CROSSMARK
GLOBAL INVESTMENTS

ECONOMIC AND STRATEGY COMMENTARIES

4Q 2017 Commentaries

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- Global Equity Income Commentary
- Covered Call Income Commentary
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DECEMBER 31, 2017

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December 31, 2017

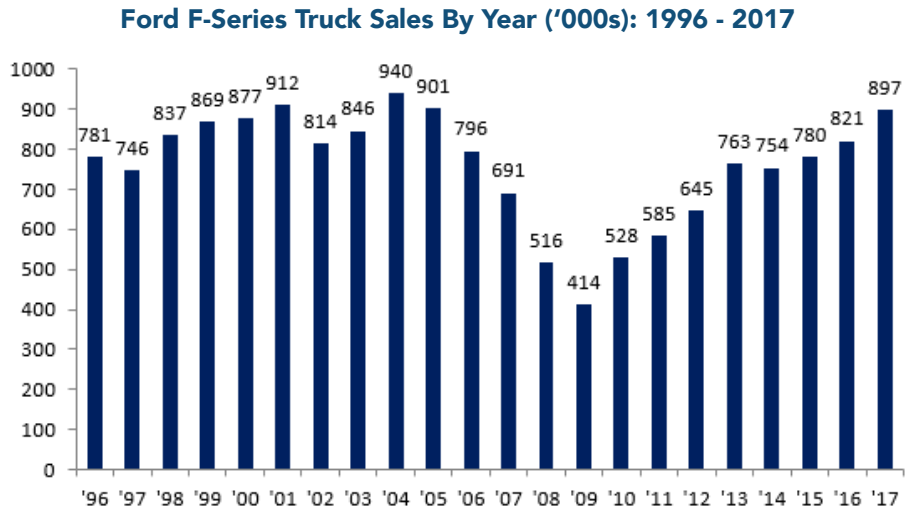
ECONOMIC COMMENTARY

This rocket ride upward in stocks, which started after the November 2016 elections, continues to astonish while it breaks record after record. For the year, the S&P 500 earned a total return of 21.8%. The S&P 500 has now posted positive returns for nine years in a row, an unprecedented feat. It has also posted positive returns on a total return basis for every month since the election, an unprecedented 14 months now. Stocks outperformed bonds for the seventh consecutive year and that is, you guessed it, unprecedented. The Trump administration's economic policies have been pro-business, perhaps more so than any previous president with the possible exception of Ronald Reagan. Simply, the promise of less regulation is helping to bolster equities. Nonetheless, the fact that the stock market accomplished this consistently month after month is still very impressive considering everything that was thrown at it. We had the failure of the Congress's new healthcare plan, the failure of the tax plan until late December, continued gridlock between the Republicans and Democrats, and all manner of serious weather disasters including hurricanes, floods and fires. We now appear to be in a synchronized global expansion with most major countries around the world registering expanding growth on various economic measures. These synchronized expansions historically correlate quite well with strong equity performance and this time is no exception. To illustrate further, Bespoke Investment Group recently completed a study of world markets using 35 ETFs around the world and found all but two were in uptrends.

Despite all the political infighting and gridlock (or perhaps because of it) the U.S. economy is hitting on eight cylinders. First, the ISM Manufacturing Index jumped to 59.7 in December, up from 58.2 in November. Note that any reading above 50 is indicative of an expanding economy. Also impressive was the production sub-index which rose 1.9 points to 65.8. New orders jumped a full 5.4 points to 69.4. Recent data from Commerce Department revealed that construction reached $1.257 trillion, up 2.4% over last year's November report, and a new record. We also expect manufacturing to be bolstered by Congress's eleventh hour passage of the $1.5 trillion tax cut which fortunately became much more pro-growth in the final days before passage. It was the largest revamp of our tax code in 30 years. On a more micro note, Ford F-Series truck sales were strong for the best December since 2005. Note that trucks are a good economic indicator because they are often purchased by contractors and small businesses so they give a good read on the small business sector.

- For the year, the S&P 500 earned a total return of 21.8%.
- The December unemployment rate was unchanged at 4.1%, essentially full employment and extending a 17-year low reading.
- Estimated earnings for the fourth quarter of 2017 are currently for 10.5% growth.
- The stocks market's technical indicators are pointing mostly towards higher prices in the months to come.

