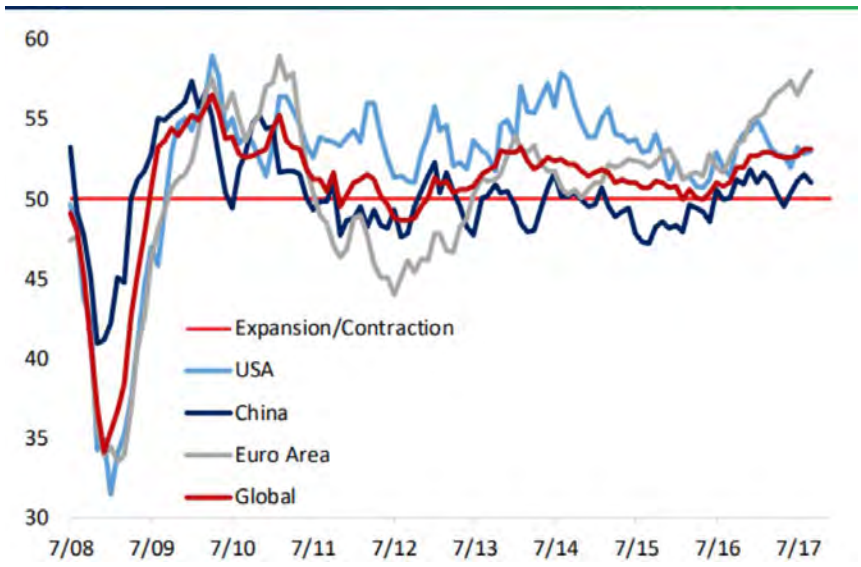
In spite of the aforementioned obstacles, the economic news is actually quite positive. The purchasing manager surveys were both excellent. The ISM Manufacturing Index rose to 60.8 in September, the best reading in 13 years, up from 58.8 the prior month. Paradoxically, the result was helped a bit by the hurricanes due to technicalities in how index is computed, but still the results were strong. Seventeen of 18 industries in the index showed growth (a score of above 50) with only furniture showing contraction. The ISM employment gauge, at 60.3, was the best result in six years. On the service side of the economy, the service ISM came in at 59.8, the best result in 12 years. The service sector is key because it represents about 90% of the economy. And we are not alone. Across the globe, measures of economic strength are strong. Markit's Purchasing Managers Indexes are indicating a sort of global synchronized growth, which is typically quite positive for equity returns (basically what we are seeing now).

In other positive news, the second quarter GDP growth was revised upwards to 3.1% from 3.0%. The strongest contribution to the report was consumer spending while residential investment was weak. The outlook for the third quarter is for US GDP growth of 2.5%-3.0%. Perhaps the main fly in the ointment is that the Fed has started to shrink its balance sheet and there is much uncertainty on how smoothly that will go.

- In September, the bull market officially became the second strongest bull market since World War II.
- Seventeen of 18 industries in the index showed growth.
- The second quarter GDP growth was revised upwards to 3.1% from 3.0%.
- What was once a Fed-driven bull market is now turning into an earnings-driven one.

Economic Commentary

Major Global Economies' PMIs In Solid Territory: Europe Leads



Source: Bespoke Investments, Markit Economics

Turning to corporate profits, results have been strong thus far in 2017, after a weak 2016. For the S&P 500, the first quarter adjusted EPS increased by 13.6% followed by a solid 10.5% in the second quarter. The pace of growth is now starting to slow a bit, with the third quarter projected at 2.8%, this is down from the original 3Q estimate of 7.5%. Analyst reductions in the energy sector accounted for much of the decrease, as did hurricane impacts. Things are expected to bounce back in the fourth quarter with EPS growth of 11.0% projected. For 2018, analysts are expecting EPS growth of 11.1%. So, as we mentioned in earlier missives, what was once a Fed-driven bull market is now turning into an earnings-driven one just at the right time, as the Fed starts to tap on the brakes.

