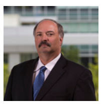
MUNICIPAL FIXED INCOME

COMMENTARY | QUARTERLY UPDATE: 1Q 2023

Separately Managed Account



written by
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Markets and Performance

Municipal bonds have experienced jagged swings and volatility to end the first quarter of 2023. A Jekyll and Hyde opening quarter of the year as January prices rallied, February sold off and March rallied once again bringing generic yields slightly above where January closed out. March's trade produced a 25-50 basis point rally, primarily due to banking concerns. The best performing final maturity area has been between 2030 and 2035, where separately managed accounts, ETFs, funds and money manager flows have been the focus. Municipal bond mutual funds have witnessed net outflows over the last 8 weeks to end the first quarter, according to Bloomberg indexes.

Positive and Negative Contributors to Performance

The Crossmark Municipal Fixed Income composite posted a gain of 1.69% for the quarter ending March 31, 2023 versus a gain of 2.08% for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit with a premium coupon positively contributed to the composite portfolio's performance. However, this high-quality focus proved to be a negative for the strategy compared to the benchmark as credit has shown greater performance in single-A and BBB-rated bonds than in the upper investment grade categories. For 1Q23, a BBB index is up 3.5% and a single-A index has gained 2.8%, well ahead of the AA- Crossmark Municipal Fixed Income average composite credit rates. The Crossmark Municipal Fixed Income strategy will continue to focus on the higher quality rated municipal bonds as a conservative hedge against potential declines in the economy of the future. The shorter duration positioning of the Strategy was a negative contributor to performance versus the index in 1Q23 as the FOMC delivered another rate increase in an attempt to slow stubbornly high inflation. Shorter duration of the municipal bond market was heavily preferred during 1Q23 by investors.

Looking Ahead

The market volatility surrounding the banking failures in March changed the landscape considerably as the rush to safety pushed municipal bond yields to lower levels. It may take some time for normalization to occur if the banking sector remains stable as we enter the normal May and June slowdown of municipal new issuance. Municipal bond volatility, primarily from municipal bond mutual funds net outflow positions could continue to be an opportunity to acquire municipal bonds at favorable levels for Separately Managed Accounts (SMA) and patient investors in 2Q23. April redemptions from called, maturing and interest is scheduled to be $24.8 Billion which will be the smallest monthly redemption for the calendar year. Investors and traders have been speculating when the FOMC will "flip" from rate hikes to rate cuts while the FOMC has done their best to temper speculation with hawkish discussions of holding interest rates "higher for longer" to fight inflation. The FOMC will be steady in the first half of 2023 with a potential pause after the May meeting as investors and traders will be impatient as inflation and economic data levels decline. Eventually FOMC members will begin to fracture the hawkish line sometime in late 2023 or early 2024 if they stand data dependent. Volatility will increase for fixed income allowing some nimble portfolio managers to sell shorter duration bonds and lower quality into strength while taking advantage of lower pricing periods to reinvest cash, called and maturing bonds during the year.

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 2027 and 2034. The municipal bond yield curve has increased in the five to twelve-year maturities making these call features an ideal area to focus on during volatile periods. The Strategy will utilize longer duration positioning than the benchmark index on reinvestments as the FOMC continues their rate hike battle with inflation, focusing on higher-quality municipalities with a goal to move duration longer as the interest rate curve normalizes.

Crossmark uses a model account to manage the individual client accounts that have selected this investment strategy. All performance information shown is composite performance derived from the aggregate of all accounts included in the composite.

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Municipal Fixed Income (Wrap) - Gross	1.69%	1.69%	1.35%	0.50%	1.37%	1.46%
Municipal Fixed Income (Wrap) - Net*	0.94%	0.94%	-1.66%	-2.49%	-1.64%	-1.55%
Bloomberg Municipal Quality Intermediate	2.08%	2.08%	2.04%	0.64%	1.96%	1.93%

* Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00% by deducting .75% from the last month of each quarter. Gross performance is shown as supplemental information and is stated as pure gross of all fees as the returns have not been reduced by transaction costs. Wrap fees include Crossmark's portfolio management fee as well as all charges for trading costs, custody, and other administrative fees. Due to the effect of compounding, annual returns shown net of fees may be lower than the return that would be shown if the fee were deducted from the gross return at a single point in time.

Our Firm

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Municipal Fixed Income strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk). Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

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Crossmark claims compliance with the Global Investment Performance Standards (GIPS®). Prospective clients can obtain a GIPS Composite Report by sending a request to: advisorsolutions@crossmarkglobal.com.

The U.S. Dollar is the currency used to express performance. The performance reflects the reinvestment of dividends and other earnings to the extent that client accounts included in the composite elected to reinvest dividends and earnings. Performance figures shown gross of fees do not reflect the payment of investment advisory fees.

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