CROSSMARK GLOBAL INVESTMENTS

# TAXABLE FIXED INCOME

## COMMENTARY | QUARTERLY UPDATE: 3Q 2022

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

written by
**Victoria Fernandez, CFA®** Chief Market Strategist

**Markets and Performance**

The third quarter of 2022 continued to have a tremendous amount of volatility, especially in the fixed income markets. Yields reached new highs for the year with large daily moves as the markets attempt to determine the rate hike path of not just the Federal Reserve, but all central banks around the globe. Following a higher than expected inflation report during the quarter, coupled with a still strong labor market and central banks determined to tighten financial conditions, we have seen U.S. 10yr yields move back towards 4.00%. This brought in buyers and those covering shorts which has kept yields in the 3.50-4.00% range as of late. In this environment, the Crossmark taxable fixed income model portfolios outperformed their respective indices for both the quarter and YTD. The one exception was the Crossmark Current Income Portfolio that slightly underperformed the benchmark for the quarter mostly due to the fixed-rate preferred allocation.

**Positive and Negative Contributors to Performance**

The largest positive contributors to outperformance for the taxable fixed income strategies came from three different effects – duration, selection and income. The shorter duration positioning was the largest positive contributor to outperformance as we maintained less interest rate exposure as compared to the strategy benchmarks while yields across the curve moved higher throughout the quarter. In addition, our selection of bonds within the corporate allocation and the increased cash flow from the overweight to corporates as compared to the benchmarks allowed the income component of performance to support outperformance during the quarter. Our yield curve positioning proved to be a drag on performance mostly due to the positioning within the treasury allocation. For the Current Income Portfolio strategy, the longer duration of the fixed-rate preferred holdings was the largest drag on performance versus the benchmark and caused a slight underperformance for the quarter. This effect was somewhat mitigated by the high level of income generated by this sector with income being the largest positive contributor to performance for the Current Income Portfolio model portfolio.

**Looking Ahead**

The Federal Reserve continues to look for tighter financial conditions to work through the economy which would enable them to take a pause in hiking the Fed Funds rate in their fight against inflation. However, even though we are getting some clues that this may be starting to happen, there are still many signs that the economy remains strong – ISM services, strength in the labor market, slower growth but not demand destruction, higher revisions on consumer spending, and the strong seasonality generally for the 4th quarter. Sprinkle in a mid-term election and there is plenty of room for continued volatility in yields and therefore in the equity markets. In this environment, we will continue to maintain a shorter duration as compared to the broader fixed income market, but will be closer to neutral as we anticipate that U.S. 10yr yields will top somewhere around the 4.00% level for this cycle.

## Our Firm

Crossmark Global Investments is a faith-based firm that creates, manages, and distributes values-based investment strategies that equip financial intermediaries and their clients to align their wealth with their passions and convictions. For over 30 years, the firm has delivered uniquely constructed products based on its proprietary, disciplined, and repeatable process. Founded in 1987, the firm is headquartered in Houston, Texas. For more information visit: www.crossmarkglobal.com.

## Contact a member of our Advisor Solutions Team

advisorsolutions@crossmarkglobal.com | 888.845.6910

**Crossmark Global Investments, Inc. (Crossmark)** is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

**All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results.** Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.



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