To go along with the economic data, the stock market's technical indicators are pointing mostly towards higher prices in the months to come. The S&P 500 has made 39 new highs this year through the end of September and other indexes have followed suit. We have seen the Dow Industrials and Transports; the major Russell indexes (Russell 1000 and 2000) make new highs, the Nasdaq, etc. all hitting new highs. So, the markets are "in gear," which is generally quite bullish. The NYSE Advance/Decline line has also been making new, all-time highs. This is also bullish. The stock market almost never peaks before the A/D line and usually not until the A/D line has weakened for at least a couple of months (it is a good early warning system). Of course, a quick 5%-10% correction is always possible and probably even healthy for the longer-term viability of the bull market. It allows earnings to catch up to prices and brings valuations back down to more comfortable levels. With earnings for the S&P 500 for 2018 projected to reach around $145 per share, the quarter-end 2018 P/E for the S&P 500 was 17.3x. Based on historical averages, that would indicate that valuations are definitely stretched. But as we have pointed out previously, during periods of low interest rates and low inflation, P/E ratios

If 2017 trends hold through year end, this will mark the seventh consecutive year that stocks have beaten bonds, something that has never before happened.

can go much higher, especially with a positive backdrop of a strong economy and good earnings growth. Our price target for the S&P 500 over the next few months is 2590-2675. We are being much more conservative than the latest projection from the Sage of Omaha, Warren Buffett. Buffett has recently projected that the Dow Jones Industrial Average will reach one million! Of course, he's relying on the power of compounding over 100 years to get there, so he is likely to be right.

About Crossmark's 30 Year History

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September 30, 2017

TAXABLE FIXED INCOME COMMENTARY

FIXED INCOME
INTERMEDIATE FIXED INCOME
CURRENT INCOME PORTFOLIO
INCOME OPPORTUNITIES

Everyone, at some time or another, has had that odd feeling of getting in your car and before you know it, you are at your destination and not really sure how you got there. The 3rd quarter of this year could provide that same uncanny feeling if you just looked at the starting point and ending point, ignoring all that happened in between. As a guide for the bond market, we look at the US 10yr Treasury note that was at a 2.35% at the beginning of July and ended September at a 2.33%. This seems somewhat benign until we see that we continuously dropped to a 2.04% during the first week of September and made a strong climb back towards the 200 day moving average over the following three weeks to close the quarter about where we began.

Throughout the 3rd quarter, we continued to face uncertainty on multiple fronts including North Korea, European elections, health and tax reform in the United States and numerous natural disasters, just to name a few. Much of this led to a risk-off sentiment in the markets pushing yields down close to the 2.00% level. However, economic reports began to strengthen slightly in September and the Federal Open Market Committee (FOMC) reiterated its conviction to a third rate hike this year at their meeting on September 20th. Due to the issues mentioned above, futures were only pricing in a 22% chance of a rate hike in December on September 7th – the day the 10yr closed at the low of the quarter of 2.04%. On the 1st day of the FOMC meeting, futures were somewhat more optimistic with a 53% chance of another rate hike this year. If we look today, futures are pricing in close to a 75% chance of a rate hike in the final month of the year. Historically, the Fed has followed through on such movements when the futures have priced in at least a 70% chance of the action occurring. Looks like we will get that final hike in a couple months, barring any major market moving events.

Although the economic projections from the FOMC have shown a reduced expectation of rates on the longer-end, we still have some room to move from our current position. With the anticipation of another rate hike this year, and the potential for 3 more in 2018, coupled with potential gains in corporate revenue, higher wages and a strong labor market, our fixed income products are positioned to withstand higher-trending yields over the coming quarters. With a shorter duration than the comparable indices to help reduce interest-rate sensitivity, and a focus on income with strong current yields, our fixed income portfolios can withstand volatility as the yield curve adjusts to new levels. We have seen this in the month of September as yields rose and all of our fixed

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- Economic reports began to strengthen slightly in September and the FOMC reiterated its conviction to a third rate hike this year at their meeting on September 20th.

Taxable Fixed Income Commentary

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income products outperformed their index for the month. Rising yields, as we expect to see in the next few quarters, will continue to serve as a tailwind for our more defensive positioning in the marketplace. As always, our process of using duration targets, yield curve structure, and sector and security selection will guide our strategy and allow us to make opportunistic changes to our portfolios as the market allows. We are always here to help guide you and answer any questions you may have regarding portfolios and the markets. So as we begin the final quarter of the year, let's pay attention to the paths we are on and not end up at the final destination wondering how we got there.

