CROSSMARK
GLOBAL INVESTMENTS

QUARTERLY UPDATE: 4Q 2021
EQUITY MARKET NEUTRAL COMMENTARY

Separately Managed Account

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

Equity Market Neutral 10 Long Model Holdings [1]

Cirrus Logic, Inc.	1.2%
Intuit, Inc.	1.2%
Gartner Group, Inc.	1.2%
CVS Caremark Corp.	1.2%
Prologis, Inc.	1.2%
CBRE Group, Inc.	1.2%
Anthem, Inc.	1.2%
Jones Lang LaSalle, Inc.	1.2%
Brunswick Corp.	1.1%
Intel Corp.	1.1%

% of Total Portfolio: 11.8%

10 Short Model Holdings [1]

Boeing Co.	-1.1%
RPM, Inc.	-1.1%
Madison Square Garden Co.	-1.1%
Upstart Holdings, Inc.	-1.1%
Atmos Energy Corp.	-1.1%
Tripadvisor Inc.	-1.1%
Medical Properties Trust, Inc.	-1.1%
TransDigm Group, Inc.	-1.1%
Penn National Gaming, Inc.	-1.1%
OGE Energy Corp.	-1.1%

% of Total Portfolio: -11.0%

[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 12/31/2021.

Markets and Performance

U.S. equities were up in 2021 for a third straight year. The most significant tailwinds came from "pedal to the metal" monetary and fiscal policies. Earnings exceeded expectations by a record amount driven by solid revenue growth and further profit margin improvement. Additional stock market positives included strong consumer and corporate balance sheets, strong retail demand for stocks, and T.I.N.A. (there is no alternative!) and F.O.M.O. (fear of missing out) dynamics. Headwinds included the ongoing pandemic and new variants, supply chain constraints, a significant increase in inflation, a Fed policy pivot, and stretched valuations. The U.S. economy grew at the fastest pace since 1984, with real GDP estimates at 5.5%. In the November report, unemployment fell to 4.2%, with average hourly earnings up 3.5% through eleven months. However, the CPI rose 6.8% over the last twelve months (with core inflation up 4.9%), the highest readings in nearly 40 years. Other economic measures such as industrial production, consumer confidence, ISM manufacturing and services, and housing were strong. Within equities, growth outperformed value, and large stocks outperformed small. The Equity Market Neutral Strategy has had an excellent start. Commencing on June 30, the model portfolio returned 11.54%, outperforming its benchmark (90-day T-bills) by 11.52%.

Positive and Negative Contributors to Performance

We will attempt to add value on both the long and short sides of the strategy and believe so far, we have succeeded. The model portfolio had a strong start, with the short side of the portfolio contributing more than 200 basis points of return and the long side more than 100 basis points of return in the first six weeks of existence. In particular, healthcare, technology, and REITs added value on the long side, and consumer discretionary, technology, industrials, and healthcare contributed on the short side. While both longs and shorts have aided performance, the largest contributor has been severe underperformance of high price/earnings, fundamental mixed, and weaker, shorted names.

Looking Ahead

It will be difficult for companies to sustain year-end 2021 profitability levels as revenue growth slows in the coming quarters. That said, some of the headwinds to margins from moderating top-line growth could be offset by declining shipping and raw materials input costs, as bottlenecks begin to gradually ease in response to stepped-up efforts by policymakers to resolve logistical logjams.

Looking Ahead (continue)

Sectors with relatively higher labor intensity and/or facing heightened competitive pressures will remain at greater risk of margin compression. However, significant erosion in aggregate net profit margins is unlikely if nominal economic growth remains moderately strong and keeps corporate revenues expanding at a healthy pace. The environment of rising interest rates and cyclical tailwinds has created significant stock selection opportunities. Our beta model remains modestly positive, although the decline in the growth rate of the money supply will likely cause the Strategy to become more cautious in the months to come.

Our Firm

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Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888.845.6910

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Equity Market Neutral Strategy may not achieve its objective 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).

The Equity Market Neutral Strategy also exposes the investor to short sale risk. An investor's account will 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.

The strategy's 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.

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