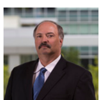
QUARTERLY UPDATE: 1Q 2022
MUNICIPAL FIXED INCOME COMMENTARY

Separately Managed Account



written by
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Markets and Performance

Municipal bonds ended the quarter in a perceived oversold position. Federal Reserve Chair Jerome Powell's hawkish comments triggered a tumble in all fixed income sectors as the U.S. central bank seeks to tame the worst inflation in 40 years. Municipal bond mutual funds and ETFs have witnessed net outflows for the last ten weeks of the quarter totaling \$25.4 billion, resulting in the worst quarter since 1994 (according to Bloomberg indexes).

Positive and Negative Contributors to Performance

The Municipal Fixed Income model portfolio posted a loss of -2.38% for the quarter ending March 31, versus a loss of -5.12% for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit with premium coupons positively contributed to the model portfolio's performance. Lower coupon bonds in the Index declined more than premium coupon bonds held in the model, as municipal bond rates moved considerably higher this year. The shorter duration positioning of the Strategy was also a positive contributor to performance versus the Index in the first quarter, as inflationary concerns have forced the Federal Reserve to turn hawkish. The short maturity of the municipal bond market was a negative last quarter, as short rates moved higher at a quicker pace than the intermediate or long end of the curve.

Looking Ahead

The municipal bond landscape has changed considerably, with increased volatility due to expected Fed rate hike plans, more new issuance from a stronger municipal sector (trying to lock in lower rates), and recent outflows in municipal bond mutual fund and ETF ownership. Outflows over the past ten weeks may have created an oversold situation and could be an opportunity to acquire municipal bonds at favorable levels not seen since March of 2020. Daily secondary bid list volume in 2021 averaged \$8.6 billion (par value). So far, in 2022, the daily bid rate has moved up to \$10.1 billion. A larger bid list volume is the result of fund outflows. While some excess inventory will be reduced in April 2022, it may not be enough to support higher bond prices near term. Redemptions from matured, pre-refunded, called bonds and interest are anticipated to total just \$30 billion – the second-lowest redemption for the year. Municipal bond credit is being strengthened by solid tax revenue and economic themes led by the housing market (the basis for general obligation bond revenue). Housing prices are higher in every state, with Phoenix, Arizona leading the pack with appreciation exceeding 30%. Washington, D.C. is last on the list but still recorded a solid 11% increase. State, city, and municipality stimulus also contributed to substantial financial gains. Crossmark continues to find value in the secondary municipal market with bonds rated A or better by Moody's, Standard & Poors, or Fitch at the time of purchase and involved with essential services like water, sewer, power, streets, highways, public education, and general obligations. Our Strategy focuses on maturities in the seven to twenty-year range with call features between 2024 and 2027. The maturity curve is inverted beyond 2027, so calls past that date are not as attractive as they might be later in the year. The Strategy will continue to utilize shorter duration positioning than the benchmark index as the Fed continues its battle with inflation, focusing on higher-quality municipalities with the goal to move duration longer once the interest rate curve normalizes.

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