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MUNICIPAL FIXED INCOME COMMENTARY

Crossmark recognizes the tragic events that have taken place this quarter. Lost lives are a painful reminder of the natural disasters and unnatural events that have taken place. This truly has been a difficult quarter in terms of personal impact to lives, property and infrastructure. As we mentioned last month, Hurricanes Harvey, Irma, Katia and Maria as well as numerous wildfires in the west and northwest are events that have yet to unnerve the municipal bond market. Government aid, increased interest rates, and a quick recovery will keep municipalities and other borrowers from default. To date, not a single municipal borrower that was rated by Moody's has defaulted due to a natural disaster. State and Federal aid will be used heavily to help affected areas to rebuild.

Puerto Rico is in crisis. Prior to Hurricane Maria, Puerto Rico was already in default and challenged on so many fronts that it didn't appear there was much hope for municipal bondholders to receive more than an estimated 65 to 85 percent of face value. Then, Hurricane Maria devastated the island. The possibility of repayment levels on the Puerto Rico bonds has now dropped to an estimated 35 to 65 percent of face value. Puerto Rico owes $72 billion in debt, has seen a population reduction since 2007, high unemployment, declining revenues, questionable government oversight, lost access to financial markets, become entangled in legal battles, and now Hurricane Maria has taken a vast majority of the infrastructure to unusable status.

Is Puerto Rico at rock bottom? Probably not. Given current conditions, one can expect a sizable population exodus from the island to the United States. The Governor of Puerto Rico suggests that the exodus to the states will not be measured in the hundreds of thousands but rather by the millions of people.

History shows that population declines in given areas pose fiscal challenges in the future. Detroit is a prime example as they experienced a gradual population reduction that began in the late 1960's that eventually contributed to bankruptcy. Population reduction is not a sole cause of financial difficulty to a state or municipality but is incredibly troublesome for revenue generation. Increased taxation to offset population reduction usually forces more people to relocate. The reduction in Puerto Rico population base since 2007 is problematic but this latest natural disaster will entice so many people to leave that current government continuity may be challenged.

- The possibility of repayment levels on the Puerto Rico bonds has now dropped to an estimated 35 to 65 percent of face value.
- A month later and reports are beginning to surface from credit agencies in regards to Houston. One report from Standard & Poor's stated "The long-term impact appears minimal.
- The 3Q17 witnessed a sizable swing in the 10 year Treasury.
- As August came to a close and September ushered in a higher interest rate, inventory selection improved as purchases reduced cash levels at more reasonable pricing that resembled drought stricken steers sold at auction.
- With the Federal Open Market Committee displaying hawkish dialog, dialing back on the Federal bond portfolio by allowing select sectors to mature without reinvestment and the possibility of a new FOMC chairperson appointed, there could be higher interest rates by the end of the calendar year.

Municipal Fixed Income Commentary

Prior to Hurricane Maria, our Municipal Bond Portfolio Manager suggested that Puerto Rico could vote for statehood in 2018 with Congress addressing the vote in future Congressional sessions. With the island infrastructure in dire conditions, there will be more attention that must be directed towards Puerto Rico. Federal assistance will occur, but will be far short of repairing the island to prior status, which was minimally efficient at best. In the end, Puerto Rico will probably vote for statehood, by the reduced population left behind, possibly in last grasp hopes for an improvement to their living conditions.

Crossmark has never purchased Puerto Rico bonds and has consistently suggested refrain from speculating a bottom for pricing. It remains an avoid situation as we hope for the best for the recovery of Puerto Rico.

