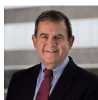
CROSSMARK
GLOBAL INVESTMENTS

QUARTERLY UPDATE: 1Q 2022

SMA STRATEGY COMMENTARIES

ECONOMIC & MARKET
Commentary



written by
Robert C. Doll, CFA® Chief Investment Officer

EQUITY MARKETS (INDEX TOTAL RETURN)	Q1 2022	YTD
DJIA	-4.10%	-4.10%
S&P 500	-4.60%	-4.60%
NASDAQ	-8.95%	-8.95%
RUSSELL 2000	-7.53%	-7.53%
RUSSELL 1000 GROWTH	-9.04%	-9.04%
RUSSELL 1000 VALUE	-0.74%	-0.74%

S&P EQUITY SECTORS (INDEX TOTAL RETURN)	Q1 2022	YTD
COMMUNICATION SERVICES	-11.92%	-11.92%
CONSUMER DISCRETIONARY	-9.03%	-9.03%
CONSUMER STAPLES	-1.01%	-1.01%
ENERGY	39.03%	39.03%
FINANCIALS	-1.48%	-1.48%
HEALTHCARE	-2.58%	-2.58%
INDUSTRIALS	-2.36%	-2.36%
INFORMATION TECHNOLOGY	-8.36%	-8.36%
MATERIALS	-2.37%	-2.37%
REAL ESTATE	-6.22%	-6.22%
UTILITIES	4.77%	4.77%

Source: Morningstar Direct as of 3/31/22

War and Inflation Cause a Tough First Quarter; Quick Reversals Unlikely

The S&P suffered its first quarterly decline since the depths of the pandemic in Q1 of 2020 (-4.60%). Growth (-9.04%) meaningfully lagged value (-0.74%). The biggest development in Q1 was the dramatic repricing of the Fed rate hike path and expectations for an earlier start to and more aggressive balance sheet runoff phase. Late in the quarter, markets priced in a ~80% probability of a 50 basis points (bps) rate hike in May and ~200 bp in cumulative hikes by the end of 2022 following the 25 bp liftoff at the March meeting. This shift was driven by concerns about elevated and persistent inflation pressures. Such concerns were highlighted by a 40-year high in the CPI. The hawkish Fed policy shift drove a big backup in bond yields and Treasuries suffered one of their worst quarters on record. Curve inversion drove worries about potential recession and a Fed policy mistake. Q4 earnings season marked a fourth straight quarter of 20+% earnings growth. Geopolitical tensions became a much bigger issue for the market as the quarter witnessed Russia's invasion of Ukraine. Energy stocks surged nearly 40%, its biggest rally on record. Treasuries sold off sharply with 2-year yields up over 150 bp to 2.30% and 10-year yields up over 80 bp to 2.33%. WTI crude rallied more than 30%.

Investor attention has pivoted over the past few weeks from the war in Ukraine back to the accelerated unwinding of global monetary accommodation. While the war could still pose further threats to economic growth, global bond markets have struggled as central bank policy rate expectations move higher. As the war settles into an apparent stalemate accompanied by improving odds of a ceasefire agreement, rallying risk assets appear to be suggesting that underlying global growth conditions are much better than a flat yield curve forecasts. Evidence exists that some investors have been selling bonds and buying stocks.

It remains to be seen whether equities can sustain recent advances against a backdrop of high and rising bond market volatility. Equities benefitted during the last economic expansion from low inflation and central banks' prompt policy

ECONOMIC & MARKET

Commentary (continued)

INTERNATIONAL EQUITY MARKETS (INDEX NET RETURN)	Q1 2022	YTD
MSCI ACWI	-5.36%	-5.36%
MSCI ACWI EX U.S.	-5.44%	-5.44%
MSCI EAFE	-5.91%	-5.91%
MSCI EM	-6.97%	-6.97%

FIXED INCOME MARKETS (INDEX TOTAL RETURN)	Q1 2022	YTD
BLOOMBERG U.S. AGGREGATE BOND	-5.93%	-5.93%
BLOOMBERG U.S. CORP HIGH YIELD	-4.84%	-4.84%
BLOOMBERG U.S. GOV/CREDIT	-6.33%	-6.33%
BLOOMBERG U.S. T-BILL 1-3 MONTH	0.03%	0.03%

ALTERNATIVES (INDEX TOTAL RETURN)	Q1 2022	YTD
FTSE NAREIT (REAL ESTATE)	-5.25%	-5.25%
DJ COMMODITIES	25.92%	25.92%
RED ROCKS GLOBAL LISTED PRIVATE EQUITY	-15.16%	-15.16%
DB G10 CURRENCY FUTURES	6.05%	6.05%

Source: Morningstar Direct as of 3/31/22

support whenever investor confidence sagged. Central banks have no such latitude today, and now face the uncomfortable prospect of having to engineer slower growth to tame inflation. The Fed is far behind the curve that both growth and core inflation will likely increase in the year ahead if it does not push interest rates higher. Markets are now discounting 200 bps of additional Fed rate hikes by early next year, but the real rate will still be negative at that point, implying continued monetary accommodation and ineffective inflation policy.

