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LARGE CAP CORE GROWTH COMMENTARY

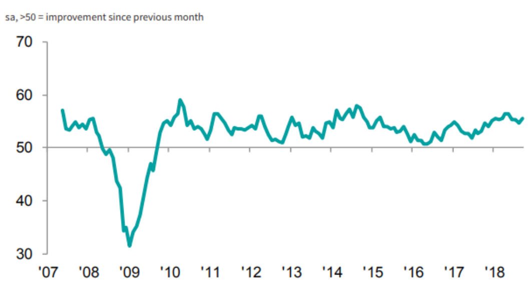
September marked the sixth straight month of positive returns for the S&P 500. For the just completed quarter, the index was up an impressive 7.71%; it's best result since the final quarter of 2013. It also marked the eleventh gain in the last twelve quarters. In a very bullish development, the S&P 500 finally broke out to a new all-time high in late August. It followed the NASDAQ, the smaller cap Russell 2000 Index, and the Advance/Decline Line (a well-known technical indicator) which had already plowed on to new highs. The Russell 1000 Growth Index, our benchmark, led the S&P 500 by a couple of months in making a new high. It also posted an impressive 9.17% return for third quarter. Our Large Cap Core Growth Model actually bested both the S&P 500 and the Russell Growth Index for the three month period. With several important indexes at new highs, the markets are said to be "in gear" which is another bullish development. Also notable, Apple became the first U.S. company to join the "four comma club" as its market capitalization crossed the one trillion dollar mark. Not bad for a company that was teetering on bankruptcy some years back, before Steve Jobs worked his magic. And the bull market that began in March 2009 became the longest bull in history in August when it passed the 113.4 month mark and with few signs of it or the economy slowing down.

Turning to our Large Cap Core Growth Model, our best performing sectors were Healthcare and Technology, up 14.03% and 12.53% respectively. However, we were underweight the tech-heavy Russell 1000 Growth's tech sector so despite strong performance we lost some basis points from it. On the flip side. Our lagging sectors were Energy and Staples, up .50% and 1.28% respectively. As for individual stocks, our top performing stock was O'Reilly Automotive, up 26.96% on a superb second quarter report and outlook. Eli Lilly came in a close second gaining 26.45% after reporting a strong second quarter and boosting full year guidance. Laggards for the third quarter were Yum China, down 13.16% and Polaris Industries, down 12.29%. Several adjustments were made to the portfolio during the period including swapping out Tapestry for Ross Stores and swapping Polaris into O'Reilly Automotive. We also sold Microchip and trimmed our position in Constellation Brands. We initiated positions in the smaller, faster-growing Palo Alto, Intuitive Surgical and Square, Inc. Near the end of the quarter we also eliminated Yum China from the model.

- For the second quarter, the markets settled down a bit and the S&P 500 scored a nice 3.43% gain for the period.
- Despite talk of a trade war, the U.S. economy continues to hum along.
- For the first time since record-keeping started, the number of jobs available exceeded the number of unemployed.

Looking at the economy, the U.S. continues to fire on all eight cylinders despite talk of a trade war. In fact the chairman of the Federal Reserve, Jerome Powell, recently commented that we are enjoying a "remarkably positive outlook" and noted that "this historically rare pairing of steady, low inflation and very low unemployment is a testament to the fact we remain in extraordinary times." Currently both the manufacturing PMI and the service PMI are running well above the key 50 level, indicating both sides of the economy are in expansion mode. The just released Markit PMI numbers for September reveal that the manufacturing PMI came in at 55.6, up from 54.7 in August and a four month high. The service PMI posted at 53.5, a bit weaker than the 54.8 result from August and the weakest growth since January (but still well above 50).

Manufacturing PMI



Service PMI

Source: IHS Markit

Businesses and consumers remain quite optimistic. Business sentiment (NFIB) recently hit an all-time high while consumer confidence is at its highest level in 18 years. Looking at the employment situation, recent initial unemployment claims are at levels so low they haven't been seen since the late 1960s when the U.S. population was much lower. The September unemployment report improved to 3.7% from 3.9% in August, and this is considered to be basically full employment. The last time the unemployment rate was this low the U.S. was putting a man on the moon in 1969. The most recent GDP number, the second quarter, came in at a brisk 4.2% pace and estimates for the third quarter are in the 3.5% area. Two weaker indicators currently are home sales and auto sales which have recently slowed. Note that they are both highly sensitive to rising interest rates which are being pushed up by the Federal Reserve and a red hot economy. Also, the Fed recently changed its wording on Federal policy by removing the word "accommodative." Hopefully, these are not the "canaries in the coal mine" as some economists believe this economy is too good to last.

Strong corporate earnings should continue to provide a tailwind for stocks. Currently, the S&P 500 consensus expectations for the third quarter are for earnings growth of a robust 19.3%, which would mark the third highest growth rate since the first quarter of 2011. That follows 25% and 24% in the first and second quarters, respectively, so we certainly are having a banner year earnings-wise (with much help from the big corporate tax cuts earlier this year). For the full year, consensus estimates are for earnings growth of about 20%. At the sector level, energy is expected to report EPS growth of just over 100% followed by financials, up about 41% and materials, up about 29%. Bringing up the rear are utilities at about 5%, real estate with a gain of just over 4% and staples at about 7.5%.

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With strong earnings growth the current S&P 500 PE ratio is only about 16.8x, about three PE points below its peak level in December 2017, so there is some cushion from that perspective. One issue that concerns us is that earnings growth appears to be peaking this quarter and certainly will be at a lower rate next year. In the first quarter next year we will have gone a full year since the tax cuts, making quarterly comparisons much tougher. We expect growth to fall to 10% for 2019, which is normally good reading, but a big deceleration from 2018 and at a time when we expect rates to be rising. This could definitely cause some investors to take profits leading to a sideways to down consolidation for stocks. We will be watching this phenomenon closely as it develops.

Top 10 Model Holdings [1] Weight

1.	Microsoft Corp.	6.04%
2.	Apple, Inc.	5.75%
3.	Home Depot, Inc.	3.66%
4.	JP Morgan Chase & Co.	3.37%
5.	Cisco Systems, Inc.	3.20%
6.	CDW Corp.	3.18%
7.	UnitedHealth Group, Inc.	3.17%
8.	Honeywell Intl, Inc.	3.03%
9.	O'Reilly Automotive, Inc.	3.00%
10.	Harris Corp.	2.92%
Total of Portfolio		37.32%

[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 9/30/2018.

About Crossmark's 30 Year History

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 we 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 $5.2 billion in AUM.

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