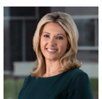
CROSSMARK GLOBAL INVESTMENTS

TAXABLE FIXED INCOME COMMENTARY 1Q 2020

Core Fixed Income, Current Income Portfolio, Intermediate Fixed Income and Income Opportunities are separately managed account investment strategies



written by
Victoria Fernandez, CFA® Chief Market Strategist

There is no doubt that a health crisis has turned into financial volatility over the past month, as markets try to gauge the effects of COVID-19. With large steps taken by central banks and governments around the world, along with a stronger financial system in the US versus our last financial crisis, we are confident that the economy will rebound, although the timing is unknown at this point. You can see from the chart below showing US 10yr treasury yields how the markets have had some wild swings so far in 2020.

US 10 yr Treasury Yield	Date
1.92%	12/31/19
1.15%	02/28/20
0.54%	03/09/20
1.20%	03/18/20
0.67%	03/31/20

Although the equity markets have dropped roughly 24% from their highs back in February, the 10yr treasury yield has dropped 65% YTD. In an environment where yields dropped so much, so fast, it is no surprise that a shorter duration positioning in the portfolios to reduce volatility from interest rate movements resulted in relative underperformance versus comparable indices for the majority of taxable fixed income strategies. For all these strategies, the shorter duration positioning and the underweight to the treasury sector were the negative contributors to performance. Our selection capabilities within the sectors combined with our yield curve placement and our income focus, were the positive contributors to performance for the first quarter of 2020.

One of the conversations we have been having recently is ensuring that investors understand that not all bonds react the same way. Even though the treasury market has rallied under “flight to quality” and even “flight to cash” investor behaviors, the concerns that have arisen from a national shutdown and the impending effect on corporations, has caused a tremendous spread widening for corporate bonds – both investment grade bonds and much more so, for high-yield bonds. With Crossmark’s focus on providing a higher level of steady income generation as compared to the indices, our overweight to the corporate sector and therefore underweight to the treasury sector was one of the largest factors for underperformance. What we must remember is that our investments are focused on high quality companies with strong balance sheets and although there may be considerable volatility currently with market prices, all of these holdings are still paying their interest and principal payments and should provide par value at maturity.

Throughout the models, the financial and oil-related bonds had the most volatility based on declining yields and the disruption around the oil market. For the Current Income Product and Income Opportunities strategies, the preferred allocation – a hybrid security structure –had increased volatility in connection with the equity markets, with Pitney Bowes being the holding with the largest downside move. In addition to preferreds, the Income Opportunities strategy has an allocation to high yield bonds and Real Estate Investment Trusts – two sectors that have been greatly affected as concerns over corporate earnings and cash flow are top of mind. We continue to monitor all of our holdings with our research team verifying cash flow activities to help us make the best decision on which companies will have the balance sheet strength to withstand what lies ahead. Our four-step investment process of duration, yield curve, sector and security selection decisions remains consistent and will help us to determine if any opportunistic strategy shifts are in the best interest of our clients as we navigate through these volatile times.

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 and manage approximately $4.3 billion in AUM as of March 31, 2020.

Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888-845-6910

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