Municipal bond investors must beware of looking through media optics. Images of people stranded on rooftops and being evacuated by flat bottomed boats are emotional and magnified through the optics of the media. Numerous reports about Houston municipalities following Hurricane Harvey, where the Crossmark's home office is located, ranged from placing municipal utility districts under negative watch to potential downgrades of flood ravaged locations. When an area receives extraordinary levels of rainfall, flooding becomes historic which elevates the media exposure. While Florida areas got 8 plus inches of rain with Maria, it was a brutal reminder of weather forces. Just imagine what Hurricane Harvey delivered over a five-day period to the Houston area. Some outer lying areas got 30 plus inches but a special location southeast of Houston recorded 51.88 inches of rain. The media focused on the devastation. One month later, reports are beginning to surface from credit agencies in regards to Houston. One report from Standard & Poor's stated "The long-term impact appears minimal. Most local governments will be unaffected." The words that stand out in these reports from credit agencies are "minimal", "temporary" and "marginal." Insurance and FEMA action will lessen the effects of this current hurricane to the level that there will be short to intermediate term challenges but little to the long term health of a growing population base. While some media suggested that lower revenue from the disaster could occur, there are some levels of revenue that improved. How does that happen when there is a disaster? The answer in this particular situation is that hotel occupancy rose as displaced individuals had to go somewhere in the short term and FEMA workers and others responding to the storm descended onto the Houston scene. Occupancy in Houston hotels rose to 87 percent as compared to a year earlier at 59 percent based on a 30 day average ending September 30. The average room rate increased by 12 percent to $116 per night. This resulted in a 116 percent increase in revenue per available room.

The 3Q17 witnessed a sizable swing in the 10 year Treasury. The move from the previous quarter saw the 10 year Treasury decline to roughly the 2.00 percent level then swing back towards 2.34 percent to end September. During this period, Crossmark took advantage of higher pricing in July and August by liquidating credits that have experienced several downgrades over the years such as select New Jersey, Connecticut and Rhode Island credits. The state of New Jersey has experienced 5 credit downgrades since 2010. Connecticut and Rhode Island are experiencing population and business

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Municipal Fixed Income Commentary

base declines. The cash levels increased in the Crossmark municipal bond portfolios as inventory was subject at best and pricey like an award winning state fair heifer. These levels assisted our selective selling for the client benefit. As August came to a close and September ushered in a higher interest rate, inventory selection improved as purchases reduced cash levels at more reasonable pricing that resembled drought stricken steers sold at auction. Depending on interest rate levels, portfolios will see duration increase slightly as it is anticipated volatility will continue through year end. Crossmark municipal bond portfolios have been constructed years prior to take advantage of higher interest rates with a lower risk factor than the benchmark index. With the Federal Open Market Committee displaying hawkish dialog, dialing back on the Federal bond portfolio by allowing select sectors to mature without reinvestment and the possibility of a new FOMC chairperson appointed, there could be higher interest rates by the end of the calendar year.

Crossmark 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 2026. Crossmark continues to hold a shorter duration than the Barclay's Quality Municipal Index with a focus on higher quality municipalities. Crossmark continues to use municipal bond market volatility to opportunistically manage the portfolios entrusted to us.

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September 30, 2017

GLOBAL EQUITY INCOME COMMENTARY

Performance

The third quarter followed the pattern of the previous two since the beginning of the year with equity markets moving higher once again. The Global Equity Income benchmarks of the S&P Global 1200 and the S&P 500 ended the quarter with returns of 5.22% and 4.48% respectively. For dividend income comparison purposes, the MSCI World High Dividend Yield Index returned 4.43%.

Factors Affecting Performance

The U.S. economy continues to grow at a moderate pace, however, second quarter GDP came in at a stronger than expected 3.1%. August reports on retail sales and industrial production came in somewhat weak, but the data appears strong enough for the Fed to keep its plans on track. The expectation is for one more rate hike in December and to begin the balance sheet normalization in October. On the political front, a deal reaching across the aisle resulted in putting spending and debt ceiling debates on hold until December. The next significant item is tax reform and whether the Republicans can produce a tax plan that will be capable of getting enough votes. The prospects for passing such tax legislation will ultimately depend on whether they can reconcile their desire for tax cuts versus not wanting to increase the deficit. The Canadian economy is anticipated to continue with above trend growth for 2017. The Bank of Canada has begun raising interest rates to moderate the economy's unexpected strength. Stronger than expected economic growth in the UK has shifted the Bank of England's concern of a drag from Brexit. Japan has joined this economic pattern with three consecutive quarters of growth at nearly double its normal trend rate. Global growth in the first half of 2017 has averaged 3.5% making this the strongest economic start since 2014.

