CROSSMARK GLOBAL INVESTMENTS

GLOBAL EQUITY INCOME

Global Equity Income is a separately managed account investment strategy

Commentary – 6/30/2019

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- China trade war impacts semiconductor industry
- Q1 U.S. GDP higher than expectations
- Fed weighs future rate cut

Performance

The second quarter of 2019 saw most equity categories post positive returns. The Global Equity Income benchmarks of the S&P Global 1200 and the S&P 500 ended the quarter with returns of +4.11% and +4.30% respectively. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned +3.10%.

Factors Affecting Performance

The economic growth in the U.S. has outperformed expectations with GDP advancing 3.1% in the first quarter. This better start to the year raises the 2019 outlook for the annual average from 2.4% to 2.6%. Tariffs became the major headline during the quarter as the U.S. raised rates on Chinese imports from 10% to 25%. The Fed is moving from an interest rate hold policy to potentially a future rate cut. This change in policy is due to the impact of tariffs along with low inflation and slowing global and domestic economic growth. Canada's economic weakness in the latter part of 2018 persisted into the first few months of 2019. Real GDP advanced a mere 0.4% in the first quarter as a pullback in construction and reduced export activity placed a drag on growth. A pickup in economic activity is expected as a healthy household income combined with a recovery in the housing market should drive future expansion. The Eurozone is expecting growth at a sluggish 1.2% pace this year. First quarter growth came in slightly ahead of expectations on stronger consumer spending but ongoing weakness in the manufacturing sector may continue. In the UK the ongoing Brexit saga continues with a potential exit date now pushed out to the end of October. The uncertainty surrounding this break up is expected to weigh on the economy. Despite healthy domestic fundamentals, business investment will most likely be curtailed until a more definitive Brexit outcome is reached. Economic growth in Japan remains below 1.0% and now faces more headwinds related to the fallout from U.S. and China trade tensions as exports of technology goods have been affected. Overall, while global growth has slowed, several indicators are signaling a potential rebound.

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Company earnings as represented by the S&P 500 have posted a -0.3% growth rate for the first quarter ending the string of strong positive quarters. Earnings growth for the full year of 2019 is projected to come in at 3%. The energy sector which had led the group in previous quarters has now turned and become the worst performer for the first quarter with a growth rate of -27%.

The Global Equity Income strategy moderately underperformed the S&P Global 1200 but was in line with the MSCI World High Dividend Yield Index for the second quarter. The portfolio equity allocation at the end of the period was 61% U.S. and 39% international. Positive relative performance was led by WPP PLC +23.99%. The London based multinational advertising and public relations company is undergoing a major business restructuring. Shares have responded positively as the CEO stated that progress is being made and financial guidance for the full year remains unchanged. New business performance this year has been solid, with GroupM in particular maintaining its successful record in pitches. ResMed Inc. +17.76% shares bounced back sharply from the previous quarter drop on disappointing reported revenue. This quarter the company reported higher profits and higher sales than analysts estimated. While the company is primarily focused on the U.S. market, sales increased 15% on stronger than anticipated demand from markets outside the U.S. This was accomplished without pressuring gross margins. Shares of TE Connectivity Ltd. +19.24% jumped on strong quarter results. The company designs and manufactures connectivity and sensor solutions that are used in the transportation, communications and industrial industries. Earnings significantly beat analyst estimates while revenue also came in ahead of expectations. The company raised its guidance and also increased its dividend for the quarter.

Negative contributors to relative performance included Intel Corp. –10.31%. Intel and other semiconductor companies have been caught in the continuing trade war with China. The fear is that higher tariffs on component costs will ultimately push prices higher on products such as smartphones and computers. As a result, demand for these products may start to decline hurting the entire semiconductor industry. Ultimately a compromise will eventually be made on trade and the pressure on the industry will then be alleviated. Shares of 3M Company –15.85% dropped on its poor reported first quarter results. The company's top and bottom lines both declined with guidance for 2019 being revised downward. Organic growth was impacted by slowing growth in China due to the trade war and other factors. The company maintains a very strong balance sheet and it has a stellar dividend history with 61 consecutive years of dividend growth. Management's restructuring efforts combined with the company's competitive advantages should enable it to resume its long term trend of strong growth. Overall, the effectiveness of the methodology and quantitative screens for stock selection continue to perform as designed and are exceeding expectations.

Top 10 Model Holdings [1]

Microsoft Corp.
McDonald's Corp.
Accenture PLC
Pepsico, Inc.
Unilever NV
Smith & Nephew PLC
Texas Instruments, Inc.
Taiwan Semiconductor Mfg Co.
Quest Diagnostics, Inc.
ResMed, Inc.

% of Total Portfolio: 24%

Global Equity Income Strategy

The Global Equity Income strategy pursues its objective through the investment in U.S. and non-U.S. dividend-paying stocks that have demonstrated the ability to maintain a higher yield, increase dividends over time and generate significant earnings. These companies also represent a broad spectrum of the global economy. The objective of this strategy is to provide current dividend income and the potential for capital appreciation at lower than overall market risk.

[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 6/30/2019.

Our Firm

Crossmark Global Investments is an innovative investment management firm. We provide 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 values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas and manages approximately $5.0 billion in AUM.

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