

Municipal Fixed Income

Commentary | Quarterly update: 3Q25

Separately managed account



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Markets and performance

Municipal bonds continued to experience volatility to end 3Q25 as investment grade municipal yields moved lower for 1-3-year maturities and higher from April across 15-20-year maturities. Separately managed accounts, ETFs, funds, and money manager flows are splitting investments between the short end and the 5-10-year intermediate curve for attractive yields. The FOMC cut Fed funds short-term rates by 25 basis points (bps), with the narrative shifting to potentially one or two additional cuts by year-end depending on economic data. New issuance for 2025 is estimated to be greater than \$550 billion, which could again exceed the amount of bonds that mature and are to be called.

Positive and negative contributors to performance

Crossmark Municipal Fixed Income composite portfolio posted a gain of 2.90% for the quarter ending September 30, versus a gain of 2.46 % for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit of essential service revenue and general obligation bonds with a premium coupon outperformed the benchmark index, although BBB credit, as well as lower coupon and housing, healthcare, assisted living, and retirement centers, held up extremely well in 3Q25. September produced positive performance across all maturity pricing.

Looking ahead

Scheduled new issuance for remainder of 2025 is anticipated to produce another record year of \$550 billion or greater to the market, which could place negative price pressure, relative to other fixed income sectors, on the municipal bond market until seasonal adjustments enter into November. Municipal bonds appear to be on more positive footing as 3Q25 ends. It is possible that yields continue to stabilize or move higher on longer maturities due to the increase of record-setting new issuance. This volatility could continue to be an opportunity to establish or add to municipal bond separately managed accounts (SMAs) in 2025. The yield curve could steepen, then normalize, as the rate cycle matures, with one to two potential rate cuts before year-end. For those uncertain about the yield-curve normalization, longer duration with a 5-10-year bond call feature appears most advantageous.

Holding cash (or market timing the fixed income yields) may not be the best strategy, as cash positions usually underperform during Fed easing cycles. Opportunistically extending duration going forward may be a more favorable option than market timing.

Crossmark continues to find value in the primary and 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 12 to 20-year range with call features between late 2031 and 2035. The municipal bond yield curve has increased in the 15 to 20-year maturities, making these call features an ideal area to focus on during volatile periods. The strategy will use longer duration positioning than the benchmark index on reinvestments as the FOMC contemplates additional rate cuts in their battle with softer employment, focusing on higher-quality municipalities with a goal to move duration longer as the interest rate curve normalizes.

Composite performance (%)	Quarter	YTD	1-year	3-year	5-year	10-year	Since inception
Municipal Fixed Income (Wrap) – Gross	2.90	2.44	1.54	3.68	1.19	1.64	3.22
Municipal Fixed Income (Wrap) – Net ¹	2.15	0.20	-1.42	0.64	-1.80	-1.37	0.16
Bloomberg Quality Intermediate Municipal Index	2.46	4.23	3.11	4.31	1.07	2.06	3.50

1 Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00%, with a deduction of 0.25% from each month's return. Gross performance is shown as supplemental information and represents pure gross returns, as they have not been reduced by transaction costs or fees. Wrap fees include Crossmark's portfolio management fee, 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.

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.

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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