Company earnings have moderated slightly from the strong start of 2017. For the second quarter as represented by the S&P 500, earnings grew 10.4% over the previous quarter. Estimated earnings growth for the full year of 2017 is now expected to increase 9%. While a strong rebound from the energy sector is making a significant contribution, all sectors have participated in positive earnings growth for the second quarter.

The Global Equity Income strategy underperformed the S&P Global 1200 but outperformed the S&P 500 and the MSCI World High Dividend Yield Index in the third quarter. The portfolio equity allocation at the end of the quarter was 59% U.S. and 41%

2015 • 2016 • 2017
LIPPER BEST
STEWARD GLOBAL EQUITY INCOME FUND
Institutional (SGISX)
AWARD WINNER
FOR 5-YEAR PERIOD

WINNER OF THE 2017
THOMSON REUTERS
LIPPER FUND AWARDS
UNITED STATES
THIRD CONSECUTIVE YEAR

The U.S. Lipper Fund Awards recognized The Fund on March 31, 2015, March 22, 2016 and March 23, 2017 for delivering consistently strong risk-adjusted performance, relative to its peers, for the 5-year period. Chosen out of 66 others in 2015, 80 others in 2016, and 22 others in 2017, the Fund achieved the highest Lipper Leader for Consistent Return (Effective Return Net of Expenses) value over an individual time period in its classification.

international. The largest contributor to positive performance was Valero Energy Corp. +13.41% as shares trended higher on second quarter earnings and revenue that came in ahead of analyst estimates. The company also reiterated third quarter guidance post hurricane Harvey indicating the damage and restart time for affected refineries should not be a factor. Shares of KLA-Tencor +20.11% gyrated during the quarter but rallied significantly in September. The company operates in the semiconductor process control segment of the industry and dominates with over 50% of the market. The last reported 10-K disclosed impressive results with revenue growth of 17% for 2017. Banco Santander-Chile +16.92% shares rose on quarterly earnings that easily beat analyst consensus estimates. Revenue soared to $704 million during the quarter which was substantially higher than analyst expectations of $459 million.

Underperforming holdings on a relative basis for the quarter included Quest Diagnostics Inc. -15.41%. An analyst downgrade to market perform from outperform negatively impacted the stock. This follows a quarter where the stock significantly outperformed the market. The downgrade was issued despite good second quarter results with solid earnings, revenue that matched analyst expectations and a slight increase to full year guidance. Shares of advertising firm WPP Plc -11.96% dropped after the company reported an organic revenue decline of -1.7% versus expectations of a +1% increase. This coincided with a similar reduction of guidance for the year which reflected the drop in revenue. The significant decline in the stock's value however appears to be worse than warranted by the results. On balance, the effectiveness of the methodology and quantitative screens for stock selection continue to perform as designed and are meeting expectations.

Global Equity Income Strategy

The Global Equity Income strategy pursues its objective through investment in U.S. and non-U.S. dividend-paying stocks that have demonstrated above median yield, a positive trend in dividends and favorable earnings growth. These companies also represent a broad spectrum of the global economy. The objective of this strategy is to provide current income and the potential for capital appreciation at lower than overall market risk.

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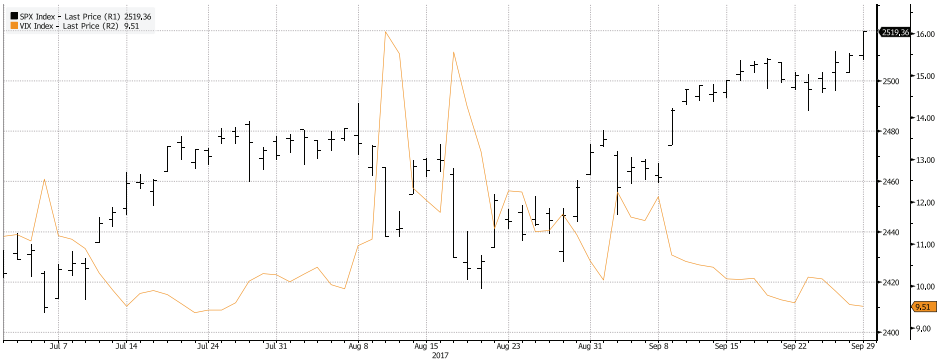
COVERED CALL INCOME (previously Theta Growth) COMMENTARY