The Fed must tighten quickly enough to keep long-dated inflation expectations anchored; on the other hand, the Fed wants to avoid tightening so quickly that it causes a recession. Engineering a soft landing is a difficult maneuver to achieve. The commodity price shock, as well as the additional impact on the global supply chain will clearly create additional price pressure in the months ahead relative to what would have otherwise been the case.

We believe there is a low probability of a U.S. recession developing in 2022. Despite high inflation, U.S. consumer spending should remain strong in the year ahead, buttressed by a strong job market, healthy balance sheets, and the re-opening of the service sector as COVID headwinds fade. The outlook for investment spending is also solid given robust corporate profits, a still-low cost of debt, and the ongoing need to upgrade technology and modify supply chains. Worries about Fed rate hikes killing the expansion anytime soon are misplaced. The real Fed funds rate is deeply negative, and the nominal rate is far below the consensus estimate of nominal potential GDP growth for the next several years. The yield curve is an important indicator of a recession that briefly flashed a warning signal in late March. Fed Chair Powell recently downplayed the 2-10 yield curve (we prefer the 90-day/10-year curve) as a recessionary indicator, instead pointing investors to the market-implied change in the Fed funds rate over the coming 18 months.

We expect volatility to remain a feature of capital markets. As a result, we continue to recommend a neutral weighting in stocks, an underweight in bonds (notwithstanding our view of a positive short-term trade) and an overweight in cash.

Fixed Income

Short-term, we believe bonds are oversold and a further pullback in yields is likely in the near term. However, our baseline scenario of an ongoing economic expansion and sticky headline and core inflation imply that bond yields are certain to have other waves higher on a 6-12 month horizon. Real bond yields across the maturity spectrum remain unsustainably negative. In other words, the bond bear market has further to run. We expect both IG and HY spreads to remain tight by historical standards on a 6-12 month horizon, allowing corporate credit to outperform similar-duration government bonds.

Equities

The outlook for equities has deteriorated since the beginning of the year. Despite this, we still recommend an overweight position in stocks over bonds. Our S&P 500 target of S&P 500 4550 established when we released our 10 Predictions in December is unchanged. A decision to downgrade stocks in favor of cash would require expectations of a significant further decline in U.S. equities. The risk of such an outcome has increased. While we expect that investors will experience a recession scare at some point over the coming 6-12 months, we do not actually expect a recession.

ECONOMIC & MARKET
Commentary (continued)

The ongoing economic expansion will be a tailwind ("earnings tailwinds") for stocks over the next 6-12 months but offset by underlying upward pressure on bond yields ("valuation headwinds") and all of this accompanied by above average volatility. U.S. stocks are also still below the December high, and not surprisingly, euro area equities have been hardest hit by the war and related sanctions. Equities rebounded strongly in March, casting off initial concerns about the Ukraine war and subsequently the more hawkish tone from central banks. The earnings outlook remains broadly supportive if the economic expansion continues, as we expect, although the pace of growth will moderate further. Earnings estimates for most markets have held up well in Q1. The U.S. and U.K. are outliers among the major markets, with 12-month forward earnings expectations for both at new highs. A ceasefire in Ukraine would prompt further earnings upgrades, with euro area stocks the biggest beneficiary.

Value stocks still have more upside versus growth stocks although much of the value advantage has been realized in Q1. Financials remain our favorite sector given their earnings leverage to improving credit growth and rising interest rates, combined with appealing relative valuations.

Commodities and Currencies

Higher commodity prices (especially oil) will likely displace some spending on goods and services. The good news is that energy goods and services spending as a percentage of income is much lower today than it was in the past so recessionary concerns stemming from higher gas prices alone are overblown. However, the war in Ukraine has not only raised energy prices, it has also increased food and industrial metals prices. Commodity prices and the U.S. dollar will likely be positive in the near-term, but risks are to the downside for both assuming a likely settlement between Ukraine and Russia and the ongoing re-opening of the global economy.

Conclusions:

1. 90-day/10-year yield curve more helpful currently than 2-year/10-year. (Suggesting economy is still growing.)
2. Inflation likely (and hopefully) peaks in Q2.
3. Fed is between a rock and a hard place as it remains woefully behind the inflation curve.
4. Near-term, bonds are oversold and likely to rally.
5. However, bond bear market is not over.
6. Corporate America's ability to pass on cost increases is key to sustaining earnings story.
7. Stocks to remain in volatile sideways pattern (therefore, buy dips/trim rallies).
8. Year-end 4550 S&P 500 target unchanged.
9. At least half the value over growth advantage has been realized.
10. Look for dollar weakness and international stock outperformance if war ends.

