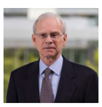
ECONOMIC AND STRATEGY COMMENTARIES 2Q 2020

ECONOMIC
Market Commentary



written by
Mel Cody, Sr. Portfolio Manager

We have finally completed the first half of 2020, thank goodness. It seemed more like six years than six months, given the large number of crazy events we have had on our plates. In January, it started early with the impeachment trial of the President in the Senate. The President was acquitted in early February. What could top that? Then the World Health Organization (WHO) announced an emergency in late January over the COVID-19 virus, which lead to a tremendous amount of market volatility. WHO upgraded the warning by declaring a worldwide pandemic on March 11. Additionally, in early March, the Russians and Saudis got into a price war over oil, leading to a crash in oil prices and stocks with the Dow Industrials falling about 2000 points. The Federal Reserve rushed to the rescue and cut interest rates to between 0.00% and 0.25% and flooded the system with liquidity. Even with these actions, the panicky Dow fell almost 3000 points, the S&P 500 followed suit, and the US 10yr Treasury note fell to 0.54%. With the economy in lockdown over the virus and people stuck at home, demand for petroleum products evaporated, and storage facilities ran out of room. Oil in West Texas was reportedly changing hands at around $5 per barrel, if at all. Then the unprecedented occurred on April 20 when the expiring contract for WTI traded at -$37 as investors scrambled so as not to have to take delivery of actual crude oil. The whole mess sorted itself out as the old crude contract rolled off, and the new contract traded at a positive price. The month of May witnessed a huge jump for crude prices, if not demand. Things were at least settling down, but in June, protests broke out in cities across the US and overseas. Protests went on for several days and disrupted businesses across the country, further impacting an already weak economy. Uncertainties have dominated the first half of the year, and don't forget; this is a presidential election year, so everything could be magnified by a factor of three times or more. We expect that once we get past the election, things will settle down.

With that backdrop, just how is the economy performing? We entered the first-ever self-imposed recession after the economy peaked in February and then turned down quickly in March due to the unprecedented COVID-19 virus response. The final first-quarter GDP estimate came in at -5.0% annualized, but the economy has been showing signs of improving. The ISM Manufacturing Survey bottomed in April at 41.5 but has since rebounded to 52.6 in June. Note that a reading above 50 indicates an expanding economy, so this is excellent news. Additionally, the June ISM Service survey posted a reading of 57.1, a record jump from last month's 45.4 reading, and ahead of expectations of 51.1. It is a surprisingly strong number given the people-facing nature of the service sector. An alternative PMI measure of services put out by Markit came in lower, with a reading of 47.9, up nicely but still in contraction mode. We will see if these two measures begin to converge in the next month. Either way, both manufacturing and services are moving in the right direction. Also bolstering the case for an improving economy, the June payroll numbers posted the largest one-month gain in history, soaring 4.8 million, up from 2.7 million in May. The unemployment rate fell to 11.1%, down from 13.3% in May.

ECONOMIC

Market Commentary (continued)

It looked like we would transition from the quickest descent into recession to the fastest recovery on record. However, the recent spike in COVID-19 cases could be a major wrench in the economy's gears, putting the US back in contraction mode, if it continues. Several governors have begun rolling back the phased reopenings they had put in place. We may get our first clues to this by monitoring weekly economic data such as rail car traffic, hotel occupancy, and the OpenTable restaurant survey. Most recently, these indicators were all improving except for the restaurant survey, which was down about 3% for the week. We plan to keep a very close eye on these timely statistics.