Third Quarter Performance Summary 2017

The third quarter of 2017 got off to a hot start in July with the U.S. markets delivering another positive monthly return. Historically, the months of August and September are the two worst performing months of the year in relation to the SP 500 index. However, there is another historic trend that shows the markets usually do better than average after a strong month of July, and that is exactly what was delivered. The U.S. markets followed up a nice month of July with a positive return for August, which made that five months in a row of positive returns for the markets. September brought little in the way of weakness and in fact was the least volatile month of September on record as the markets added another positive return to the year. So much for August and September historically being the worst months of the year. The U.S. equity markets have had a rather smooth go of it in 2017. Healthy market gains combined with low volatility are being driven by the fact that investors are seeing positive earnings growth and hardly any sign of a near-term recession. Couple that with increased consumer confidence and the renewed talks regarding tax reform from Washington and you are going to see continued strength in the markets. Investors who followed the old adage "sell in May and go away" missed out on some strong returns over the summer months.

The Covered Call Income strategy (previously Theta Growth) continued to have a strong performance year as the strategy outperformed both the S&P 500 and the BXM Index for the third quarter. From a month to month standpoint, Covered Call Income was flat versus the S&P 500 Covered Call Index and outperformed the BXM for July. The months of August and September saw the Covered Call strategy outperform both the SP 500 covered call index as well as the BXM.

VIX vs S&P 500



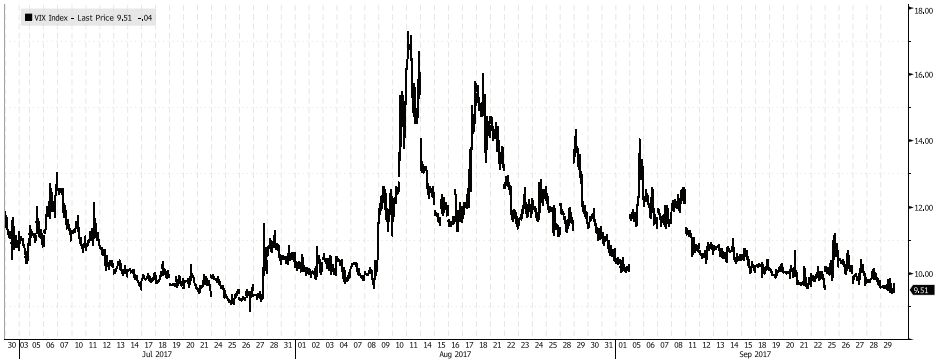
Source: Bloomberg

- The U.S. markets followed up a nice month of July with a positive return for August, which made that five months in a row of positive returns for the markets.
- The Covered Call Income strategy (previously Theta Growth) continued to have a strong performance year as the strategy outperformed both the S&P 500 and the BXM Index for the third quarter.
- The failure of the healthcare bill and a slight retreat in the Technology sector limited an additional fall in volatility in July.

The U.S. equity markets have had a rather smooth go of it in 2017. Healthy market gains combined with low volatility are being driven by the fact that investors are seeing positive earnings growth and hardly any sign of a near-term recession.

Covered Call Income Commentary

VIX



Source: Bloomberg

The VIX index, Wall Street's widely acknowledged fear gauge, recorded a lifetime low of 8.84 during the third week of July and saw the VIX close with a 9 handle for a record ten straight days. The failure of the healthcare bill and a slight retreat in the Technology sector limited an additional fall in volatility in July. As the calendar flipped to August, the VIX soared over 40% on North Korea tensions to 16.04 on August 10th before retracting back ever slightly and then spiking again on the Spain terrorist attacks. When the month of August was complete, the VIX was back under 11. September brought the least volatile month of September ever recorded. Even with historical low volatility, the Covered Call Income team was still able to produce attractive premiums for the sale of covered calls as opportunities presented themselves in the third quarter.

Looking ahead to the Fourth Quarter of 2017

As we head into the fourth quarter of the year, October has been one of the worst performing months of the year historically. However, when September has positive returns as we just witnessed, that bodes well for an even stronger fourth quarter for the US markets. With November and December being the 3rd and 2nd best performing months respectively, the U.S. markets could quite possibly run even more. The trends that have guided the markets higher throughout the year remain intact as we head into the all-important earnings season. Typically the fourth quarter of the year is an active one, and like the fourth quarter of 2016, this quarter does not appear to be any different. The Covered Call Income strategy is well positioned for the balance of the year and will continue to look for trading opportunities as they are presented.

