LARGE CAP CORE GROWTH

Large Cap Core Growth is a separately managed account investment strategy

Commentary – 3/31/2019

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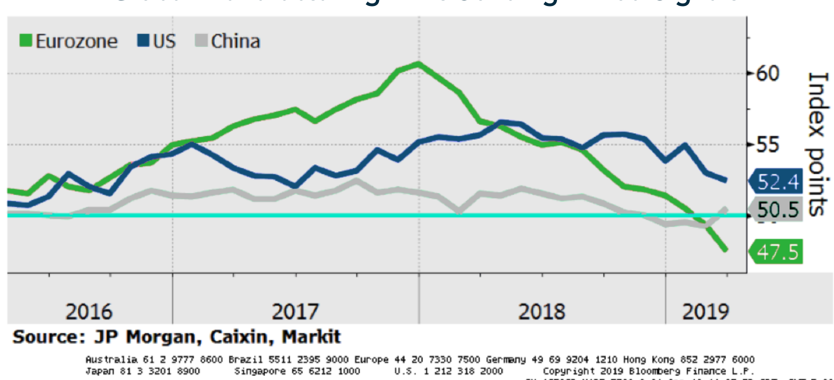
- Stocks rallied back in the first quarter
- The US economy has slowed a bit in recent weeks but continues to outperform the rest of the world.
- Manufacturing PMIs have been falling with the Eurozone dropping into contraction
- We are quite constructive on the markets and expect to see new highs in the next few months

In the first quarter the stock market came roaring back from a disastrous fourth quarter of 2018. The S&P 500 declined 13.97% over the period and December alone fell 9.18%, for its worst showing since 1931. We believe the results were somewhat tied to tax selling where investors take losses just before year end to lock in a tax loss for the year. This action can push stocks down to attractive valuations that can drive a wave of buying at the start of the new year. This appears to be at least part of the story as stocks rallied back in the first quarter. In what is virtually a mirror image, the market has rebounded 13.65% for the first three months of 2019 (although the S&P 500 stopped 3.29% from hitting a new high). The other force driving the markets was a new, softer tone coming from the Federal Reserve. In March, the Fed Chair Powell announced that they would be unlikely to raise rates again in 2019, leaving the policy rate unchanged at 2.25%-2.50%. Ten year rates responded by falling from 2.76% at the beginning of the month down to 2.31% near month's end. Stock markets had already been rallying in anticipation of such a move.

The markets did climb a "wall of worry" during the rally, including concerns of a trade war, slowing earnings as last year's tax cuts made their anniversary, and more fears of Brexit's impact and China's slowdown. The US economy has slowed a bit in recent weeks but continues to outperform the rest of the world.

As the chart illustrates, manufacturing PMIs have been falling with the Eurozone dropping into contraction (a reading below 50 indicates a contracting economy) and China, after a period on contraction, is peaking its head just above 50. The US number, at 52.4, is indicating slow but steady growth domestically. Other statistics indicate that the US is still in good shape. The unemployment rate came in at 3.8%, spot on with February's number and the initial jobless claims for the end of March posted the lowest number since November 1969 at 202,000. These claims generally start to move up before a recession starts. Auto sales look pretty solid too. Sales increased 5.3% in March for a 17.5 million annual rate.