Source: BCA Research, MRB Partners, FactSet

GLOBAL EQUITY INCOME

Commentary

Separately Managed Account

written by
John Wolf, Managing Director

Global Equity Income Top 10 Model Holdings[1]

Holding	%
McDonald's Corp.	2.4%
Texas Instruments, Inc.	2.3%
Cigna Corp.	2.3%
Paychex, Inc.	2.2%
HP, Inc.	2.2%
NetApp, Inc.	2.2%
Petroleo Brasileiro	2.1%
PepsiCo, Inc.	2.0%
Taiwan Semiconductor Mfg.	2.0%
Analog Devices, Inc.	1.9%
Total % of Portfolio	**21.6%**

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

Markets and Performance

Performance for the various global equity markets returned mixed results for the first quarter. The Crossmark Global Equity Income Strategy Model Portfolio benchmarks (the S&P Global 1200 Index and the S&P 500 Index) ended the quarter with returns of -4.71% and -4.60%, respectively. Dividend stocks overall outperformed the general equity market. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned 0.23%. The Global Equity Income model portfolio outperformed the S&P Global 1200 Index but underperformed the MSCI World High Dividend Yield Index for the quarter returning -1.20%.

Positive and Negative Contributors to Performance

Positive relative performance for the quarter was led by the energy sector as U.S. policy on fossil fuels curtailed new oil exploration and development reducing global supply. This combined with the geopolitical instability of Russia invading the Ukraine has created further volatility and pressure on energy prices. Russia is the third largest oil and gas producer and the global backlash to the Ukraine invasion has created an aversion to Russian imports. Shares of holdings Canadian Natural Resources Ltd. (1.8% of total net assets) and Petroleo Brasileiro SA (2.1% of total net assets) jumped 48.11% and 34.79% respectively for the quarter. Shares of Nexstar Media Group, Inc. (1.6% of total net assets) climbed 25.46% after reporting all-time high net revenue and record non-election year earnings that once again exceeded analyst consensus expectations. Management cited an improving and strong core television advertising market, positive impact from distribution renewals and strong growth in its core digital business. The company increased its quarterly dividend in January by 29% and continued opportunistic share repurchases. This was the ninth consecutive year that Nexstar increased its dividend by a double-digit percentage.

Negative contributors to relative performance included Quest Diagnostics (1.9% of total net assets). Shares fell -20.54% as the company reported a year over year revenue decline due to lower COVID-19 testing demand. A corresponding contraction in profit margin was also disclosed. Despite the lower pandemic related testing demand, fourth quarter revenue posted better than expected results along with earnings that were in-line with analyst projections. The company's base business revenue grew by more than 19% indicating an accelerating recovery in the industry and it has also outperformed its peers during the past year. Shares of Silicon Motion Technology Corp. (1.0% of total net assets), a Hong Kong based semiconductor manufacturer, dropped -29.22% after climbing 39% in the previous quarter. Pandemic led production delays and supply chain constraints have been disrupting near term expectations. Despite these short-term interruptions, the company is a leading supplier of SSD controllers (a critical computer component) to most leading module makers in the U.S., Taiwan and China. Silicon Motion also has a strong balance sheet with no debt obligations.

Looking Ahead

With the pandemic now largely in the rear view mirror the market has become focused on geopolitical issues involving the Russian invasion of Ukraine and the corresponding impact that will have on the global economy. Inflation which has already been running hot coming into the quarter has only gotten worse with the added pressure of rising oil prices due to embargoes on Russian crude. Company earnings continue to be strong but near future caution is warranted. This is a more favorable environment for a dividend strategy with its lower volatility profile and ability to lessen the impact of potential market gyrations.

COVERED CALL INCOME
Commentary

Separately Managed Account

written by
Paul Townsen, Managing Director – Head of Trading & Investment Operations

Covered Call Income
Top 10 Model Holdings[1]

Holding	%
Apple, Inc.	5.2%
Applied Materials, Inc.	3.9%
Micron Technology, Inc.	3.8%
Electronic Arts, Inc.	3.7%
Bank of America Corp.	3.7%
Morgan Stanley	3.4%
Oracle Systems Corp.	3.3%
Medtronic PLC	3.3%
Cisco Systems, Inc.	3.3%
Merck & Company	3.2%
Total % of Portfolio	**36.8%**

Markets and Performance

From the beginning of 2022, investors experienced a very volatile first quarter, with violent swings in equity, bond, and commodity markets across the globe. Equities sold off as markets began to reassess the potential for the Federal Reserve (the Fed) to launch more aggressive interest-rate hikes to help curb high inflation not seen in over 40 years. The Fed raised interest rates by .25% with the potential for more tightening at the May meeting. Russia invaded Ukraine in February, sending oil and other commodity prices soaring and stocks falling into official correction territory. Bond prices dropped to levels not seen in years. Put all of this together, and you get a market ripe with volatility. The model account took advantage of the increase in volatility during the quarter to generate over 4% in income from the sale of covered call premiums and dividends paid from holdings. Fast forward to the second week of March, and the markets staged a roaring comeback, cutting much of the losses sustained in January and February.