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%.

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September 30, 2017

LARGE CAP CORE GROWTH COMMENTARY

The bull market in stocks, which started after the November elections, continues to amaze. The S&P 500 jumped another 2.06% in September and 4.48% in the third quarter. The Russell 1000 Growth Index, our benchmark, finally lagged the S&P 500, rising only 1.30% for September. However, it continued to dominate for the quarter, jumping 5.90%. Year-to-date, the Russell index has seemingly been on steroids, outperforming the S&P 500 by 648 basis points on the strength of big gains from the "FANG" stocks. As for the S&P 500, this marks the eleventh straight month and the eighth straight quarter of positive total returns. And in September the bull market officially became the second strongest bull since World War II. Also, as noted by strategist Bob Doll, if 2017 trends hold through year end, this will mark the seventh consecutive year that stocks have beaten bonds, something that has never happened before. The market has been quite resilient, powering through the failure of healthcare legislation, fights over tax legislation, continued gridlock in Washington D.C. and a host of other problems. Even three massive hurricanes could not slow this market down. Speaking of hurricanes, we also had serious fires in the west, major flooding in Texas and Florida, and an earthquake in Mexico. The only question that remains is "when should we expect the plague of locusts?"

Our Large Cap Core model avoided any disasters in the quarter and performed well, beating both the S&P 500 and the Russell 1000 Growth Indexes. Our best performing stocks for the period were led by Rockwell Collins, which soared 24.7% on the announcement that United Technologies, the maker of defense-related products, would acquire them for $140 per share. AbbVie was also strong, rising 23.6% on a key drug approval and analyst upgrades. Harris Corp., a provider of communications equipment, rallied 21.3% on general strength in defense-related stocks. On the flip side, lagging stocks included Nike which fell 11.8% as bad news continued to plague the athletic shoe sector during the quarter. Toro Company, maker of lawn care equipment and turf management systems, fell 10.2% for the period on analyst downgrades. Adjustments to the model portfolio for the quarter included the sale of Disney and General Electric and a reduction in our holdings of Toro. We also added to our Microchip Technology, Abbott Labs and Activision Blizzard positions and initiated a new holding in Waste Management.

For the quarter, the economic news was quite positive. The purchasing manager surveys were both excellent. The ISM Manufacturing Index rose to 60.8 in September, the best

- In September, the bull market officially became the second strongest bull market since World War II.
- Seventeen of 18 industries in the index showed growth.
- The second quarter GDP growth was revised upwards to 3.1% from 3.0%.
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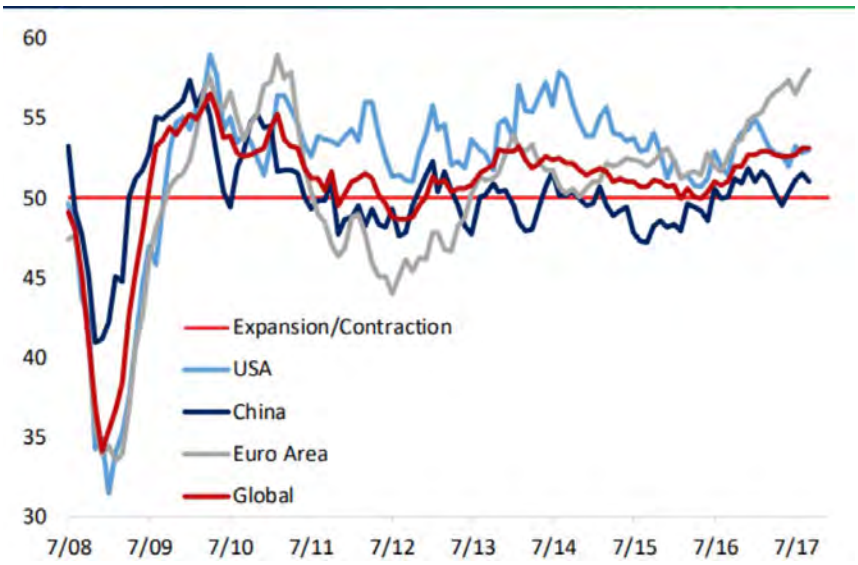
reading in 13 years, up from 58.8 the prior month. Paradoxically, the result was helped a bit by the hurricanes due to technicalities in how the index is computed, but still the results were strong. Seventeen of 18 industries in the index showed growth (a score of above 50) with only furniture showing contraction. The ISM employment gauge, at 60.3, was the best result in six years. On the service side of the economy, the service ISM came in at 59.8, the best result in 12 years. The service sector is key because it represents about 90% of the economy. And we are not alone. Across the globe, measures of economic strength are strong. Markit's Purchasing Managers Indexes are indicating a sort of global synchronized growth, which is typically quite positive for equity returns (basically what we are seeing now).

