CROSSMARK
GLOBAL INVESTMENTS

GLOBAL EQUITY INCOME

COMMENTARY | QUARTERLY UPDATE: 3Q 2022

Separately Managed Account

written by
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Top 10 Crossmark Global Equity Income Model Account Holdings[1]	
Cigna Corp.	3.3%
McDonald's Corp.	2.7%
Texas Instruments, Inc.	2.4%
Paychex, Inc.	2.3%
CVS Caremark Corp.	2.1%
Petrobras Brasileiro S.A.	2.1%
Coca Cola Co.	2.0%
Kellogg Co.	2.0%
AbbVie, Inc.	2.0%
Quest Diagnostics, Inc.	2.0%
Total % of Portfolio	**22.9%**

[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 9/30/2022.

Markets and Performance

Performance for the global equity markets overall returned negative results for the third quarter. The Global Equity Income benchmarks (the S&P Global 1200 Index and the S&P 500 Index) ended the quarter with returns of -6.81% and -4.89%, respectively. Dividend stocks overall underperformed the general equity market. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned -8.99%. The Global Equity Income model portfolio underperformed the S&P Global 1200 Index but slightly outperformed the MSCI World High Dividend Yield Index for the quarter returning -8.78%.

Positive and Negative Contributors to Performance

Positive relative performance for the quarter was led by Petroleo Brasileiro SA (2.1% of total net assets) which jumped 25.49% on strong second quarter earnings that beat analyst estimates. Higher oil prices and solid downstream results more than offset rising costs. The company is riding high on its impressive portfolio particularly in the country's pre-salt reservoirs. This will allow the company to maintain its high production growth profile for many years to come. Management's cost containment efforts and divestment plans have also helped improve its debt profile over the past few quarters. Williams-Sonoma, Inc. (1.5% of total net assets) shares climbed 6.81% and are outperforming their industry peers as the company has been benefitting from the enhancement of its e-commerce channel and real estate optimization strategies. Earnings and revenue have beat analyst estimates on strength across all its brands along with accelerated e-commerce growth. Management has currently been safely navigating supply chain woes along with material and labor shortages. The company has also increased its quarterly dividend by 10% and has authorized a new $1.5 billion stock repurchase plan.

Negative contributors to relative performance included HP Inc. (1.8% of total net assets) which fell -23.27% as quarter results missed estimates and forward guidance was lowered. Weaker consumer demand due to the overall current macro environment combined with continued components shortages and supply constraints pressured results. Commercial spending behavior has also started to become more cautious. While the short-term outlook is weak, the longer-term demand forecast is much more favorable and will be driven by the now accepted hybrid work from home model as well as increased virtual interaction going forward. Shares of Canadian based information management software provider Open Text Corp, (1.2% of total net assets) dropped -29.57% after announcing plans to acquire Micro Focus for $6 billion. Positives to the acquisition include a good purchase price that reflects a low price to earnings multiple. Negatives include a higher risk relating to the additional debt required to fund the acquisition. Also, Micro Focus would not increase the overall organic growth rate once the two companies are combined. Further analysis will be required as more information becomes available.

Looking Ahead

Inflation and the Federal Reserve are clearly the near term primary economic drivers with interest rates rising at a rate not seen in decades. The higher rates will slow the economy and likely reduce corporate earnings at the same time. This will continue to put pressure on the equity markets until inflation indicators begin to cool and the current tightening of monetary policy can come to a foreseeable end. Global Equity Income's dividend strategy is well positioned in this environment with its lower than market risk profile and its higher current income yield to ride out this period of increased market volatility.

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.

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