Positive and Negative Contributors to Performance

The model portfolio slightly underperformed its primary benchmark (the CBOE S&P 500 BuyWrite Index) during the first quarter of 2022, returning -2.65% versus 0.82%, respectively. However, the option overlay helped the model outperform the S&P 500 index during the same period. The energy and utility sectors were the strongest quarterly performers, with energy being the only sector to register a positive return. The model received positive contributions to return by owning Chevron (2.2% of total net assets) and Conoco Phillips (1.4% of total net assets) in the energy sector and Exelon (2.2% of total net assets) and Nextera Energy (1.8% of total net assets) representing the utility sector. Technology, communication services, and consumer discretionary were amongst the weakest performing sectors during the first quarter. Stocks the model held that produced a negative contribution to return were Starbucks (-0.1% of total net assets), DR Horton (-0.2% of total net assets), and General Motors (0.0% of total net assets).

Looking Ahead

The strong rebound in March could potentially be good news for stocks. However, the aggressive Fed and the unsettled war in Ukraine will keep volatility front and center for the time being. One other development to watch is the yield curve. Rates for two-year Treasuries briefly rose above those for 10-year Treasuries during the first quarter. Such a move has preceded six of the seven recessions since 1978. The Crossmark team will continue to monitor volatility with the intent to trade the value-added option overlay to maximize income and reduce as much inherent market risk as possible. We expect the second quarter of the year will produce numerous trading opportunities for the option side of the Strategy.

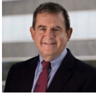
[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

LARGE CAP CORE UNSCREENED

Separately Managed Accounts

(Formerly Large Cap Core Growth)

Commentary



written by

Robert C. Doll, **CFA®** Chief Investment Officer

Large Cap Core Unscreened Top 10 Model Holdings[1]

Holding	%
Microsoft Corp.	7.6%
Apple, Inc.	7.4%
Alphabet Class C	5.8%
UnitedHealth Group Inc.	3.4%
Abbvie, Inc.	3.0%
Mastercard, Inc.	2.5%
Wells Fargo & Co.	2.4%
JP Morgan Chase & Co.	2.4%
Pfizer, Inc.	2.3%
Marathon Petroleum Corp.	2.3%
Total % of Portfolio	**39.1%**

Markets and Performance

The Large Cap Core Usncreened model portfolio outperformed the Russell 1000 benchmark for Q1 2022 returning -4.35% and -5.13%, respectively. Our balanced approach of investing in both value and growth stocks allowed this strategy to outperform.

Positive and Negative Contributors to Performance

Outperformance came largely via stock selection as allocation attribution was slightly negative (largely due to our underweight in energy). Stock selection was especially positive in healthcare, industrials, and information technology. Best performers were Marathon Petroleum (2.3% of total net assets), L3 Harris Technologies (1.5% of total net assets), and AbbVie (3.0% of total net assets). This was partially offset by poor performance from Lennar (1.3% of total net assets).

Looking Ahead

This strategy is positioned for slowing, but positive economic growth and earnings. As such, we hold more value and cyclical names than growth and defensive names. Largest sector overweights are healthcare, information technology, and financials; largest underweights include industrials, utilities, and materials.

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

LARGE CAP EQUITY STRATEGIES

Separately Managed Accounts

(Large Cap Core, Large Cap Growth, and Large Cap Value)

Commentary

written by

Robert C. Doll, CFA® Chief Investment Officer

Large Cap Core Top 10 Model Holdings[1]

Holding	%
Microsoft Corp.	6.5%
Alphabet Class A	5.4%
Apple, Inc.	4.9%
Amazon.com, Inc.	3.1%
Synopsys, Inc.	2.6%
Cisco Systems, Inc.	2.5%
Anthem, Inc.	2.4%
MetLife, Inc.	2.4%
American Express Co.	2.3%
CVS Caremark Corp.	2.3%
Total % of Portfolio	**34.4%**

Large Cap Growth Top 10 Model Holdings[1]

Holding	%
Microsoft Corp.	12.0%
Apple, Inc.	11.9%
Alphabet Class A	8.1%
Mastercard, Inc.	4.2%
Visa, Inc.	3.7%
Amazon.com, Inc.	3.2%
Oracle Systems Corp.	2.7%
Home Depot, Inc.	2.6%
Synopsys, Inc.	2.6%
Lowes Companies, Inc.	2.4%
Total % of Portfolio	**53.4%**

Large Cap Value Top 10 Model Holdings[1]

Holding	%
Anthem, Inc.	3.3%
Bank of America Corp.	2.9%
JP Morgan Chase & Co.	2.8%
Intel Corp.	2.7%
Alphabet Class A	2.7%
Aflac, Inc.	2.6%
Verizon Communications	2.6%
IBM	2.5%
CSX Corp.	2.5%
Cisco Systems, Inc.	2.5%
Total % of Portfolio	**27.1%**

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

Markets and Performance

The S&P 500 suffered its first quarterly decline since the depths of the pandemic in Q1 of 2020, returning -4.60%. The Russell 1000 Growth Index returned -9.04%, meaningfully lagging the Russell 1000 Value Index which returned -0.74%. The Large Cap Core model portfolio returned -7.40% for the quarter, underperforming its Russell 1000 benchmark by 227 basis points(bps). The Large Cap Growth model portfolio returned -8.51%, outperforming its benchmark, the Russell 1000 Growth Index, by 53 basis points for the quarter. The Large Cap Value model portfolio returned -2.40%, underperforming its benchmark, the Russell 1000 Value Index, by 166 bps for the quarter. The majority of the underperformance occurred in March. The Strategies were hurt by the strong rebound in high growth companies as investors turned back to focus on growth and defensives as the yield curve flattened causing recession concerns.