Economic Commentary



Source: Bespoke Investments

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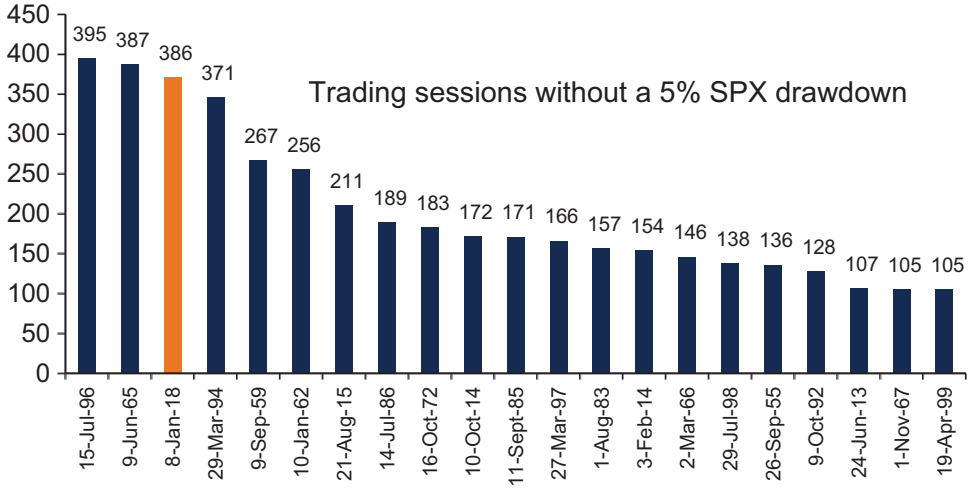
One potential fly-in-the-ointment was the December job growth number which came in at a less-than-expected 148,000 new jobs. Still, that result is well above the level of 75,000 to 100,000 that the Fed estimates is needed for the unemployment rate to hold steady. Additionally, at 87 straight months of positive job growth, it extends the trend for the record for positive job growth. The December unemployment rate was unchanged at 4.1%, essentially full employment and extending a 17-year low reading. With many economists expecting the unemployment rate to fall below 4.0%, we could begin to see businesses really compete for workers which, in turn, could give a nice boost to wages. As for GDP, the economy grew at its fastest pace in more than two years in the third quarter, clocking in at 3.2%. This also marked the first time since 2014 that GDP bested 3% for two consecutive quarters. Looking to 2018, many economists believe that GDP could exceed 3.0% for the full year, especially with the new tax cuts stimulating demand. And none other than Jamie Dimon, the CEO of JP Morgan, stated recently that 4% GDP growth in 2018 would not surprise him.

Turning to corporate profits, estimated earnings for the fourth quarter of 2017 are currently for 10.5% growth, according to FactSet, a nice way to finish the year. All eleven sectors are expected to finish in the black. For the quarter, analysts made the smallest cuts to their estimates of any quarter since 2010. Note that analysts almost always seem to cut estimates as they get more information as the quarter progresses. Looking to 2018, all four quarters are, as of now, expected to generate low double-digit growth. While this all sounds great, it also means that analysts have set a high bar for corporate America to jump over so, hopefully, their optimism will not be misplaced.
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 made 62 new closing highs in 2017, the second highest number ever, only to be bested by the Dow Jones Industrial Average which hit 71 new highs. Historically, this sort of market momentum means higher prices ahead. We have now seen the S&P 500, Dow Industrials, Dow Transports, Russell 1000, Russell 2000 and Nasdaq all making new highs simultaneously. So the markets are "in gear," which is quite bullish. As you would expect, the NYSE Advance/Decline Line (the number of advancing stocks versus declining stocks) is also following suit with new all-time highs. This is considered to be an excellent confirmation of the uptrend. The overall stock market almost never peaks before the A/D line and

Economic Commentary

usually not until the A/D line has deteriorated for some months. Now as we like to note, a 5% to 10% drawdown is always a possibility, and we think it would be healthy for the longer-term viability of the bull market. It allows earnings to catch up to prices and brings prices down to more comfortable levels. Also, we are overdue for a pullback. At year end we had gone for about 380 trading days without a 5% or greater downdraft, the second longest streak on record. The existing record is 395 days which we expect to surpass in January.