2020 EPS Growth Forecast	
1Q	-13.6%
2Q	-43.8%
3Q	-25.2%
4Q	-12.7%
Full Year	-21.5%
2021	+28.2

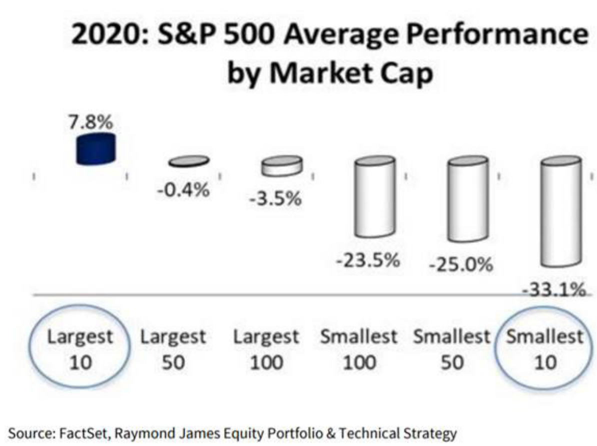
Corporate profits are expected to decline significantly in 2020. After profits declined 13.6% in the first quarter, reality sank in with all the state lockdowns, and projections were slashed for the second quarter. From the beginning of the second quarter to present, earnings expectations have been cut another 37%, and a 43.8% decline is now expected for Q2. After that, earnings are projected to improve, as detailed:

Keep in mind, these are low confidence estimates due to high levels of uncertainty on how the virus will progress. With spikes in several states, we may see reductions in these numbers in the near future.

Valuation

The first half of 2020 has seen some of the largest stock market moves on record, both up and down, which has made it difficult to get a handle on valuation. The S&P 500 was down 12.0% on March 16, down 9.5% on March 12 and down 7.6% on March 9. Then, when it seemed things were settling down, it fell 5.9% on June 11. On the flip side, it rose 9.4% on March 24, 9.3%, on March 13 and 7.0% on April 6. This volatility, driven by COVID-19 developments and economic news, has kept things "interesting." Also, the market has exhibited a "split personality" with large-cap stocks dominating the performance derby. The largest ten stocks, on average, returned 7.8% while the S&P 500 was down 4.0%. An analysis by Raymond James indicated that Amazon, Apple, and Microsoft were up, on average, 35% in the first half. Excluding these stocks, the S&P 500 would have been down 8% versus actual returns of -4%. We need to see the market broaden out soon to be considered "healthy."

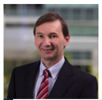
At the close of the second quarter, the S&P 500 was trading at about 21.8x, based on FactSet consensus estimates. Is this a reasonable valuation given the uncertainty surrounding the virus and business conditions? It's hard to say but low-interest rates and low inflation have helped create a sweet spot for valuations. The Fed is also pouring liquidity into the markets at a record pace, and other central banks are only adding to these conditions. As we noted last quarter, the path of least resistance should be to the upside over the next few months, but it is likely to be a very bumpy ride. We would not be surprised to see the markets move in a trading range for a time as we move towards the fall months.



GLOBAL EQUITY INCOME

Commentary

Global Equity Income is a separately managed account investment strategy



written by
John Wolf, Managing Director

Performance

The global equity markets for the second quarter posted substantial positive overall returns. The Global Equity Income strategy benchmark of the S&P Global 1200 ended the quarter with a return of +18.62%. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned +11.05%.

Factors Affecting Performance

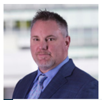
The Global Equity Income strategy underperformed the S&P Global 1200 but outperformed the MSCI World High Dividend Yield Index for the second quarter. The portfolio's global allocation at the end of the period was 63% US and 37% International, reflecting a slight shift towards the US market from the previous quarter.

Positive relative performance for the quarter was led by Quest Diagnostics Inc. (+42.93%), a leading provider of diagnostic testing, information, and services to the healthcare sector. The opportunity in COVID-19 testing for this company is significant. Demand from companies whose employees are in constant contact with customers will climb dramatically as many are considering weekly testing. The company also foresees demand driven by states where nursing homes and long-term care facilities are adhering to testing targets. The downside is a disruption to the company's core testing (non-COVID) volumes that have been disrupted due to the pandemic; however, this demand has likely just been deferred to a later date. Shares of Analog Devices, Inc. +37.56% climbed on strong first-quarter results and second-quarter guidance that was higher than investor expectations. A lean supply chain which anticipated the COVID weakness led to these higher results. The healthcare segment posted record results, while the 5G communications segment also saw solid demand for the quarter. The second quarter is already in a 100% order backlog suggesting the potential for more additional upside. Shares of the business consultancy and outsourcing company Accenture plc +32.14% soared on reported earnings and revenue that exceeded analyst expectations. The company also revised guidance, raising the lower end of its fiscal 2020 profit projections. Accenture announced their quarterly cash dividend of 80 cents per share, up 10% from the year-ago quarter.