Global Manufacturing PMIs Sending Mixed Signals



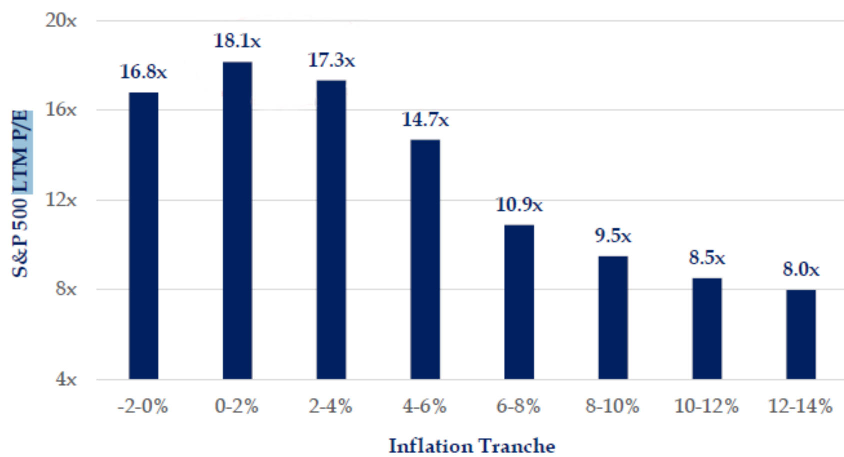
Source: JP Morgan, Caixin, Markit

With the reversal of the fourth quarter market action, much of it driven by tax considerations, the Large Cap Core Growth Model struggled in the first quarter, at least versus our Russell 1000 Growth benchmark, which was on steroids during the period. It closed the quarter over 300 basis points higher than LCCG as tech stocks soared. The core portion of our portfolio model held us back a bit. The top performing sector for our model was Energy, which benefited from a significant rally in crude oil as well as Permian-fueled output gains. Brent crude jumped about 35% over the period. This was followed by Materials which was driven by a strong performance by Ecolab. On the other side of the equation, Financials and Consumer Staples brought up the rear while game maker Activision and Amdocs stumbled. We made several adjustments to the model over the quarter including: (1) we sold Constellation Brands after weak guidance (2) Bought Facebook and VMWare to increase technology exposure (3) Sold Activision Blizzard due to poor price action, weak numbers and extreme weakness in the video gaming industry (4) Purchased both Estee Lauder and McDonald's.

> "The markets have covered a lot of ground over the last six months but at the end of March the S&P 500 has not changed much from a price perspective."

Corporate profits growth will face a tough test in 2019 due to the anniversary of last year's corporate tax cuts. Last year's first quarter growth rate was artificially boosted through the tax cut compared to 2017's first quarter. The tax cut has now hit its anniversary, so 1Q19 growth will pale by comparison. First quarter earnings results for the S&P 500 are expected to be down 3.9% on revenue growth of 4.8%. The Utilities Sector is expected to be the strongest in terms of EPS growth at 4.6%. Healthcare is expected to take second place out of the eleven sectors at 4.0% growth. Bringing up the rear is the Energy Sector due to a decline in energy price compared with last year's 1st quarter and Materials, which is also expected to show a decline. The tough tax comparison has been expected and is hopefully already baked into the cake. For the full year 2019, earnings are expected to increase 3.7% on sales growth of 4.9%. While not terrific, at least we are moving in the right direction.

Average S&P 500 LTM P/E by CPI Y/Y Tranche (1950 - Current)



Source: Strategas

The markets have covered a lot of ground over the last six months but at the end of March the S&P 500 has not changed much from a price perspective. The Price/Earnings ratio currently stands at 16.3x on a forward twelve month basis. That is about three P/E points below its peak in December of 2017. We think there is upside to the markets now that the Federal Reserve has changed its tune and decided against raising rates anytime soon. Some have speculated that the next move will be a rate cut and the administration is certainly in the rate cut camp. Studies show that with interest rates low and inflation also low, the S&P 500 could trade at an 18x multiple or higher. Our philosophy has always been "don't fight the fed" so we are quite constructive on the markets and expect to see new highs in the next few months. Our S&P 500 target based on EPS of $172 and an 18x multiple is 3100.

Top 10 Model Holdings [1]

Microsoft Corp.
Apple, Inc.
Alphabet Class C
Cisco Systems, Inc.
CDW Corp.
Home Depot, Inc.
O'Reilly Automotive, Inc.
JP Morgan Chase & Co.
UnitedHealth Group, Inc
Honeywell Intl, Inc.

% of Total Portfolio: 39%

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 $4.9 billion in AUM.

[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 3/31/2019.

Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888-845-6910

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