Another Record Likely to Fall



Source: BofA Merrill Lynch Global Research. Data from 2-Jan-1928 to 8-Jan-2018

As we have noted in 2017, valuations have gotten a bit stretched out. At year end the S&P 500 closed on a slight down note at approximately 2673. With the consensus 2018 earnings estimate at $147 the index's price/earnings ratio was about 18.2x at the end of the year. This is certainly high by historical standards, but during periods of unusually low interest rates and inflation, PEs often can rise to 20x or higher, especially with a backdrop of a growing economy and earnings base. On that basis, the wind is certainly at the stock market's back. There is an old adage that "bull markets don't die of old age.' meaning until something negative happens (often a mistake by the Federal Reserve) the markets can continue to rise over time. From our perspective, unless the Fed overtightens or earnings tumble, the Bull should continue.

With many economists expecting the unemployment rate to fall below 4.0%, we could begin to see businesses really compete for workers which, in turn, could give a nice boost to wages.

About Crossmark's 30 Year History
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December 31, 2017

TAXABLE FIXED INCOME COMMENTARY

CORE FIXED INCOME
INTERMEDIATE FIXED INCOME
CURRENT INCOME PORTFOLIO
INCOME OPPORTUNITIES

Put on your bell-bottom pants, your go-go boots and your best disco attire while we take you back to 1976. Close your eyes and you can hear Maxine Nightingale belting out "Right Back Where We Started From". Why this trip down memory lane? Well, because if we look at the U.S. 10yr treasury yield, we ended the year basically where we started – at 2.44%, there is only a 4 basis point difference from beginning to end.

This isn't to say there weren't moments of fluctuation as we saw the 10yr yield move up towards 2.63% in March and fall close to 2.0% in September. However, it appears that for much of the year, the bond market was waiting to see how the Federal Open Market Committee would move forward on rate hikes along with potential policy being passed in Washington. As we begin 2018, some of those wait and see moments have been addressed while others continue to hide in the wings. Janet Yellen provided a well-telegraphed playbook for how the Federal Open Market Committee (FOMC) would raise rates and remained steadfast in that plan. As we begin a new era within the FOMC with Jerome Powell at the helm and a rotation of voting members, we will have to determine if it's more of the same or if a more hawkish tone will emerge.

In addition to the path of rate hikes, there are new fiscal policies that can affect our markets and the outlook for growth. Will the new tax plan indeed generate higher corporate revenues that feed through to wages? If so, does this help spur inflation that has been stuck below the Fed's 2.0% target even with unemployment at 4.1%? Will we see an infrastructure package presented that, along with favorable terms in the tax plan, help increase manufacturing and industrial production? For now, these are unknowns, but the answers should unfold in 2018 and will surely affect our yield curve. Whether that leads to a flatter or steeper curve, only time will tell.

At Crossmark, our fixed income team anticipates that we will see an increase in wages and inflation in the coming quarters which should provide a steepening push to the yield curve. However, as the FOMC continue to raise the Fed Funds rate, a flattening component comes into play. Until the market has a much stronger outlook of inflation moving higher, the intermediate to longer end of the yield curve may remain somewhat range bound below the 2017 high level of 2.63% for the 10yr yield. That gives us some room to run higher from current levels.

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- If we look at the U.S. 10yr treasury yield, we ended the year basically where we started – at 2.44%, there is only a 4 basis point difference from beginning to end.
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Taxable Fixed Income Commentary

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Based on this outlook and our 4-step investment process focusing on duration, yield curve, sector and security selection, we maintain our conservative positioning of the taxable fixed income portfolios. Such a positioning allows us to reduce our exposure to volatility due to interest rate movements which we couple with a higher level of income as compared to comparable indices. This strategy will continue until we see yields in that longer part of the curve begin to push to new highs and level off combined with wider corporate spreads that signal a change in the market environment. 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 as we begin a new year together.

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MUNICIPAL FIXED INCOME COMMENTARY

Tax Reform heavily influenced the municipal bond market in December. The municipal bond sector broke away from all other fixed income sectors in terms of yield and traded independently from the rest of the field. The ten-year Treasury moved higher in yield, yet yields moved lower in municipal bonds. This seldom happens unless an outside event places pressure on a sector.

December 1985 was the last time tax reform came into play with a direct influence on municipal bonds. That year, municipalities had the full year to organize an all-out assault on new issuance by bringing a record setting $54.7 billion to market in the month of December. This year, municipalities had two months to rush bonds to the market before year-end with December 2017 breaking the December 1985 record with a total new issuance of $57.5 billion. The heavy increase in new issuance at year end is a contributing factor as to the reason municipal bonds broke away from other fixed income sectors in terms of yield.

