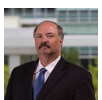
CROSSMARK GLOBAL INVESTMENTS

QUARTERLY UPDATE: 2Q 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

According to data compiled by Bloomberg, state and local municipalities issued a record amount of debt during the first six months of 2021. Even with record new issuance, demand from individuals has resulted in nearly $2 billion per week flowing into municipal bond mutual funds and Exchange Traded Funds. Investors are seeking a tax haven as the Biden administration pushes to raise income taxes on the highest earners and potentially increase the corporate rate tax from 21 percent to 28 percent. This demand, coupled with typical reinvestment from interest and maturity payments, is driving municipal debt to positive returns even as other bond market sectors are down for the year.

Positive and Negative Contributors to Performance

The Crossmark Municipal Fixed Income model portfolio returned 0.43% for the quarter ending June 30 versus 0.62% for the Barclays Quality Intermediate Municipal Index. Investing in high-quality credit was a mild negative contributor to performance for the model portfolio as most investors searched for lower-quality credit offering wider spreads. This demand strengthened those prices during the quarter as compared to higher-quality credit issues. The shorter duration positioning of the Strategy was a positive contributor to performance during April and May as concern over potential higher inflation became more pronounced. However, this positioning became a negative during June as low seasonal new issuance gave way to more robust pricing on longer duration bonds. Airport and transportation sectors were positive contributors to performance in the second quarter as spreads narrowed.

Looking Ahead

Most municipalities have a fiscal year ending June 30, resulting in lower new issuance during and immediately after the budget process. As we enter a period of reduced issuance combined with continuing calls and maturities, spreads could narrow at the beginning of July but begin to widen later in the quarter as new issuance normalizes. These seasonal supply/demand pressures may limit the level of price discounts (to current valuation) available in the market until later in the quarter. We continue to find value in the municipal secondary 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 is focusing on maturities in the seven to 20-year range with call features between 2024 and 2030. The Strategy will continue to utilize shorter duration positioning than the benchmark index, focusing on higher-quality municipalities.

Our Firm

Crossmark Global Investments is a faith-based investment management firm that provides a full suite of investment strategies to institutional investors, financial advisors, and the clients they serve. For over 30 years we have delivered uniquely constructed products based on our proprietary, disciplined, and repeatable process. We are especially known for helping our clients align their investments with their values by creating socially conscious, responsible investment strategies. Founded in 1987, we are headquartered in Houston, Texas.

Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888.845.6910

Crossmark Global Investments, Inc. (Crossmark) is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

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).

These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

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