Positive and Negative Contributors to Performance

For the Large Cap Core model portfolio, underperformance came primarily from sector allocations including our overweight in technology and underweight in energy. Best stocks were Northrop Grumman (1.3% of total net assets), MetLife (2.4% of total net assets), and Aflac (2.1% of total net assets). Worst stocks included Accenture (1.6% of total net assets), Lowe's (2.4% of total net assets), and Intuit (1.4% of total net assets).

For the Large Cap Growth model portfolio, underperformance came primarily from sector allocations including our underweight in industrials, energy, consumer staples, and healthcare. Stock selection had mixed results. Best stocks were Meta Platforms (0.9% of total net assets), and Alphabet (8.1% of total net assets). Worst stocks included Accenture (1.6% of total net assets), Lowe's (2.6% of total net assets), and Intuit (2.4% of total net assets).

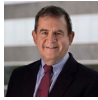
For the Large Cap Value model portfolio, underperformance came from sector allocations including our overweight in technology and underweight in utilities. Best stocks were ConocoPhillips (2.3% of total net assets), Marathon Petroleum (1.9% of total net assets), and Kinder Morgan (2.2% of total net assets). Worst stocks included Simon Property Group (1.9% of total net assets), Johnson Controls (1.2% of total net assets), and Zoetis (0.9% of total net assets).

Looking Ahead

The Strategies are positioned for slowing, but positive economic growth and earnings. As such, we hold more value and cyclical names than growth and defensive names. Largest sector overweights are technology and financials; largest underweights include industrials, healthcare, and consumer staples.

EQUITY MARKET NEUTRAL
Commentary

Separately Managed Account



written by
Robert C. Doll, CFA® Chief Investment Officer

Equity Market Neutral 10 Long Model Holdings[1]

Holding	%
Microsoft Corp.	1.4%
Cerner Corp.	1.3%
Gartner Group Inc.	1.3%
Aspen Technology Inc.	1.3%
Anthem Inc.	1.3%
Interpublic Group of Companies, Inc.	1.2%
Kroger Co.	1.2%
Weyerhaeuser Co.	1.2%
CSX Corp.	1.2%
Janus Henderson Group PLC	1.2%
Total % of Portfolio	**12.6%**

Equity Market Neutral 10 Short Model Holdings[1]

Holding	%
Teledyne Technologies, Inc.	-1.3%
Albemarle Corp.	-1.2%
TransDigm Group, Inc.	-1.2%
Wynn Resorts Ltd.	-1.1%
CenterPoint Energy, Inc.	-1.1%
Pioneer Natural Resources Co.	-1.1%
UWM Holdings Corp.	-1.1%
Stericycle, Inc.	-1.1%
Sabre Corp.	-1.1%
New Fortress Energy, Inc.	-1.1%
Total % of Portfolio	**-11.4%**

Markets and Performance

The Equity Market Neutral model portfolio returned -0.01% for the first quarter of 2022, slightly underperforming its benchmark, the ICE BofA 3-Month Treasury Bill Index, by 5 basis points (bps). We earned sensational returns in January, but unfortunately, February and March took these returns away. The positive January followed the strong results of the previous quarter, as high growth/higher P/E stocks underperformed significantly. February and March saw some reversal in that sector, as well as a positive performance from defensive stocks stemming from recession fears. We are net short those stocks.

Positive and Negative Contributors to Performance

During the quarter, positive returns were achieved more on the short side than on the long side. Healthcare, financials, communication services, and technology were the best short sectors. This was partially offset by negative performance on the long side from consumer discretionary and information technology. Our best longs were Kohl's (1.1% of total net assets), AmerisourceBergen (1.2% of total net assets), and MetLife (1.1% of total net assets), with our worst longs being Tempur Sealy (1.1% of total net assets), PVH (0.9% of total net assets), and Lowe's (1.1% of total net assets). Our best shorts were GoHealth (-0.4% of total net assets), Wayfair (-0.9% of total net assets), and Roku (-0.9% of total net assets), with our worst shorts being New Fortress Energy (-1.1% of total net assets), GameStop (-0.9% of total net assets), and Pioneer Natural Resources (-1.1% of total net assets).

Looking Ahead

The Strategy is positioned for slowing but positive economic growth and earnings. As such, we are long value and cyclical companies and short in the growth and defensive categories. The Strategy is modestly net long. Net long sectors currently include financials, technology, and consumer discretionary, with net short positions including industrials and utilities.