The Federal Open Market Committee's (FOMC) talk of a short-term Fed Funds rate increase of 25 basis points overshadowed the Tax Reform legislation. The hawks and doves were circling overhead waiting for their opportunity to make a presence 12/13/17 with a formal announcement of an increase of 25 basis points to short-term Fed Funds. This became a secondary act to the Congressional infighting, formally called negotiation, of the Tax Reform proposal. The Congressional infighting is more appropriately similar to a bear and cougar fighting over an animal carcass left by wolves. The fight is full of growls, snarls and fierce sounds associated with a real encounter. Blows will be exchanged, fur will fly and one proud animal will limp away with cuts and bruises as the victor feasts on the winnings. It will be a sight to witness as most people rarely see this in the wild or in Congress.

Financial writers have been promoting a potential loss of new issues coming to the market beginning in January 2018 should Tax Reform's final draft eliminate or severely restrict advance refunding of municipal bonds. Keep in mind that this data is probably accurate on the single subject of advance refunding as municipalities flooded the December calendar with new issues brought to the market to get ahead of the Tax Reform enactment. Data suggests nearly one third of the issuance will be restricted in 2018 and beyond, however it does not eliminate advance refunding when an issue is within 30 days of its first call date. Financial writers are focusing on the dramatic potential reduction of new issuance that may result in the first quarter 2018. In perspective, most advance refunding was beginning to wane as most municipalities have been heavily engaged in this activity of advance refunding with rates at historical lows. As interest

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rates rise, advance refunding and bonds being called subsides. Another potential factor that current articles are not including is the fact that infrastructure has not yet been addressed across America. The Society of Civil Engineers suggest that over $3.7 trillion dollars of repair to infrastructure is needed over the next 7 to 10 years to bring America's tired infrastructure up to an acceptable standard. That alone would require a lot of new issuance of bonds that would probably offset at least a substantial portion of the current loss of refunding. The final version of Tax Reform might eventually turn the focus to infrastructure going forward. With a flood of new issuance in November, followed by a large number of issues maturing and being called in December, (again followed by a potential record new issuance in December), the result could be heightened volatility in prices for the municipal bond market. Crossmark Global Investments took full advantage of lower pricing in November and December to purchase bonds for portfolio creation and maintenance. Expectations include the early days of January 2018 to see a rush of investors filling the called and matured bond cash showing in accounts.

Another outside factor may be when municipal mutual fund investors get their shareholder statements showing a reduction in value due to the flood of new issuance and dropping prices. Human nature suggests that this group of investors may consider selling "a stale or losing investment" and reposition into equities, "a successful investment that I don't want to be left out of any longer." If municipal bond mutual fund investors sell in January, this will add to the historic supply of new issuance of municipal bonds that came to the market in December, with a reduction of demand forcing prices lower. Crossmark Global Investments will be poised to react to favorable pricing should supply and demand forces develop.

Crossmark Global Investmens 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 5 to 10 year range with a call feature between 2019 and 2024. In some cases, non-callable bonds from 2019 to 2021 are yielding more than 5 year maturities. 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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December 31, 2017

GLOBAL EQUITY INCOME COMMENTARY

Performance

The fourth quarter continued the strong momentum of the year, posting significant gains across all the major equity markets. The Global Equity Income benchmarks of the S&P 500 and the S&P Global 1200 ended the quarter with returns of 6.64% and 5.66% respectively. For dividend income comparison purposes, the MSCI World High Dividend Yield Index returned 3.67%.

Factors Affecting Performance

Key factors in the U.S. for the quarter include the Federal Open Market Committee (FOMC) raising rates for the third time this year and leaving guidance unchanged for three more hikes in 2018. Tax reform was passed, and it should be an economic driver as a hefty tax cut for businesses and consumers sets the stage for above average growth. The only caveat being the likely increase in the deficit due to lower tax revenue. GDP for the third quarter came in at a solid 3.3% indicating continued momentum in economic growth. In Canada, real GDP jumped 4.3% in the third quarter and results from the first half of the year were revised significantly upward. This will put current estimates for 2017 at just below 3%, a faster economic growth rate than expected. Economies overseas are also poised for accelerated growth as the Euro zone with ongoing monetary policy support, rising confidence and GDP expanding 2.6% over the past four quarters, the best in six years, suggest continued growth momentum. The UK is still dealing with progress in Brexit talks and with growth estimated at slightly more than 1%, the Bank of England will most likely maintain its accommodative rate policy. Japan appears to be on solid ground as manufacturing output remained at a high level and business sentiment rose to the highest level since 1991.

