TAXABLE FIXED INCOME

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

Commentary – 6/30/2019

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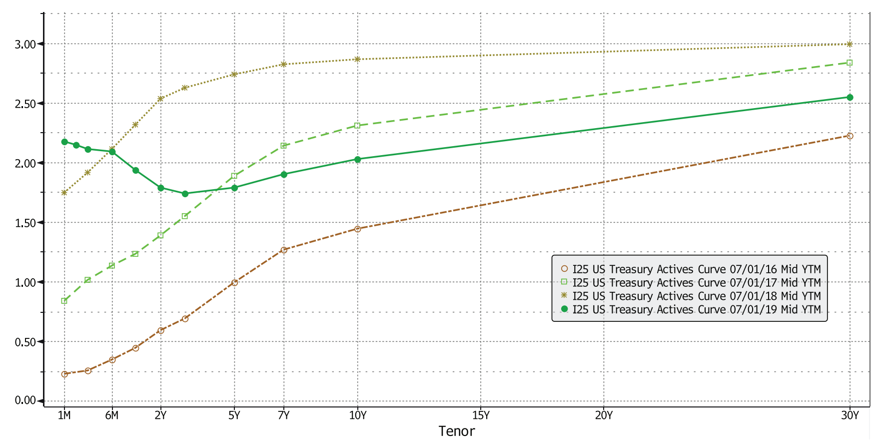
- We still have many uncertainties surrounding us including potential tariffs on products from the EU, Iran tensions, budget issues and the same issues that caused the breakdown in China/US talks previously still remain.
- With four weeks to go until the next FOMC meeting, investors should be cautious in assuming the rate cut is a done deal.
- As earnings season approaches, there are many variables that could shift the economic outlook and give the Federal Reserve reason to continue with their patient stance at the July meeting.

We are through the first month of summer and the typical "summer doldrums" does not appear to be the case in 2019. Even with the pause in the trade issues between China and the US, we still have many uncertainties surrounding us including potential tariffs on products from the EU, Iran tensions, budget issues and the same issues that caused the breakdown in China/US talks previously still remain. One would assume these would make the markets nervous and yet the Dow, S&P and Nasdaq have hit record highs. The other side of the story if being told by the bond market where the US 10yr Treasury yield is reaching levels last seen in 2016.

The next Federal Open Market Committee (FOMC) meeting is at the end of July but futures are predicting a 25 bps cut with additional cuts at the remaining meetings of the year. With four weeks to go until the next meeting, investors should be cautious in assuming the rate cut is a done deal. Although growth is slowing, the economy is still pushing forward and the consumer continues to show elements of strength with improved household balance sheets, high savings rate levels and continued consumption. As earnings season approaches, there are many variables that could shift the economic outlook and give the Federal Reserve reason to continue with their patient stance at the July meeting.

US Treasury Yield Curve – 2016 - 2019



Source: Bloomberg

At Crossmark, we continue to use a more conservative approach to fixed income by positioning the portfolios with a shorter duration than the comparable index to reduce the sensitivity to interest rate movements while producing an elevated level of income generation. For 2Q 2019, the taxable fixed income portfolios produced positive performance although underperforming the comparable indices due to our conservative positioning. The positive contributors to performance include yield curve positioning, allocation and income effects with duration being the largest drag on performance. For the CIP and Income Opportunities models, income is the largest positive contributor to performance due to the preferred and high yield corporate allocations. Throughout the quarter we have worked to extend duration slightly as we approach the end of the rate hiking cycle and Fed futures are already pricing in rate cuts over the coming quarter.

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The upcoming FOMC meetings will be key events for the markets and we will be watching not only the statements but the press conferences closely to help determine the path of rates going forward. It may be summertime, but the markets are in full swing and we are here to help guide you through any volatility. As always, feel free to contact us to discuss our process, strategy or outlook on the markets. Enjoy your summer vacations but make sure and keep your eyes on the markets as we maneuver through these interesting times.

Our Firm

Crossmark Global Investments is an innovative investment management firm. We provide a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas and manages approximately $5.0 billion in AUM.

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