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

SMALL CAP GROWTH
Commentary

Separately Managed Account

written by
Brent Lium, CFA® Managing Director – Head of Equity Investments

Small Cap Growth
Top 10 Model Holdings[1]

National Storage Affiliates, Inc.	2.5%
Qualys, Inc.	2.3%
DigitalBridge Group, Inc.	2.1%
Renewable Energy Group, Inc.	2.0%
HealthEquity, Inc.	2.0%
Rapid7, Inc.	1.9%
Clearway Energy, Inc.	1.9%
MP Materials Corp.	1.9%
Varonis Systems, Inc.	1.9%
Shockwave Medical, Inc.	1.8%
Total % of Portfolio	**20.3%**

Markets and Performance

Equity markets sold off for most of January on worries about a more hawkish Fed and higher (and more persistent) inflation. The Russia/Ukraine fighting only added to the concerns. Including intraday lows, the Russell 2000 Growth Index was down more than 20% at one point before recovering some to close out the quarter at -12.63%. The Crossmark Small Cap Growth model portfolio returned -8.93%, outperforming the Russell 2000 Growth Index by 3.70%.

Positive and Negative Contributors to Performance

The model portfolio's top contributors during the period were Renewable Energy Group (2.0% of total net assets), up 42.91%, HealthEquity (2.0% of total net assets), up 52.44%, and Vocera Communications (1.3% of total net assets), up 22.04%. Renewable Energy, a biodiesel and renewable diesel manufacturer, was acquired by Chevron. HealthEquity, a leading provider of HSA and FSA account services, rebounded from the prior quarter on better than expected earnings. In addition, HealthEquity benefits from higher interest rates. Vocera Communications, a provider of communication software for hospitals, was acquired by Stryker.

The model portfolio's lagging contributors during the period were InMode (1.3% of total net assets), down 47.70%, Vertiv Holdings (1.3% of total net assets), down 43.93%, and NeoGenomics (1.0% of total net assets), down 64.39%. InMode, a maker of minimally invasive aesthetic medical products, reported strong earnings and announced a stock buyback. It wasn't enough to offset the dramatic multiple compression that it (and other high-growth companies) felt in the quarter. Vertiv, an equipment supplier to data centers and digital infrastructure, reported a poor quarter as it struggled with parts shortages and delays caused by global supply chain issues. This short-term problem does not affect the long-term, secular growth that the data centers and digital infrastructure are undergoing. The troubles at NeoGenomics continued as they reported another disappointing quarter and parted ways with their CEO. Our investment thesis in NeoGenomics is under review.

Looking Ahead

We expect the market to continue to be volatile. There are numerous issues for the market to grapple with, including COVID variants, global supply chain issues, inflation, interest rates, etc. Unfortunately, a new problem added during the quarter (the Russian invasion of Ukraine) will likely exacerbate some of the previous issues. This environment makes it all the more important to focus on our key investment pillars - companies with visible and durable growth trends, strong business models, and healthy balance sheets.

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

ISRAEL IMPACT

Commentary

Separately Managed Account

written by

Ryan Caylor, CFA® Portfolio Manager – Head of Research

Israel Impact
Top 10 Model Holdings[1]

Holding	Weight
Apple, Inc.	7.3%
Microsoft Corp.	6.4%
Alphabet Class A	4.7%
Amazon.com, Inc.	3.9%
Berkshire Hathaway, Inc.	2.9%
Tesla Motors, Inc.	2.4%
Johnson & Johnson	2.0%
Procter & Gamble	2.0%
NVIDIA Corp.	2.0%
JP Morgan Chase & Co.	1.9%
Total % of Portfolio	**35.5%**

Markets and Performance

For the three months ended March 31, 2022, the total return for the Israel Impact model portfolio (the model) was -5.05%, trailing its benchmark (the S&P 500 Index) by -0.447%. Given the current composition of the S&P 500 Index, and using our Barra U.S. Long Term multi-factor risk model, we target a range between +/-140 to +/-180 basis points (bps) of estimated tracking error (also called "Active Risk") to the benchmark on an annual basis. At quarter end, the model portfolio was sitting right at +/- 150 bps of Active Risk. While we'll be the first to admit that outperformance is always better than underperformance (even for an indexed-type product) the model portfolio's actual realized tracking error in the first quarter (-44.7 bps), if annualized, was a bit more than we would like, but still within our expected target range.

Positive and Negative Contributors to Performance

Usually this would be cause for, at minimum, a rebalance and re-optimization of the portfolio and a fresh reconsideration of the candidates for inclusion to the investible universe. However, when looking at the sector performance of the S&P 500, one would notice that just 2 sectors had positive performance in Q1 2022: Energy and Utilities. And unfortunately, these two sectors represent the most underweight sectors in the portfolio. As such, Energy and Utilities detracted a combined -90 basis points from relative performance this quarter, equivalent to two times the realized tracking error for the quarter (-44.7 bps). As explained below, this reality will continue to be a "bug" of the Strategy when Energy/Utilities outperform, but a "feature" when these sectors underperform the broader benchmark.

Utilities – Given the geographical constraints to a U.S. utility's rate base means that there is unlikely to be material investment by U.S. utilities in Israel on a go-forward basis. But not impossible.

