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September 30, 2018

MUNICIPAL FIXED INCOME COMMENTARY

Crossmark Global Investments is aggressively buying municipal bonds heading into 4Q18 for called bonds, maturing bonds and deposits to existing or new accounts. Interest rates are working their way to the top of the anticipated trading range on the 10-year Treasury around 3.25 percent. Municipal bonds have adjusted accordingly with additional pressure from individual investors selling of municipal bond mutual funds and ETFs as the quarter came to a close as well as an increase in new issues coming to the market. With favorable pricing that we have not seen since 2011, we are focusing on extending duration on called bonds, maturing bonds and new deposits. Municipal bond inventory is sufficient, fairly priced and reinforces why Crossmark Global Investments is an aggressive buyer.

Crossmark Global Investment's Municipal Bond portfolios have outperformed the benchmark index and continue to show a positive return for 3Q18. Fortunately, Crossmark's municipal bond discipline to maintain short duration for all portfolios has cushioned investors from the decline of value shown in the Bloomberg Barclays Quality Intermediate Municipal Bond Index. Our municipal bond portfolios are well positioned with several holdings with 2019 and 2020 call features. If bonds are called nearing Federal Open Market Committee (FOMC) rate hikes, proceeds will be reinvested at presumed higher rates. If bonds are not called, then the kicker feature begins and current holdings could outperform the gradual rise in interest rates. Crossmark Global Investment's separately managed account municipal bond portfolio duration is considerably shorter than the index resulting in favorable performance when compared to longer durations in rising interest rate environments. Should interest rates continue to rise, consideration will be given to increase duration in the SMA portfolios.

FOMC guidance is for a rate hike in December 2018, three hikes in 2019 and two in 2020. That guidance may be aggressive in light of positive GDP growth and the Portfolio Manager factoring in a total of three hikes left (including December which is already factored in), if that, depending on a lot of economic growth factors. If inflation surprises on the growth side, then adjusting two rate hikes back into the calculation may be warranted.

The FOMC has done a good job of maintaining a gradual pace of rate hikes and appears they want to simulate 1994 when they increased interest rates by 300 bp in a 12 month period (to a high of 6.00% on Fed Funds) but did not induce a recession. The 1994 through 1995 FOMC tightening is one of the few periods when the FOMC did not exceed

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the nominal rate which historically produces a recession in following months. The difference of the 1994-1995 cycle is that the FOMC brought Fed Fund rates up just the right amount, at the right pace, until it touched the neutral rate and no more resulting in an economy that avoided a recession. In past FOMC rate hikes, the Fed forecasted rising inflation faster than it actually occurred, and the hikes exceeded the neutral rate. In the current period, FOMC appears to be forecasting low inflation growth while gradually increasing short-term Fed Funds rates towards the neutral rate. If the FOMC follows a similar path as they did in 1994, they could achieve keeping inflation under control while not compromising economic growth. The FOMC has a narrow path to follow but has so far kept inflation low during an economic recovery as they increased rates. They have also publically stated they would allow inflation to exceed their target for a short period of time so as not to raise rates too high or too fast. The yield curve flattened in 1994 as it is in the current environment but has done so at a much slower pace due to the slower pace of tightening. If the FOMC can repeat 1994 monetary policy, the Fed may remain friendly to both equities and bonds in this cycle.

If individuals own High Yield fixed income investments, (corporate, municipal and emerging markets) those investments have performed well since 2016 but the spreads between high yields compared to investment grade yields have moved to historically narrow levels. The risk going forward on high yield investments may exceed the rewards at these levels. High Yield fixed income investors may wish to reduce exposure by moving back to investment grade fixed income. Municipal bonds are also less exposed to foreign growth and currency exchange rates making municipal bonds an option. In summary, municipal bonds remain a solid choice for the fixed income portion of asset allocation, even when considering the lower tax brackets created during tax reform.

Crossmark Global Investments continues to find value in the municipal secondary market with bonds rated A or better 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 7 to 15 year range with a call feature between 2020 and 2024. Crossmark Global Investments continues to hold a shorter duration than the Barclay's Quality 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.

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. We provide a full suite of investment management solutions to institutional investors, financial advisors and the clients we serve. We have a multi-decade legacy of specializing in values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas and manages approximately $5.2 billion in AUM.

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