Company earnings as represented by the S&P 500 have come in slightly under expectations for the third quarter posting moderate growth of 6.4%. Estimated earnings growth for the full year of 2017 however is expected to increase nearly 10%, reflecting a slight upward revision. The energy sector rebound continues to be a strong driver of earnings growth as estimates for 2017 are now expected to come in at 275%.

> The fourth quarter continued the strong momentum of the year, posting significant gains across all the major equity markets.

The Crossmark Global Equity Income strategy outperformed the S&P Global 1200 and substantially outperformed the MSCI World High

2015 ▪ 2016 ▪ 2017 ▪ 2018

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.

Global Equity Income Commentary

Dividend Yield Index in the fourth quarter. This completes another exceptional year of performance for the strategy especially when measured on a risk adjusted basis. The portfolio equity allocation at the end of the period was 57% U.S. and 43% international. The largest relative positive contributor to performance for the quarter was led by Valero Energy Corp. +20.49% whose shares climbed on a temporary spike in gasoline prices and favorable price differentials between foreign and domestic crude oil including a boost in exports. Third quarter profit came in at more than $800 million despite Hurricane Harvey which temporarily shut down five of its refineries. Recent portfolio addition NetApp Inc. +25.05% shares rose on stellar fiscal second quarter results that were driven by an ongoing transition from underperforming segments to growth oriented sectors such as all-flash arrays. This decision to realign the business will enable the company to ease pricing pressure and soft sales due to lower demand from U.S. federal agencies. Shares of Dunkin' Brands Group, Inc. +22.15% climbed despite underwhelming third quarter same-store sales in its U.S. core business. The company is implementing a multi-prong plan with a focus on quality and value while reducing operational complexity and streamlining the menu.

Positions within the portfolio that were negative contributors to relative performance included Unilever N.V. –4.01%. While shares are down on the quarter, Unilever is still one of the top performers for the year. A weak third quarter earnings report is putting pressure on the CEO to increase returns as a standalone company after rebuffing Kraft-Heinz's acquisition offer. Smith & Nephew plc –3.20% declined after the company warned that full year growth would be at the lower end of guidance. Management stated that no major changes were needed to improve profitability and that they would concentrate on simplifying manufacturing, warehouse and distribution operations to boost efficiency rather than pursuing big deals. The Global Equity Income strategy has performed extremely well over the course of 2017 confirming the effectiveness of the quantitative stock screens, quantitative validation and the relative risk controlled portfolio construction process.

Global Equity Income Strategy

The Crossmark 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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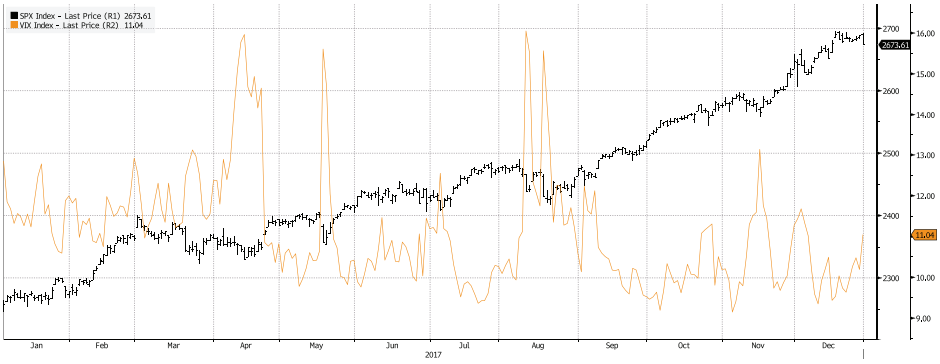
COVERED CALL INCOME COMMENTARY

Fourth Quarter Review 2017

In a year filled with record highs for the U.S. markets, the fourth quarter did not disappoint, as it was just another quarter for the bulls to celebrate. This is remarkable considering the historical lack of volatility. U.S. equity markets delivered positive returns in every single month of 2017, the first time this has happened since 1958. The market rally was rather broad based outside of the technology sector which was up close to 40% with sectors such as consumer discretionary, materials, industrials, healthcare and financials all returning roughly 20% for the year. In December, the Fed raised rates as expected. Solid economic activity and a tightening labor market were among the reasons listed for the third rate hike of the year. The equity markets seemed to have already built in the December rate hike as Fed Chair Yellen and her counterparts had been dropping hints of the possibility of a rate increase for several months. President Trump and the Republican Congress had reason to celebrate a legislative victory as tax reform finally passed. Tax reform provides a clear tailwind for stock prices as the equity markets rallied on expectations for lower individual and corporate tax rates, as well as the promise of less regulation. Strong third quarter earnings results in November and into December and better than expected GDP data further boosted investors' sentiment in the fourth quarter. Corporate earnings grew at double digit rates in 2017, with expectations for continued growth spurring markets across the globe.