Negative contributors to relative performance included Algonquin Power and Utilities Corp. -2.27%. This Canadian based utility reported first-quarter earnings and revenue that were below analyst estimates. The underperformance was due to a combination of the impact of the pandemic and unfavorable weather conditions during the quarter. Despite the underwhelming report for the quarter, the company continues to be a sector leader versus its peers in rate base growth as well as earnings and dividend growth. Shares of Spain based Grifols SA (–9.43%), a leading supplier of plasma derivatives, dropped as COVID-19 disrupted its operations by increasing plasma costs resulting from reduced donations, lower collection capacity, and higher staffing costs. These cost increases have pressured the company to respond by lowering expenses primarily in reduced marketing, bonuses, and travel-related areas. Demand for these products, however, remains strong, and the increased costs due to the pandemic should only be temporary. Overall the strategy has performed well for the period and will continue to seek high-quality dividend-paying companies that provide superior results over the long-term.

COVERED CALL INCOME
Commentary

Covered Call Income is a separately managed account investment strategy



written by
Paul Townsen, Managing Director

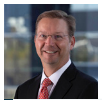
No one could have predicted the substantial variation of performance in the markets during the first two quarters of 2020. While the first quarter of 2020 saw the S&P 500 Index fall -35%, the second quarter contained a 44% rally making it the third strongest quarter on record, behind 1975 and 1987. As the markets continued to rise over the second quarter, the strategy generated 4.40% in income from dividend payments and strategic trading of the option overlay. The option overlay positioning allowed for an 80% upside capture of the gains experienced by the S&P 500 Index. Therefore, the strategy enjoyed a nice quarter, not only from an income perspective but also from a total return standpoint, as it outperformed the benchmark of the CBOE S&P 500 BuyWrite Index.

Regarding attribution for S&P sectors, the strategy had positive contributions to return from the financial, material, and energy sectors and only had slight negative contributions from healthcare, technology, and communication services. Negative contributors included names the strategy could not own due to price constraints, such as Apple (AAPL), Amazon (AMZN), and Google (GOOG). Several individual names that performed well during the second quarter were Lowes (LOW), PayPal (PYPL), Activision Blizzard (ATVI), and Dupont (DD). Due to Lowes and Paypal's impressive performance during the quarter, both stocks became too expensive and were called away at June expiration. They were replaced by Wal-Mart (WMT) and Fiserv (FISV), respectively, which have performed well since they were purchased.

As we bring the second quarter to a close and head to the heat of the summer, there are several events worth mentioning that will we believe will affect the markets one way or another. Earnings season kicks off in earnest towards the second week of July, and we will continue to monitor daily COVID data in the US. We believe a rebound in economic output, an increase in corporate earnings, and ongoing monetary policy stimulus should provide support for the markets soon. However, volatility will be prevalent over the next several months, sparked by new virus concerns, setbacks in reopening the economy, and potential political issues in Washington. The Crossmark trading team will continue to monitor volatility, with the intent to strategically place option spread trades to maximize income and reduce market risk where possible. Duration remains short within the option overlay for the time being, as implied volatility is still high, and premiums paid for short-term options are attractive. We believe the volatility we have seen is unlikely to stabilize anytime soon, and we will continue to have both historical up and down days.

LARGE CAP CORE GROWTH
Commentary

Large Cap Core Growth is a separately managed account investment strategy



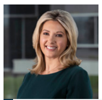
written by
Brent Lium, CFA® Managing Director

The S&P 500 Index had its best quarter in a couple of decades, returning a little over +22.5% as investors shifted their focus to the potential economic recovery following COVID-19 induced shutdown. Our focus on high-quality companies with long-term growth helped us outperform the S&P 500 Index by +2.3%. Our best performers were Lennar, Apple, and Amazon. The homebuilder, Lennar, was up +61.8%, recovering most of its losses from the first quarter, as COVID-19 proved to be just a blip in new home demand. With a return of +43.8%, Apple went on to new highs as investors begin to appreciate their move towards sticky, high-margin service revenues. Amazon was our best performer in the first quarter of 2020, and it followed that up with a third-place finish in the second quarter, up +41.5%. Our underperformers were L3Harris Technologies (-5.4%) and Charles Schwab (+1.0%). L3Harris was dragged down due to its commercial aerospace business, as investors struggled with the unknown future state of air travel demand. The Fed lowered interest rates during the pandemic, which hurt the earnings outlook for Charles Schwab. In addition to beneficial stock selection, the overweight in Technology and Consumer Discretionary sectors helped performance relative to the S&P 500 Index.

