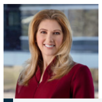
QUARTERLY UPDATE: 2Q 2021

TAXABLE FIXED INCOME COMMENTARY

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



written by
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Markets and Performance

We saw inflation fears escalate towards the end of the first quarter, sending the yield curve steeper with longer maturities moving up to the year's highest levels. However, as the market began to build faith in the concept of transitory inflation (promoted by the Federal Reserve), the reopening story, and some uncertainty as to the size of an infrastructure package, we saw U.S. 10-year Treasury yields move back towards the 1.50% level where they remained range-bound for most of the quarter. In this declining yield environment, the Crossmark taxable fixed-income model portfolios reported mixed performance versus their respective benchmarks for the second quarter of 2021. However, all model portfolios are still outperforming their benchmarks year-to-date for 2021.

Positive and Negative Contributors to Performance

Two of the most significant positive contributors to performance for the quarter across all of the taxable fixed income model portfolios were the allocation and income components. Our overweight to the corporate allocation and the resulting income generated from that sector are positive return drivers. With our positioning of having a duration roughly 60-80% of the stated benchmark for the taxable fixed income strategies, and yields declining during the quarter, the duration and yield curve positioning were the two largest negative contributors to performance. As yields fell, longer maturity securities across the model portfolios were the strongest performing holdings in the corporate allocation. However, for the Current Income Portfolio and the Income Opportunities model portfolios, the fixed-rate preferred allocation and the REIT allocation were the strongest performers, respectively, allowing them to outperform their benchmark index. The U.S. Treasury allocation was a weaker sector regarding performance as most of our holdings in that sector are used for liquidity purposes and therefore have shorter durations.

Looking Ahead

With earnings remaining solid and other parts of the world catching up to the United States regarding vaccination rates and the reopening of their economies, we would anticipate yields to trend higher in the second half of the year. Short-term rates will remain anchored at or close to zero in the short- to intermediate-term as the Federal Reserve is just beginning to discuss tapering options. This discussion should provide a steepening of the yield curve, and the slow process of removing liquidity from the markets should support credit investments. In this environment, we will maintain a shorter duration than the benchmark index although working towards a more neutral position as 10-year Treasury yields make their way towards 2.0%. The overweight to the corporate sector will continue to provide cash flow while maintaining our focus on high-quality, highly liquid securities in our strategies.

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