VIX vs S&P 500



Source: Bloomberg

- U.S. equity markets delivered positive returns in every single month of 2017, the first time this has happened since 1958.
- In December, the Fed raised rates as expected.
- The Covered Call Income strategy continued its strong performance in the fourth quarter.

In a year filled with record highs for the U.S. markets, the fourth quarter did not disappoint, as it was just another quarter for the bulls to celebrate.

Covered Call Income Commentary

Performance Review 2017

The Covered Call Income strategy continued its strong performance in the fourth quarter. In October the Covered Call strategy outperformed both the S&P Covered Call Index (SPXCC) and the BXM. The markets were led by the technology sector in October which was up 6.51%. In November, the Covered Call Income strategy continued to perform well but slightly underperformed the S&P Covered Call Index. It did, however, continue to outpace the BXM. The markets were led by another sector other than technology for the first time in a few months as consumer staples and consumer discretionary led the way in November, up 5.58% and 5.07%, respectively. The Covered Call Income strategy had another positive performance month in December but slightly lagged the S&P Covered Call index and continued to outperform the BXM. The energy sector led the way in December up 5.27%. Overall for the fourth quarter of 2017, the Covered Call Income strategy slightly underperformed the SPXCC index and outperformed the BXM. Even with historical low volatility, the Covered Call Income team was still able to produce attractive premiums from the sale of covered calls as opportunities presented themselves in the fourth quarter.

Looking ahead to 2018

The U.S. equity markets had an unbelievable run in 2017, and so far, the economy is starting the year with momentum as earnings growth continues. Volatility continues to hover around historically low levels, which has investors wondering if there is a catalyst out there that could possibly bring it back. The heightened transparency around Fed policy has continued to dampen market volatility. The transition from Fed Chair Yellen to Fed Chair Powell more than likely will not affect interest rate policy in the short-term. Expect the status quo in regards to Fed policy in 2018. Now that the tax bill has passed, the fiscal stimulus from tax cuts will more than likely provide a modest boost to U.S. growth as we head in to 2018. The Covered Call Income strategy is positioned nicely as we head into an exciting new year and will continue to look for trading opportunities as they present themselves.

Happy New Year !

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%.

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December 31, 2017

LARGE CAP CORE GROWTH COMMENTARY

This rocket ride upward in stocks, which started after the November 2016 elections, continues to astonish while it breaks record after record. For the year, the S&P 500 earned a total return of 21.8%. The S&P 500 has now posted positive returns for nine years in a row, an unprecedented feat. It has also posted positive returns on a total return basis for every month since the election, an unprecedented 14 months now. Stocks outperformed bonds for the seventh consecutive year and that is, you guessed it, unprecedented. The Trump administration's economic policies have been pro-business, perhaps more so than any previous president with the possible exception of Ronald Reagan. Simply, the promise of less regulation is helping to bolster equities. Nonetheless, the fact that the stock market accomplished this consistently month after month is still very impressive considering everything that was thrown at it. We had the failure of the Congress's new healthcare plan, the failure of the tax plan until late December, continued gridlock between the Republicans and Democrats, and all manner of serious weather disasters including hurricanes, floods and fires. We now appear to be in a synchronized global expansion with most major countries around the world registering expanding growth on various economic measures. These synchronized expansions historically correlate quite well with strong equity performance and this time is no exception. To illustrate further, Bespoke Investment Group recently completed a study of world markets using 35 ETFs around the world and found all but two were in uptrends.

