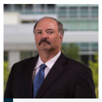
CROSSMARK
GLOBAL INVESTMENTS

QUARTERLY UPDATE: 1Q 2021
MUNICIPAL FIXED INCOME COMMENTARY

Municipal Fixed Income is a separately managed account investment strategy



written by
Patrick Garboden, Sr. Portfolio Manager

Markets and Performance

The ratio of municipal bond yields to Treasury yields decoupled again in the first quarter. U.S. Treasury yields rose along most of the yield curve, while investment-grade municipal bond yields remained stubbornly close to year-end levels. Historically, the municipal bond yield ratio averages about 85% of comparable Treasuries, but the decoupling between 10-year municipal bonds and 10-year Treasuries began in January 2021 and accelerated through the middle of February when the ratio hit a historical low at 58%. This ratio has since moved to 64% to end the first quarter. While there was a rebound in municipal bond pricing in March, the benchmark remains in negative territory although outperforming other fixed income sectors. It is no surprise that even though municipal bond issuance was down 15% and 17% in January and February respectively, new issue volume for March was up 179% year-over-year due to very low levels at the beginning of the pandemic.

Positive and Negative Contributors to Performance

The Municipal Fixed Income model portfolio outperformed the Barclay's Quality Intermediate Municipal Index for the first quarter of 2021, returning +0.07% vs (0.45%) for the index. Lower quality credit names had more stabilization in pricing during the quarter, supported by investors searching those segments of the market for higher yields. Focusing on higher quality names was a mild negative for the model performance. However, with the rising interest rate environment we experienced during the quarter, having a shorter duration was a strong positive contributor to the outperformance of the model as compared to the index.

Looking Ahead

In the coming quarter, volatility could increase as concerns ranging from inflation, proposed tax changes, changes in the U.S. dollar, and declining credit ratings have the ability to push rates higher while the FOMC holds short-term rates low. As mentioned above, we saw municipal issuance increase during the month of March. Municipal bond supply could continue to increase during April and May with new issuance possibly outpacing the total amount of bonds being called or maturing during the same period. This could widen spreads throughout the quarter. Due to recent stimulus issuance, potential volatility, supply/demand issues and credit rating changes, another dislocation of the municipal bond sector from other fixed income sectors (similar to March 2020) is possible. With these factors in play, we continue to find value in the municipal secondary market. We favor bonds rated A or better by Moody's or S&P at time of purchase and involved with essential services like water, sewer, power, streets, highways, public school education and general obligations. We prefer maturities in the 8-year to 20-year range with call features between 2024 and 2027. The Crossmark Global Investments Municipal strategy will hold a shorter duration than the Barclay's Quality Intermediate Municipal Index with a focus on higher quality municipalities.

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Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888.845.6910

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