



CROSSMARKGLOBAL.COM

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# GLOBAL EQUITY INCOME COMMENTARY

## Performance

The third quarter ended with significant positive returns overall in the U.S., continuing the momentum from the previous quarter. International equities however, continued to trail domestic returns. The Global Equity Income benchmarks of the S&P Global 1200 and the S&P 500 ended the quarter with returns of 5.07% and 7.71% respectively. For global dividend index comparison purposes, the MSCI World High Dividend Yield Index returned 4.96%.

## Factors Affecting Performance

Several economic factors in the U.S. helped lift the equity market. Consumer spending was strong through the summer which supported the GDP growth estimated to come in at 3.5% for the third quarter. The most recent inflation indicators came in lower than estimated with the August consumer price index posting a weaker than expected 0.08% increase. Employment reports continue to post favorable results with wages appearing to finally increase. The Fed raised rates in September with one more hike expected this year. Wrinkles to this otherwise rosy U.S. economic picture lies mostly in what will happen with the trade policy. The headline noise hasn't impacted the economy to this point however, depending on which scenario actually plays out there could be potentially higher inflation and slower growth if a deal is not made. In Canada, the economy expanded in the second quarter at the highest rate in one year as exports climbed. A trade deal with the U.S. has finally been reached that joins the agreement that was made between Mexico and the United States. Overseas, the Eurozone as well as Japan has had some recent disappointing economic indicators. In Japan some of this was due to a series of natural disasters that have recently plagued the country. This will not change the overall view of economic growth for these areas but there may be some slight downward revisions to GDP estimates for the third quarter.

Company earnings as represented by the S&P 500 have staged a repeat performance with another 25% growth rate for the second quarter. Earnings growth for the full year of 2018 is now projected to come in at 21% reflecting another upward revision. The energy sector continues to lead the group with an estimated growth rate of 98%. All sectors are estimated to have positive growth rates for the year.

## CROSSMARK STWARD GLOBAL EQUITY INCOME FUND

Institutional (SGISX)

BEST GLOBAL  
EQUITY INCOME  
FUND AWARD  
WINNER  
FOR 5-YEAR PERIOD



2018  
**THOMSON REUTERS**  
**LIPPER FUND AWARDS**  
UNITED STATES  
FOURTH CONSECUTIVE YEAR

Thomson Reuters recognized the Crossmark Steward Global Equity Income Fund at the U.S. Lipper Fund Awards on February 27, 2018 for delivering consistently strong risk-adjusted performance relative to its peers in the Global Equity Income Funds category for the three-year and five-year periods ending 11/30/2017. The number of peer funds included in the category was 36 for the three-year category and 31 for the five-year category. Each award was based on the Fund achieving the highest Lipper Leader for Consistent Return (Effective Return Net of Expenses) value over the stated time period.

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The Global Equity Income strategy underperformed the S&P Global 1200 and the MSCI World High Dividend Yield Index for the third quarter after outperforming both benchmarks for the previous three consecutive quarters. The portfolio equity allocation at the end of the period was 61% U.S. and 39% international. Positive relative performance in the third quarter was led by Taiwan Semiconductor Manufacturing Co. +20.79% which rebounded sharply after being the worst relative performer in the previous quarter. Reported second quarter revenue came in higher than analyst estimates with both gross margin and operating margin accurately predicted by the company's previous guidance. Encompass Health Corp. +15.51% shares rose as the company reported solid operating and financial results with higher profits and sales than estimated. The company consequently revised their full year guidance upward for 2018 based on first half results. The board of directors also approved an 8% dividend payout increase. Shares of Medtronic plc +16.17% jumped following its quarterly earnings results. The stock recorded its largest single-day gain in seven years. Both earnings and revenue beat analyst estimates. Margins expanded on firm organic growth which is expected to continue through the fiscal year. The expansion was achieved despite funds being reinvested in cardiovascular and diabetes trials that should support additional revenue growth.

Negative contributors to relative performance included Ternium S.A. -13.01%, a Luxembourg based manufacturer of steel products, which reported earnings that were slightly below analyst estimates but beat the consensus on revenue. The company also stated that there was significant uncertainty surrounding current steel price levels in the U.S. market due to changes regarding the trade policy. Management does not expect this to adversely affect earnings or their strong margins in the near term. Extra Space Storage Inc. -12.37% shares steadily declined during the quarter reflecting the industry trend during the period. Storage space landlords are attempting to maximize revenue growth amid persistent pressure from new supply. Despite these challenges the company reported increased same-store revenue and net operating income compared to the same period last year. While the Global Equity Income strategy underperformed for the quarter, its methodology and strategy continues to be effective and performs well over the long term.

### 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.

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Top 10 Model Holdings <sup>1</sup>	Weight
1. Microsoft Corp.	2.89%
2. Automatic Data Processing	2.67%
3. McDonald's Corp.	2.40%
4. Raytheon Co.	2.35%
5. Taiwan Semiconductor Mfg Co.	2.34%
6. Quest Diagnostics, Inc.	2.18%
7. Accenture plc	2.15%
8. Unilever N V	2.11%
9. Exxon Mobil Corp.	2.08%
10. Medtronic plc	2.07%
Total of Portfolio	23.24%

<sup>1</sup> Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 9/30/2018.

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**Crossmark Global Investments, Inc.**  
15375 Memorial Drive, Suite 200, Houston, TX 77079  
888.845.6910 [advisorsolutions@crossmarkglobal.com](mailto:advisorsolutions@crossmarkglobal.com)  
[crossmarkglobal.com](http://crossmarkglobal.com)

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For more information contact our  
Advisor Solutions Group:  
[advisorsolutions@crossmarkglobal.com](mailto:advisorsolutions@crossmarkglobal.com)  
888-845-6910