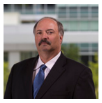
CROSSMARK GLOBAL INVESTMENTS

QUARTERLY UPDATE: 4Q 2021
MUNICIPAL FIXED INCOME COMMENTARY

Separately Managed Account



written by
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Markets and Performance

Municipal bonds held relatively stable as the U.S. Treasury market sold off at year-end, driving yields on benchmark 10-year tax-exempt debt to the highest level since late March 2021. This move jolted the calm that had cushioned the $4 trillion municipal market for most of the third quarter. After the September Federal Reserve meeting, the breakout in yields led to speculation that policymakers could begin tapering bond purchases in 2022 and raise short-term Fed Funds rates by late 2023. According to Bloomberg, state and local debt maturing in 10 years yielded 67.80% of Treasuries at year-end, compared with 73.20% at the end of the third quarter of 2021. Tax-exempt municipal bonds outperformed all other fixed-income sectors during 2021.

Positive and Negative Contributors to Performance

The Crossmark Municipal Fixed Income model portfolio returned 0.25% for the quarter ending December 31, versus 0.20% for the Bloomberg Quality Intermediate Municipal Bond Index. For the calendar year, the model portfolio returned 0.76% versus 0.33% for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit with a premium coupon positively contributed to the model portfolio's performance because lower-coupon bonds in the Index declined more than premium coupon bonds held in the model due to municipal bond rates moving slightly lower during the fourth quarter. The shorter duration positioning of the Strategy was also a positive contributor to performance last quarter, as concern grew about inflation not being as transitory as expected and the FOMC bond purchase tapering announcement. Investors remained increasingly defensive in the news-heavy quarter. However, the short duration positioning was a slight negative during the fourth quarter as cash flows into municipal bond mutual funds and ETF portfolios supported longer duration municipal bond pricing. Airport and transportation sectors continued to positively contribute to performance as spreads narrowed.

Looking Ahead

According to Federal Reserve data, municipal bond mutual funds now hold an unprecedented 24% of outstanding debt compared with 16% five years ago. Yet the amount of municipal debt held by brokers and dealers has shrunk to $12.1 billion, a 26% drop from 2019. Volatility could increase in 2022 depending on FOMC rate hike decisions, new issuance from a more robust municipal sector, and potential shifts in mutual fund ownership of municipal bonds. Should increasing volatility return to the sector, there could be opportunities to acquire municipal bonds at favorable levels. We continue to find value in the secondary municipal market with bonds rated A or better by Moody's, Standard & Poor's, 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 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.

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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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