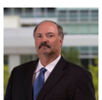
CROSSMARK GLOBAL INVESTMENTS

MUNICIPAL FIXED INCOME COMMENTARY 3Q 2020

Municipal Fixed Income is a separately managed account investment strategy



written by
Patrick Garboden, Sr. Portfolio Manager

Now Looking Ahead

The Municipal Fixed Income SMA program team has traditionally used the quarterly commentary to provide a rear-view mirror image of the prior quarter while providing some limited insight into potential changes going forward. We have received numerous requests of late for our team to offer more analysis looking ahead into the next quarter and beyond. We appreciate this feedback, and as a result, this issue (and those going forward) will refocus in order to briefly highlight past historical events, but also include the Portfolio Manager's view on likely market trends, potential opportunities and personal observations. We hope you find our new commentary valuable, and feel free to let us know what you think.

Increased Third Quarter Issuance

Historically, July and August represent months of reduced issuance of new municipal bonds, with September supply typically about average. This past quarter was unusual - with interest rates at such low levels, underwriters strongly urged municipalities to take advantage of these rates while satisfying current and future project funding needs. August issuance was stronger than usual, keeping yields steady even as Treasury yields dropped, and this continued into September, with new issuance totaling $47.28 billion, a 26 percent increase over the year-ago period.

COVID-Related Credit Impacts

There were plenty of sectors experiencing credit events in the third quarter. Transportation, hospitals, healthcare, retirement centers, assisted living, hotels, convention facilities, housing, prisons and smaller educational municipalities all experienced either a credit rate downgrade or are now under (negative) review. Once robust revenue streams have been significantly impacted for nearly all municipalities, increasing the likelihood of credit ratings continuing to trend lower until we have more visibility into when the pandemic might abate and the economy could return to some new version of normal. In our opinion, the best protection for tax exempt income is to remain in high-quality, essential service and general obligation municipal bonds. These continue to be one of the safest fixed income investments - second only to Treasuries. At the time of this commentary, municipal bonds continue to produce a greater percentage of income (compared to past averages) compared to Treasury bonds.

Be Careful What You Wish For - PM Comments

The following insights and comments are those of the Portfolio Manager and may not align with Crossmark Global Investments or other investment firm views. There are no explicit or implied guarantees or assurances that any insights into the future could become fact.

- Volatility could spike.
  There is the possibility that concerns about the upcoming elections, COVID-19 challenges, high unemployment, revenue and earnings surprises could convince retail muni investors to sell.

- Bid/ask spreads could widen.
  Increasing supply and flat demand could force bids lower while ask prices remain flat, move higher or drop more slowly than bid prices.

- Duration could be forced longer.
  Short-term rates are already near historical lows, and the Federal Open Market Committee has publicly committed to keeping short-term interest rates low until inflation meets or exceeds their expectations.

- New issuance could exceed demand.
  There is evidence that portions of new September issues have not been fully sold in the primary market. Firms tasked with selling these new bonds are holding what did not sell initially in their inventory, reducing firm capital normally used for secondary purchases. Bid/ask spreads have a tendency to widen during these conditions. Also, underwriters will urge municipalities to sell bonds with rates so low in an attempt to increase new issuance.

- Credit downgrades could exceed upgrades.
  The growing number of issues on negative watch since March 2020 could accelerate, as could actual downgrades. Look for the next round of downgrades to have the most impact at the local and state level until revenues rebound. Investors have a tendency to forget there has been nearly a decade of more upgrades than downgrades as municipalities diligently improved their financials.

- Positive flows into muni funds and ETFs could reverse.
  Individual municipal bond mutual fund shareholders tend to be momentum driven, so when prices rise they create positive inflows but when prices decline they tend to liquidate. This would further increase supply in the secondary market.

- Watch for opportunities to purchase high quality bonds at a discount.
  The days leading up to and following a Presidential election could change investor perceptions of risk and benefit. Volatility, supply/demand concerns, credit rating changes and a host of other disruptions could result in a dislocation of the municipal bond sector from other fixed income sectors - similar to what was witnessed in March 2020. But if this occurs, the impact might not be as long lasting as it was in March.
  If these opportunities arise, Crossmark Global Investments Municipal Fixed Income portfolios will take advantage and extend duration with high quality municipal bonds. Municipal bonds remain an excellent choice for fixed income investors.

Secondary Market Value Still Exists

Crossmark Global Investments continues to find value in the municipal secondary market with bonds rated A or better by Moody's or Standard & Poor's involved with essential services like water, sewer, power, streets, highways, school education and general obligations. The ideal maturities on the yield curve have moved to the 8 to 20 year range with a call feature between 2024 and 2027. We limit maturities to 20 years, and continue to hold a shorter duration than the Barclay's Quality Intermediate Municipal Index with a focus on higher quality municipalities. Crossmark Global Investments continues to use municipal bond market volatility to opportunistically manage the portfolios entrusted to us.

Our Firm

Crossmark Global Investments is a boutique 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. 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. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement (Form ADV Parts 2A and 2B) 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