Turning to our Large Cap Core Model Portfolio, once again we "split the difference" with the indexes. We outperformed the S&P 500 nicely but underperformed our benchmark, the Russell 1000 Growth Index. During the quarter, our top performing stocks included Deere & Co., which rose 25.1% for the period on a series of positive analyst reports and strong fourth quarter results. Coming in number two in the performance derby was Lennar Corp., the home builder, also on strong earnings results and analyst recommendations. The stock jumped 21.09%. After suffering for months, Nike also spiked after a good earnings report and a positive change in sentiment regarding the athletic shoe market, rising 21.0% for the quarter. On the flip side, stocks that held back performance included Celgene, usually a star performer for us, but it came under pressure after the failure of its much acclaimed treatment for Crohn's Disease. Amgen was also down after it announced weak sales for a couple of key drugs. Adjustments to the LCCG Model included the sale of Dr. Pepper Snapple. The proceeds were put into Polaris Industries, the off road vehicle and motorcycle maker, and added to Ecolabs, an existing holding. We also trimmed our positions in CDW Corp. and Thor Industries, both because they had become oversized holdings due to excellent performance. We also added to existing positions in Texas Instruments, Cisco, Lennar and Coca Cola.

- For the year, the S&P 500 earned a total return of 21.8%.
- The December unemployment rate was unchanged at 4.1%, essentially full employment and extending a 17-year low reading.
- Estimated earnings for the fourth quarter of 2017 are currently for 10.5% growth.
- The stocks market's technical indicators are pointing mostly towards higher prices in the months to come.

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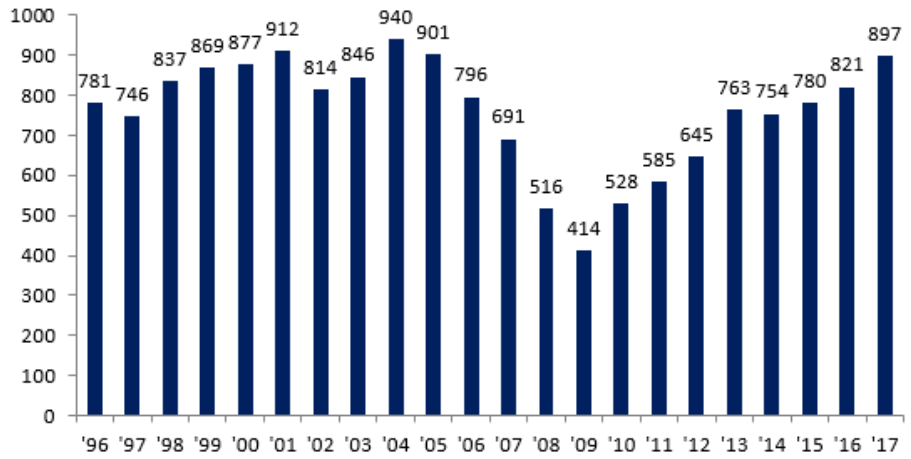
Despite all the political infighting and gridlock (or perhaps because of it) the U.S. economy is hitting on eight cylinders. First, the ISM Manufacturing Index jumped to 59.7 in December, up from 58.2 in November. Note that any reading above 50 is indicative of an expanding economy. Also impressive was the production sub-index which rose 1.9 points to 65.8. New orders jumped a full 5.4 points to 69.4. Recent data from Commerce Department revealed that construction reached $1.257 trillion, up 2.4% over last year's November report, and a new record. We also expect manufacturing to be bolstered by Congress's eleventh hour passage of the $1.5 trillion tax cut which fortunately became much more pro-growth in the final days before passage. It was the largest revamp of our tax code in 30 years. On a more micro note, Ford F-Series truck sales were strong for the best December since 2005. Note that trucks are a good economic indicator because they are often purchased by contractors and small businesses so they give a good read on the small business sector.

Ford F-Series Truck Sales By Year ('000s): 1996 - 2017



Source: Bespoke Investments

One potential fly-in-the-ointment was the December job growth number which came in at a less-than-expected 148,000 new jobs. Still, that result is well above the level of 75,000 to 100,000 that the Fed estimates is needed for the unemployment rate to hold steady. Additionally, at 87 straight months of positive job growth, it extends the trend for the record for positive job growth. The December unemployment rate was unchanged at 4.1%, essentially full employment and extending a 17-year low reading. With many economists expecting the unemployment rate to fall below 4.0%, we could begin to see businesses really compete for workers which, in turn, could give a nice boost to wages. As for GDP, the economy grew at its fastest pace in more than two years in the third quarter, clocking in at 3.2%. This also marked the first time since 2014 that GDP bested 3% for two consecutive quarters. Looking to 2018, many economists believe that GDP could exceed 3.0% for the full year, especially with the new tax cuts stimulating demand. And none other than Jamie Dimon, the CEO of JP Morgan, stated recently that 4% GDP growth in 2018 would not surprise him.

