



TAXABLE FIXED INCOME COMMENTARY | QUARTERLY UPDATE: 1Q 2023

Separately Managed Accounts (Core Fixed Income, Corporate Fixed Income, Current Income Portfolio, Intermediate Fixed Income, and Income Opportunities)



written by
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Markets and Performance

The story heading into this quarter was one of rising inflation, central bank hiking for the foreseeable future, and a call from many on Wall Street that the Federal Reserve would be able to maneuver a soft landing for the economy. As we approached the one-year mark from the first rate hike of this cycle, the “long and variable lags” that we anticipated would rear its ugly head appeared with a bang in the form of banking stress. The final month of the quarter showed tech stocks taking leadership and bond yields falling with the probability of recession moving higher.

Positive and Negative Contributors to Performance

Two of the strongest contributors to performance across all of the taxable fixed income strategies were the effects of our selection process and the level of income generated from the holdings. The overweight to the corporate allocation in our strategies, and to the preferred allocation in the Current Income Portfolio strategy, allows for elevated levels of income as compared to the respective benchmarks. Over the first quarter of the year, our duration positioning was generally the largest drag on performance versus the benchmarks, especially within the treasury sector. This caused the taxable fixed income composites to underperform their respective benchmarks for the first quarter of 2023, except for the Current Income Portfolio composite where the longer duration of the preferred allocation served as a positive for performance during the quarter. We have been extending the overall duration positioning of the strategies from our shorter positions over recent quarters in anticipation of hitting a peak in the levels of the yield curve. However, we are still slightly short and with yields dropping by such a large magnitude in such a short period of time during the month of March due to the banking issues, duration served as a drag for performance. Our positioning along the yield curve was a positive contributor to performance for all the strategies for the quarter.

Looking Ahead

The debate around a soft landing or recession continues but most will agree that the Federal Reserve is close to the end of their hiking cycle, but we don't think they are completely done. As of now, inflation is still too high and we are just now beginning to see the effects of the previous 475bps of hikes. In our opinion, this means continued volatility for the upcoming quarters and a probable recession. In such an environment, our 4-step investment process of focusing on duration, yield curve placement, sector and security selection allows us to evaluate the economy and participate in opportunistic trades as appropriate. We will continue to work towards a neutral duration positioning while maintaining an investment-grade quality portfolio.

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.

* Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00% by deducting .75% from the last month of each quarter. Gross performance is shown as supplemental information and is stated as pure gross of all fees as the returns have not been reduced by transaction costs. Wrap fees include Crossmark's portfolio management fee as well as all charges for 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.

** Net performance was calculated using actual management fees.

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Core Fixed Income (Wrap) - Gross	2.47%	2.47%	-2.12%	-0.67%	1.49%	1.65%
Core Fixed Income (Wrap) - Net*	1.72%	1.72%	-5.03%	-3.63%	-1.52%	-1.37%
Bloomberg U.S. Govt/Credit	3.17%	3.17%	-4.81%	-2.63%	1.16%	1.50%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Corporate Fixed Income (Wrap) - Gross	2.99%	2.99%	-2.79%	-0.42%	1.49%	1.84%
Corporate Fixed Income (Wrap) - Net*	2.24%	2.24%	-5.70%	-3.39%	-1.52%	-1.19%
BofA Merrill Lynch U.S. Corporate Master Index	3.46%	3.46%	-5.16%	-0.27%	1.68%	2.35%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Current Income Portfolio (Wrap) - Gross	2.54%	2.54%	-1.63%	0.47%	1.51%	1.90%
Current Income Portfolio (Wrap) - Net*	1.78%	1.78%	-4.58%	-2.52%	-1.50%	-1.13%
Bloomberg U.S. Govt/Credit Intermediate	2.33%	2.33%	-1.66%	-1.28%	1.40%	1.32%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Income Opportunities - Gross	2.96%	2.96%	-3.03%	1.56%	1.29%	2.24%
Income Opportunities - Net**	2.92%	2.92%	-3.17%	1.40%	1.13%	2.06%
Bloomberg U.S. Govt/Credit	3.17%	3.17%	-4.81%	-2.63%	1.16%	1.50%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Intermediate Fixed Income (Wrap) - Gross	1.89%	1.89%	-0.90%	-0.79%	1.27%	1.18%
Intermediate Fixed Income (Wrap) - Net*	1.14%	1.14%	-3.85%	-3.74%	-1.73%	-1.82%
Bloomberg U.S. Govt/Credit Intermediate	2.33%	2.33%	-1.66%	-1.28%	1.40%	1.32%

Contact a member of our Advisor Solutions Team

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The U.S. Dollar is the currency used to express performance. The performance reflects the reinvestment of dividends and other earnings to the extent that client accounts included in the composite elected to reinvest dividends and earnings. Performance figures shown gross of fees do not reflect the payment of investment advisory fees.

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