By utilizing the opportunities presented to us by volatility in the market during the quarter, we were able to increase our investments in companies with strong business models and exposure to long-term growth trends. We used the pullback in the market to upgrade from Comcast Co. to Charter Communications, which is a pure-play on broadband/cable networks. We believe broadband revenues should accelerate as more people continue to work from home. We purchased S&P Global, which provides bond ratings and licenses the S&P indices. The company fits well within our investment strategy, emphasizing companies we believe have visible and consistent growth, and a strong and stable business model, with no/low debt on their books. Lastly, we sold our position in YUM Brands on concerns about restaurants' profitability levels in a post-COVID-19 world. We used the proceeds to increase our position in JP Morgan.

TAXABLE FIXED INCOME
Commentary

Core Fixed Income, Current Income Portfolio, Intermediate Fixed Income and Income Opportunities are separately managed account investment strategies



written by
Victoria Fernandez, CFA® Chief Market Strategist

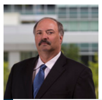
What a year it has been, and we are only in July! The second quarter was interesting in that we saw much of the damage from the first quarter reversed to an extent and markets beginning to trend higher. Even with equity markets surging, the bond market closed out the quarter right about where it started. That doesn't mean we didn't have volatility over the last three months, but looking at the starting and ending points for the US 10yr treasury wouldn't tell that tale. As states began to open up across the nation, the anticipation of a quick and strong recovery was front and center for the markets, and we saw yields climb, just to falter as some of these same states had to reverse their plans due to spikes in COVID-19 cases during the month of June.

For the Crossmark taxable fixed income strategies, the sectors in the portfolio that were hardest hit at the end of the first quarter were the same ones that rallied in the second quarter. Those sectors include financial and energy investment-grade corporate names and the fixed-rate preferred allocation in the Current Income Portfolio and Income Opportunities strategies. We overweight the investment-grade corporate sector to provide strong cash flow compared to comparable indices. Our allocation to this sector, coupled with the income component, was the largest positive contributor to the outperformance over the quarter for the Core Fixed, Current Income Portfolio, and Income Opportunities strategies. The largest detractors were the duration effect as yields remained range-bound and the selection effect within the corporate allocation.

With a Federal Reserve that has stated Fed Funds rates will remain near zero until the end of 2022 and discussions around yield curve targets at FOMC meetings, we anticipate that there won't be a large shift higher in the longer end of the yield curve any time soon. This could change if treasury issuance and QE actions continue, but any move would still be limited. In that environment, we are working to extend duration in our strategies as appropriate. In such a low yield environment, generating current yield is becoming more difficult, but we continue to build portfolios with investment-grade corporate names with strong balance sheets and solid cash flows that can survive the struggles from COVID-19 without a break in their interest or principal payments. Our investment process of focusing on duration, yield curve structure, sector allocation, and security selection remains steady and will allow us to adjust our strategy as appropriate as we head into the second half of the year.

MUNICIPAL FIXED INCOME
Commentary

Municipal Fixed Income is a separately managed account investment strategy



written by
Patrick Garboden, Sr. Portfolio Manager

Crossmark's Municipal Fixed Income SMA strategy was a net buyer of high-quality essential service revenue and general obligation municipal bonds during the second quarter of 2020. The disconnect between municipal bonds and other sectors of fixed income, mainly Treasuries, was so pronounced that institutions, insurance companies, community banks, regional banks, foreign buyers, and cross-over buyers refocused on the benefit of owning municipal bonds. The strategy took full advantage of the opportunity to extend duration while maintaining high-quality bonds, focused on essential services and general obligations.