Energy – The bigger potential headwind is in Energy, however, should the Russian invasion of Ukraine spur the energy crisis / commodity super-cycle that some are warning about. The model portfolio owns the only Energy company with material, recent (and ongoing) involvement in Israel: Chevron (1.7% of model net assets) which returned 40.2% in Q1. While Chevron is a Top 10 holding in terms of Active overweight (+0.9%) relative to the Benchmark and the biggest contributor to both absolute and relative performance this quarter, the fact remains that the portfolio is still ~220 bps underweight the Energy sector as a whole. If we were to bump up our Chevron holding by +220 bps so that the model is equal weight the Energy sector, the Active Risk of the model portfolio would decrease some. But, we would then be materially transforming the underlying composition of the "Active Risk" of the portfolio by transferring risk away from industry risk and toward idiosyncratic single-stock selection risk. And that would not be prudent from a portfolio and risk management perspective for this Strategy.

Looking Ahead

As such, unless more U.S. large cap energy and utility companies decide to invest in Israel (and they definitely should!), the energy and utility under-exposure of the model portfolio will likely be a drag on relative performance ("bug") when Energy and Utilities outperform. However, the inverse would likely also be true when Energy and Utilities underperform the broader S&P 500 ("feature").

[1] Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 3/31/2022.

TAXABLE FIXED INCOME

Separately Managed Accounts

(Core Fixed Income, Corporate Fixed Income, Current Income Portfolio, Intermediate Fixed Income, and Income Opportunities)

Commentary

written by
Victoria Fernandez, CFA® Chief Market Strategist

Markets and Performance

The first quarter of 2022 proved to be an interesting one for fixed income markets, as inflation concerns and the Russia/Ukraine war drove the ebb and flow of trading around the globe. There was a belief the first quarter would see the peak of inflation as COVID concerns began to wane, allowing supply chain struggles to recede and demand/supply imbalances to alleviate. However, the emergence of new COVID variants worldwide, coupled with higher commodity, food, and rent costs, only pushed inflation higher. This has caused many to see the Federal Reserve (and other central banks) taking on a more hawkish tone, increasing expectations for higher and more frequent rate hikes throughout 2022. Rates across the yield curve moved significantly higher, putting pressure on fixed income markets. In this rising rate environment, all of Crossmark's taxable fixed income model portfolios outperformed their comparable benchmarks for the quarter ending March 31, 2022.

Positive and Negative Contributors to Performance

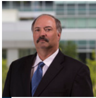
In previous communications, we mentioned anticipating U.S. 10-year yields to move slightly north of 2.00% (perhaps up to 2.25%) in 2022 before leveling off. In preparation for such a move, we planned to begin extending duration. However, the shift higher in yields across the curve was much quicker and higher than many anticipated, although we did see some pullback from the highest levels of the quarter (around 2.50% on the U.S. 10-year Treasury) reached during March. The shorter duration positioning of our taxable fixed income strategies was the most significant positive contributor to its outperformance versus the benchmarks for the quarter, followed by effects from allocation decisions and the level of income generation. Although we have been working to extend duration, we are averaging 60% to 80% of the benchmark duration for each Strategy, which benefitted performance during the quarter. While the overall shorter duration of the Strategies was beneficial, the overweight of holdings in the shorter portion of the yield curve (1-3-year maturities) compared to the benchmark was a drag on quarterly performance as yields in the 2-year part of the curve rose the most. As spreads moved wider towards the end of March due to investment-grade corporate issues, the shorter duration of our corporate holdings allowed the sector in the model portfolios to outperform the sector of the benchmarks.

Looking Ahead

Even with the jump we have seen in 2022, we still believe there is room for yields to move higher throughout the coming quarters, although at a tempered pace (rather than a steady march higher). We are about to enter a historically active time of year for foreign Treasury purchases, which should keep some pressure on longer-term yields. In addition, if we see inflation trends begin to ease, resulting in a moderation of central bank tightening plans, there could be a slight re-steepening of the curve (which is currently quite flat and inverted in places). Our strategy is to continue extending duration to position the Strategies closer to neutral duration (compared to the benchmarks) as yields take more of a pause on the climb higher. We will remain overweight the investment-grade corporate sector for income purposes while watching spreads for opportunistic trades. Our Strategy will continually develop based on our four-step investment process focusing on duration positioning, yield-curve placement, sector, and security selection.

MUNICIPAL FIXED INCOME
Commentary

Separately Managed Account



written by
Patrick Garboden, Sr. Portfolio Manager

Markets and Performance

Municipal bonds ended the quarter in a perceived oversold position. Federal Reserve Chair Jerome Powell's hawkish comments triggered a tumble in all fixed income sectors as the U.S. central bank seeks to tame the worst inflation in 40 years. Municipal bond mutual funds and ETFs have witnessed net outflows for the last ten weeks of the quarter totaling $25.4 billion, resulting in the worst quarter since 1994 (according to Bloomberg indexes).

