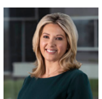
TAXABLE FIXED INCOME COMMENTARY 4Q 2020

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



written by
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Are Higher Rates Imminent?

As we entered 2020, we at Crossmark were anticipating U.S. interest rates to trend higher. Unemployment was at a record low, consumer confidence was strong, wages were growing and there was even some progress on trade. Then the pandemic exploded in the first quarter, stopping the long expansion in its tracks and forcing global central banks to revert to zero interest rate policy and its associated easing programs. So like for many others, our original expectation was not realized.

A Strong Fourth Quarter Performance

Due to our ongoing analyses of market behavior during the pandemic, we deemed it prudent to keep durations short in our taxable fixed income strategies as compared to the comparable indices. This reduced our interest rate risk but also limited our upside movement in prices as yields plummeted to all-time lows in August. However, during the fourth quarter, we began to see the tide shift. Ten-year Treasury yields moved higher by 23 basis points, which benefitted our duration positioning strategies. Ratios in the market with strong correlations to yields (like copper/gold or cyclicals/defensives) signaled yields should be much higher. As such, our taxable fixed income strategies almost all out-performed the comparable indices, with the largest positive contributor being our allocation and duration decisions. We were overweight corporates (to generate income) and underweight Treasuries. Our duration is shorter than the index to reduce interest rate sensitivity during a rising rate environment. The strategies holding fixed-rate preferreds (including the Current Income Portfolio and Income Opportunities strategies) benefited from it being the best performing sector for the quarter.

Credit Spreads Begin To Normalize

The Fed liquidity programs seem to have helped push credit spreads back to pre-pandemic levels. We are closely monitoring both the spreads and quality of any new purchases - continuing our focus on high quality, liquid corporate bonds. With additional stimulus in our future, we anticipate spreads holding or moving slightly tighter over the next quarter as a risk-on sentiment takes hold in the markets. With the 10-year Note closing above 1.0%, momentum suggests the trend continues higher and a new trading range is established between 0.95% and 1.15%. As such, we are working to extend duration closer to neutral (compared to the comparable indices) as yields move closer to resistance levels around 1.20%. Given our new duration positioning, we are allowing bonds to mature or be called, then reinvesting slightly further out the yield curve to obtain higher yields than we have seen over the past few quarters.

Looking Ahead

We believe the interest rate tide is beginning to turn. With some of the major uncertainties diminishing, we see the potential for a pickup in economic activity in 2021. This will be partly due to increasing confidence as the vaccine rollout continues, but also because of the likelihood of additional, substantial stimulus measures pushed by the new administration. With this outlook, we will continue to extend duration closer to index neutral to pick up some yield, but remain reasonably short given our new trading range expectation that we discussed last month.

Our Firm

Crossmark Global Investments is a faith-based boutique investment management firm that provides a full suite of investment strategies to institutional investors, financial advisors, and the clients they serve. For over 30 years we have delivered uniquely constructed products based on our proprietary, disciplined, and repeatable process. We are especially known for helping our clients align their investments with their values by creating socially conscious, responsible investment strategies. Founded in 1987, we are headquartered in Houston, Texas.

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