States and local municipalities took swift action to cut services, curtailed hiring, and furloughed or terminated workers to offset disrupted revenues due to the COVID-19 pandemic. The pace of action by municipalities was swifter than witnessed during the 2008 recession, as municipalities attempted to get ahead of any revenue interruptions. Until there is a more scientific approach to reducing the spread of COVID-19, it may be too early to determine the extent of damage to municipality or sector revenue. Several sectors were negatively impacted more than others, such as transportation. Transportation quickly became the poster child for a negative watch of potential downgrades by the credit rating agencies. Transportation is a mixed bag, but the immediate media response had investors believing all transportation was equal. Transportation revenue was negatively impacted, especially in densely populated areas where subway, rail, and bus are the transportation method of choice. Airports and tollways also felt the impact of the virus as fewer people traveled or even left their homes. However, we believe that transportation costs will rise in the future after fuel savings are exhausted.

Not all transportation is equal nor a municipal entity. Most large airports, being a municipality, are being lumped together with airlines, a corporate entity. Airports do need airlines to fly, but the revenue stream is different in several ways. Airlines have a different revenue path that requires paying customers to purchase tickets for a seat to a given destination. Airlines have lease agreements with airports that must be satisfied, regardless of the airline activity. Airlines pay a landing and takeoff fee, and fuel purchased has a partially paid tax to an airport. Airlines may not have full seats, but it still has to purchase fuel and pay ramp and fuel fees. Many of the larger airport municipalities have cash on hand to weather a period for debt coverage, assuming no additional revenue is established. This is not a complete list of variables by the transportation sector but discussion points that should be evaluated by an individual municipal entity rather than by sector.

We believe there will be credit rating downgrades for municipalities across the country. The riskiest municipalities, which may include, but not limited to, hospital, healthcare, retirement centers, assisted living, hotels, convention facilities, housing, jails, and prisons, are currently under review to determine the possible change in credit rating. High-yield municipal bonds, those with credit ratings below investment grade, have performed well as investors have increased flows into those riskier investments to make up for falling interest rates in their previously held, lower-risk investments. As the breadth of damage to the economy and municipalities becomes more evident, riskier assets such as high-yield municipal bonds that have performed well recently, may come under pressure due to a reallocation process. We believe the best protection for tax-exempt income is to remain invested in high-quality essential service and general obligation municipal bonds. Municipal bonds continue to be one of the safest fixed-income investments, second only to US Treasuries. However, municipal bonds currently produce a higher percentage of income when compared to US Treasury bonds.

We continue to find value in the municipal secondary market with bonds rated A or better by Moody's or Standard & Poors (at time of purchase), involved with essential services like water, sewer, power, streets, highways, school education, and general obligations. The yield curve's ideal maturities have moved to the 8 to 20-year range with a call feature between 2023 and 2027. The strategy limits maturities to 20 years. We continue to hold a shorter duration than the Barclay's Quality Intermediate Municipal Index, with a focus on higher-quality municipalities. We are also continuing to use municipal bond market volatility as an opportunistic play to manage the portfolios entrusted to us.

Global Equity Income Top 10 Model Holdings [1]

Taiwan Semiconductor Mfg Co.
Accenture PLC
McDonald's Corp.
Intel Corp.
Raytheon Technologies Corp.
Texas Instruments, Inc.
Pepsico, Inc.
Quest Diagnostics, Inc.
Cisco Systems, Inc.
Analog Devices, Inc.

% of Total Portfolio: 25%

Covered Call Income Top 10 Model Holdings [1]

Microchip Technology, Inc.
Micron Technology, Inc.
Nike, Inc.
Fiserv, Inc.
Medtronic PLC
Abbott Labs
Qualcomm, Inc.
DuPont de Nemours, Inc.
Target Corp.
Walmart, Inc.

% of Total Portfolio: 38%

Large Cap Core Growth Top 10 Model Holdings [1]

Apple, Inc.
Microsoft Corp.
Amazon.com, Inc.
Alphabet - Class C
Mastercard, Inc.
UnitedHealth Group, Inc.
Home Depot, Inc.
CDW Corp.
JP Morgan Chase & Co.
Amgen, Inc.

% of Total Portfolio: 49%

[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 6/30/2020.

Our Firm

Crossmark Global Investments is a boutique investment management firm that provides a full suite of investment strategies to institutional investors, financial advisors, and the clients they serve. For over 30 years we have delivered uniquely-constructed products based on our proprietary, disciplined, and repeatable process. We are especially known for helping our clients align their investments with their values by creating socially-conscious, responsible investment strategies. Founded in 1987, we are headquartered in Houston, Texas.

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