Major Global Economies' PMIs In Solid Territory: Europe Leads



Source: Bespoke Investments, Markit Economics

In other positive news, the second quarter GDP growth was revised upwards to 3.1% from 3.0%. The strongest contribution to the report was consumer spending while residential investment was weak. The outlook for the third quarter is for US GDP growth of 2.5%-3.0%. Perhaps the main fly in the ointment is that the Fed has started to shrink its balance sheet and there is much uncertainty on how smoothly that will go.

Turning to corporate profits, results have been strong thus far in 2017, after a weak 2016. For the S&P 500, the first quarter adjusted EPS increased by 13.6% followed by a solid 10.5% in the second quarter. The pace of growth is now starting to slow a bit, with the third quarter projected at 4.3%. This is down from the original 3Q estimate of 7.5%. Analyst reductions in the energy sector accounted for much of the decrease, as did hurricane impacts. Things are expected to bounce back in the fourth quarter with EPS growth of 11.0% projected. For 2018, analysts are expecting EPS growth of 11.1%. So, as we mentioned in earlier missives, what was once a Fed-driven bull market is now turning into an earnings-driven one just at the right time, as the Fed starts to tap on the brakes.

> If 2017 trends hold through year end, this will mark the seventh consecutive year that stocks have beaten bonds, something that has never before happened.

To go along with the economic data, the stock market's technical indicators are pointing mostly towards higher prices in the months to come. The S&P 500 has made 39 new highs this year through the end of September and other indexes have followed suit. We have seen the Dow Industrials and Transports; the major Russell indexes (Russell 1000 and 2000) make new highs; the Nasdaq, etc. all hitting new highs. So, the markets are "in gear," which is generally quite bullish. The NYSE Advance/Decline line has also been making new, all-time highs. This is also bullish. The stock market almost never peaks before the A/D line and usually not until the A/D line has weakened for at least a couple of months (it is a good early warning system). Of course, a quick 5%-10% correction is always possible and probably even healthy for the longer-term viability of the bull market. It allows earnings to catch up to prices and brings valuations back down to more comfortable levels. With earnings for the S&P 500 for 2018 projected to reach around $145 per share, the quarter-end 2018 P/E for the S&P 500 was 17.3x. Based on historical averages, that would indicate that valuations are definitely stretched. But as we have

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pointed out previously, during periods of low interest rates and low inflation, P/E ratios can go much higher, especially with a positive backdrop of a strong economy and good earnings growth. Our price target for the S&P 500 over the next few months is 2590-2675. We are being much more conservative than the latest projection from the Sage of Omaha, Warren Buffett. Buffett has recently projected that the Dow Jones Industrial Average will reach one million! Of course, he's relying on the power of compounding over 100 years to get there, so he is likely to be right.

About Crossmark's 30 Year History

Crossmark, previously Capstone Asset Management Company, is an independent investment advisor headquartered in Houston, Texas. Founded in 1987, Crossmark has a multi-decade legacy of providing portfolio solutions for financial advisors and institutional investors with values-based, SRI and ESG values and factor-based strategies. Additionally, Crossmark is the exclusive manager of the Crossmark Steward Funds, which is a fund family that applies an overarching values-based screening methodology to its suite of equity and fixed income funds, including its award-winning Steward Global Equity Income Fund- named Lipper's "Best Global Equity Income Fund" for the last three consecutive years.

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