CROSSMARK
GLOBAL INVESTMENTS

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September 30, 2018

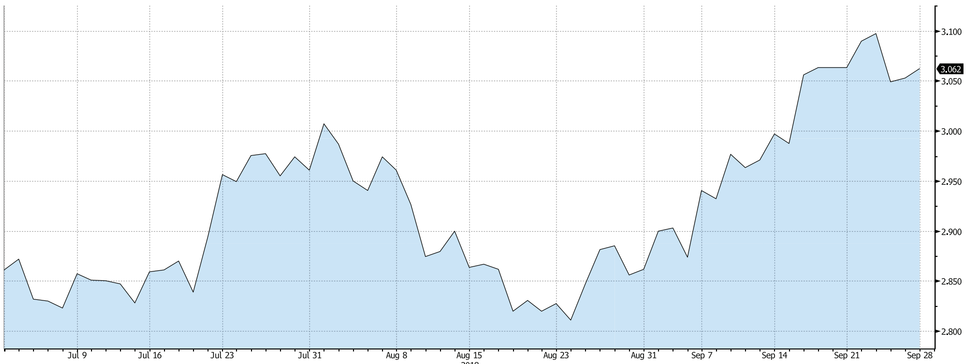
TAXABLE FIXED INCOME COMMENTARY

CORE FIXED INCOME
INTERMEDIATE FIXED INCOME
CURRENT INCOME PORTFOLIO
INCOME OPPORTUNITIES

Do you remember the 24th night of September? For you Earth, Wind and Fire fans, I know I am 3 days off, but September 24th is when we hit the high level of the quarter for the U.S. 10yr Treasury yield at 3.09%. It only took a few days after the end of the quarter to surpass the YTD high of 3.11% which was the level from back in May. When looking at the third quarter historically in a mid-term election year, this should have been a period of decline for the equity markets, but strong earnings and continued support for growth continued to push the economy forward and nudged yields higher.

The U.S. 10yr treasury yield remained in a roughly 20 basis point range for the majority of the quarter. We began at a 2.87% yield, moving up to 3.00% at the beginning of August and then spent the month moving back down to 2.86% to start September and finishing the quarter at a 3.06%. Although many investors see the strength of the economy as a short-term boost due to tax reform earlier this year, for now, the economic numbers continue to support growth in the 3% range as we await the new GDP reports for the quarter. That's not to say we don't have headwinds that must be addressed such as mid-term elections, European budget issues, trade and tariff escalation concerns and global PMIs that peaked earlier in the year.

U.S. 10yr Treasury Yield 3Q 2018



Source: Bloomberg

- Although many investors see the strength of the economy as a short-term boost due to tax reform earlier this year, for now, the economic numbers continue to support growth.
- For both the quarter and YTD, our taxable fixed income portfolios have outperformed their comparable benchmarks with the duration and income components serving as the largest positive contributors to the outperformance.
- It appears that the neutral Federal Funds rate is anticipated to be approximately around 3.00% with the long-run yield around 3.25%.

As we balance the strength in the economy with the headwinds that we face, Crossmark's more conservative approach to fixed income investing has served our clients well. For both the quarter and YTD, our taxable fixed income portfolios have outperformed their comparable benchmarks with the duration and income components serving as the largest positive contributors to the outperformance. In a rising interest rate environment where market values decline, the shorter duration positioning reduces the portfolios' sensitivity to interest rate movements and the corresponding price volatility. In addition to duration, the focus on income and its positive effect on total return for a fixed income security was also a positive effect for the portfolios.

When examining the new forecasts provided by the Federal Open Market Committee (FOMC) at their meeting in September, it appears that the neutral Federal Funds rate is anticipated to be approximately around 3.00% with the long-run yield around 3.25%. As we approach these levels, our investment team will utilize the 4-step investment process with decisions on duration, yield curve placement, sector and security selection to determine the appropriate changes to our strategy. If yields continue to rise over the coming quarter, we will begin to make moves to extend duration out the yield curve and take advantage of higher yields going forward.

We are approaching the last leg of the race for 2018 and we anticipate that with elections, Fed meetings and geopolitical issues still brewing, we may be in for a bumpy ride. However, as always, please feel free to contact us in regards to the markets, portfolios or any other questions you may have as we are here to help you maneuver through the year-end volatility.

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About Crossmark's 30 Year History
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 we 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 $5.2 billion in AUM.

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