



TAXABLE FIXED INCOME COMMENTARY | QUARTERLY UPDATE: 2Q 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 market seemed to get ahead of itself in the first half of 2023 vis a vis the rate path hike of the Federal Reserve and other central banks. Multiple rate cuts were priced in earlier this year which is something we kept speaking to our clients about trying to determine how the market was coming to that conclusion when central banks kept saying there was more work to be done. During the 2nd quarter of the year, we started to see those rate cuts removed from market pricing causing bond yields to move higher. The U.S. 2yr Treasury yield moved up by 87 basis points during the quarter while the U.S. 10yr Treasury yield moved up 37 basis points. Although we still believe that the cycle highs in yields were seen during 4Q 2022, we do anticipate some movement higher in yields this year.

Positive and Negative Contributors to Performance

With the shift higher in yields during the quarter, the strongest positive contributions to performance for the taxable fixed income composite portfolios for the quarter ending June 30, 2023, were the effects of both our duration positioning and our allocation decisions. The composite portfolios outperformed their respective benchmarks during this time period, except for the Corporate Fixed Income composite which was flat versus its benchmark. The largest drag on performance for the Corporate Fixed Income composite came from the selection effect within the corporate allocation due to a more concentrated portfolio as compared to the benchmark. For all of the strategies except for Current Income Portfolio, our placement along the yield curve was a negative effect as the yield curve continued to steepen to historically high levels in the short-end of the curve which is where our treasury positioning has been as of late to capture higher yields. In the Current Income Portfolio, due to the preferred allocation, the yield curve placement was actually a positive contributor to outperformance versus the benchmark index. The overweight to the corporate allocation also provided a positive contribution to performance for all the strategies due to the higher levels of income generation from that sector. Many of the best performing holdings were the investment-grade corporate financial and insurance holdings as that sector was hit hard earlier this year from the regional banking issues but has rebounded and provided positive performance for the portfolio. The holdings in the staples category struggled during the quarter as the market shrugged off near-term recession fears.

Looking Ahead

The Federal Reserve continues to influence the markets with updated Fed Funds expectations at their last meeting and the belief by many FOMC participants that at least two more rate hikes are needed. Inflation remains sticky in part due to rents and labor costs as the labor market remains strong and wages continue to move higher. As central banks around the globe try to tackle inflation, continued volatility seems like the most likely path for the second half of this year. 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.

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	-0.32%	2.14%	1.02%	-2.05%	1.42%	1.87%
Core Fixed Income (Wrap) - Net*	-1.07%	0.63%	-1.98%	-4.97%	-1.59%	-1.16%
Bloomberg U.S. Govt/Credit	-0.93%	2.21%	-0.70%	-4.11%	1.03%	1.66%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Corporate Fixed Income (Wrap) - Gross	-0.20%	2.79%	1.82%	-2.41%	1.47%	2.07%
Corporate Fixed Income (Wrap) - Net*	-0.95%	1.27%	-1.21%	-5.32%	-1.55%	-0.96%
BofA Merrill Lynch U.S. Corporate Master Index	-0.20%	3.25%	1.46%	-3.24%	1.83%	2.68%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Current Income Portfolio (Wrap) - Gross	0.26%	2.81%	1.51%	-1.09%	1.49%	2.12%
Current Income Portfolio (Wrap) - Net*	-0.49%	1.28%	-1.52%	-4.03%	-1.53%	-0.91%
Bloomberg U.S. Govt/Credit Intermediate	-0.81%	1.50%	-0.10%	-2.46%	1.23%	1.41%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Income Opportunities - Gross	0.52%	3.49%	2.13%	-0.59%	1.36%	2.53%
Income Opportunities - Net**	0.49%	3.42%	1.98%	-0.75%	1.20%	2.35%
Bloomberg U.S. Govt/Credit	-0.93%	2.21%	-0.70%	-4.11%	1.03%	1.66%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Intermediate Fixed Income (Wrap) - Gross	-0.31%	1.57%	0.68%	-1.72%	1.16%	1.31%
Intermediate Fixed Income (Wrap) - Net*	-1.06%	0.06%	-2.32%	-4.65%	-1.84%	-1.69%
Bloomberg U.S. Govt/Credit Intermediate	-0.81%	1.50%	-0.10%	-2.46%	1.23%	1.41%

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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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