Positive and Negative Contributors to Performance

The Municipal Fixed Income model portfolio posted a loss of -2.38% for the quarter ending March 31, versus a loss of -5.12% for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit with premium coupons positively contributed to the model portfolio's performance. Lower coupon bonds in the Index declined more than premium coupon bonds held in the model, as municipal bond rates moved considerably higher this year. The shorter duration positioning of the Strategy was also a positive contributor to performance versus the Index in the first quarter, as inflationary concerns have forced the Federal Reserve to turn hawkish. The short maturity of the municipal bond market was a negative last quarter, as short rates moved higher at a quicker pace than the intermediate or long end of the curve.

Looking Ahead

The municipal bond landscape has changed considerably, with increased volatility due to expected Fed rate hike plans, more new issuance from a stronger municipal sector (trying to lock in lower rates), and recent outflows in municipal bond mutual fund and ETF ownership. Outflows over the past ten weeks may have created an oversold situation and could be an opportunity to acquire municipal bonds at favorable levels not seen since March of 2020. Daily secondary bid list volume in 2021 averaged $8.6 billion (par value). So far, in 2022, the daily bid rate has moved up to $10.1 billion. A larger bid list volume is the result of fund outflows. While some excess inventory will be reduced in April 2022, it may not be enough to support higher bond prices near term. Redemptions from matured, pre-refunded, called bonds and interest are anticipated to total just $30 billion – the second-lowest redemption for the year. Municipal bond credit is being strengthened by solid tax revenue and economic themes led by the housing market (the basis for general obligation bond revenue). Housing prices are higher in every state, with Phoenix, Arizona leading the pack with appreciation exceeding 30%. Washington, D.C. is last on the list but still recorded a solid 11% increase. State, city, and municipality stimulus also contributed to substantial financial gains. Crossmark continues to find value in the secondary municipal market with bonds rated A or better by Moody's, Standard & Poors, or Fitch at the time of purchase and involved with essential services like water, sewer, power, streets, highways, public education, and general obligations. Our Strategy focuses on maturities in the seven to twenty-year range with call features between 2024 and 2027. The maturity curve is inverted beyond 2027, so calls past that date are not as attractive as they might be later in the year. The Strategy will continue to utilize shorter duration positioning than the benchmark index as the Fed continues its battle with inflation, focusing on higher-quality municipalities with the goal to move duration longer once the interest rate curve normalizes.

Our Firm

Crossmark Global Investments is a faith-based firm that creates, manages, and distributes values-based investment strategies that equip financial intermediaries and their clients to align their wealth with their passions and convictions. For over 30 years, the firm has delivered uniquely constructed products based on its proprietary, disciplined, and repeatable process. Founded in 1987, the firm is headquartered in Houston, Texas. For more information visit: www.crossmarkglobal.com.

Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888.845.6910

Crossmark Global Investments, Inc. (Crossmark) is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Strategies may not achieve their objectives if the managers' expectations regarding particular securities or markets are not met.

Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Small-cap investments may be subject to smaller companies risk. Stocks of smaller, less seasoned companies are generally subject to greater price fluctuations, less liquidity, higher transaction costs, and higher investment risk than those of larger, more seasoned issuers. Smaller companies may have limited product lines, markets, or financial resources, and they may be dependent on a limited management group or lack substantial capital reserves or an established performance record. There is generally less publicly available information about such companies than for larger, more established companies.

Investments in securities of issuers in foreign countries involves additional risks not associated with domestic investments. These risks include, but are not limited to: (1) political and financial instability; (2) currency exchange rate fluctuations; (3) greater price volatility and less liquidity in particular securities and in certain foreign markets; (4) lack of uniform accounting, auditing, and financial reporting standards; (5) less government regulation and supervision of some foreign stock exchanges, brokers and listed companies; (6) delays in transaction settlement in certain foreign markets; (7) less availability of information; and (8) imposition of foreign withholding or other taxes.

Options are not suitable for every investor. Writing call options to generate income and to potentially hedge against market declines by generating option premiums involves risk. These risks include, but are not limited to, potential losses if equity markets or an individual equity security do not move as expected, and the potential for greater losses than if these techniques had not been used. If the market price of a security increases, a call option written against that security limits the gain that can be realized. And, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives.

The Equity Market Neutral Strategy also exposes the investor to short sale risk. An investor's account would incur a loss as a result of a short sale if the price of the security sold short increases in value between the date of the short sale and the date on which the account purchases the security to replace the borrowed security. In addition, the securities sold short may have to be returned to the lender on short notice, which may result in the account having to buy the securities sold short at an unfavorable price to close out a short position. If this occurs, any anticipated gain to the account may be reduced or eliminated, or the short sale may result in a loss.

Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk). Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

Some strategies incorporate values-based screening policies which exclude certain securities issuers from the universe of otherwise available investments. As a result, the strategy may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the strategy has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the strategy. Further, the strategy's values-based screening policies may prevent the strategy from participating in an otherwise suitable investment opportunity. With respect to Equity Market Neutral, the values-based screening policies apply only to long positions.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

This content may not be reproduced, copied or made available to others without the express written consent of Crossmark.

Crossmark Global Investments, Inc.
15375 Memorial Drive, Suite 200, Houston, TX 77079
888.845.6910 advisorsolutions@crossmarkglobal.com
crossmarkglobal.com