CROSSMARK GLOBAL INVESTMENTS

TAXABLE FIXED INCOME COMMENTARY 2Q 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

What a year it has been, and we are only in July! The second quarter was interesting in that we saw much of the damage from the first quarter reversed to an extent and markets beginning to trend higher. Even with equity markets surging, the bond market closed out the quarter right about where it started. That doesn't mean we didn't have volatility over the last three months, but looking at the starting and ending points for the US 10yr treasury wouldn't tell that tale. As states began to open up across the nation, the anticipation of a quick and strong recovery was front and center for the markets, and we saw yields climb, just to falter as some of these same states had to reverse their plans due to spikes in COVID-19 cases during the month of June.

For the Crossmark taxable fixed income strategies, the sectors in the portfolio that were hardest hit at the end of the first quarter were the same ones that rallied in the second quarter. Those sectors include financial and energy investment-grade corporate names and the fixed-rate preferred allocation in the Current Income Portfolio and Income Opportunities strategies. We overweight the investment-grade corporate sector to provide strong cash flow compared to comparable indices. Our allocation to this sector, coupled with the income component, was the largest positive contributor to the outperformance over the quarter for the Core Fixed, Current Income Portfolio, and Income Opportunities strategies. The largest detractors were the duration effect as yields remained range-bound and the selection effect within the corporate allocation.

With a Federal Reserve that has stated Fed Funds rates will remain near zero until the end of 2022 and discussions around yield curve targets at FOMC meetings, we anticipate that there won't be a large shift higher in the longer end of the yield curve any time soon. This could change if treasury issuance and QE actions continue, but any move would still be limited. In that environment, we are working to extend duration in our strategies as appropriate. In such a low yield environment, generating current yield is becoming more difficult, but we continue to build portfolios with investment-grade corporate names with strong balance sheets and solid cash flows that can survive the struggles from COVID-19 without a break in their interest or principal payments. Our investment process of focusing on duration, yield curve structure, sector allocation, and security selection remains steady and will allow us to adjust our strategy as appropriate as we head into the second half of the year.

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Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888-845-6910

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