Turning to corporate profits, estimated earnings for the fourth quarter of 2017 are currently for 10.5% growth, according to FactSet, a nice way to finish the year. All eleven sectors are expected to finish in the black. For the quarter, analysts made the smallest cuts to their estimates of any quarter since 2010. Note that analysts almost always seem to cut estimates as they get more information as the quarter progresses. Looking to 2018, all four quarters are, as of now, expected to generate low double-digit growth. While this all sounds great, it also means that analysts have set a high bar for corporate America to jump over so, hopefully, their optimism will not be misplaced.

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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 made 62 new closing highs in 2017, the second highest number ever, only to be bested by the Dow Jones Industrial Average which hit 71 new highs. Historically, this sort of market momentum means higher prices ahead. We have now seen the S&P 500, Dow Industrials, Dow Transports, Russell 1000, Russell 2000 and Nasdaq all making new highs simultaneously. So the markets are "in gear," which is quite bullish. As you would expect, the NYSE Advance/Decline Line (the number of advancing stocks versus declining stocks) is also following suit with new all-time highs. This is considered to be an excellent confirmation of the uptrend. The overall stock market almost never peaks before the A/D line and usually not until the A/D line has deteriorated for some months. Now as we like to note,

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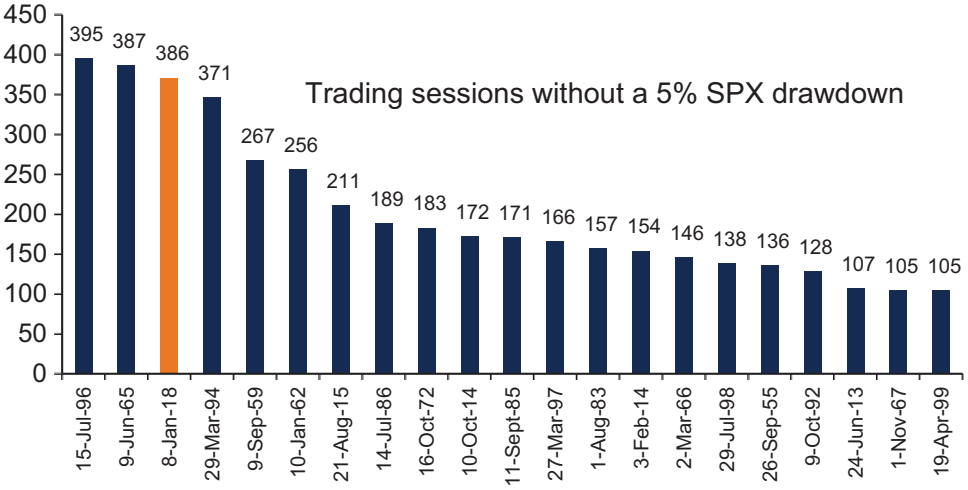
a 5% to 10% drawdown is always a possibility, and we think it would be healthy for the longer-term viability of the bull market. It allows earnings to catch up to prices and brings prices down to more comfortable levels. Also, we are overdue for a pullback. At year end we had gone for about 380 trading days without a 5% or greater downdraft, the second longest streak on record. The existing record is 395 days which we expect to surpass in January.

Another Record Likely to Fall



Source: BofA Merrill Lynch Global Research. Data from 2-Jan-1928 to 8-Jan-2018

As we have noted in 2017, valuations have gotten a bit stretched out. At year end the S&P 500 closed on a slight down note at approximately 2673. With the consensus 2018 earnings estimate at $147 the index's price/earnings ratio was about 18.2x at the end of the year. This is certainly high by historical standards, but during periods of unusually low interest rates and inflation, PEs often can rise to 20x or higher, especially with a backdrop of a growing economy and earnings base. On that basis, the wind is certainly at the stock market's back. There is an old adage that "bull markets don't die of old age.' meaning until something negative happens (often a mistake by the Federal Reserve) the markets can continue to rise over time. From our perspective, unless the Fed overtightens or earnings tumble, the Bull should continue.

With many economists expecting the unemployment rate to fall below 4.0%, we could begin to see businesses really compete for workers which, in turn, could give a nice boost to wages.

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. 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 four consecutive years.

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