



TAXABLE FIXED INCOME COMMENTARY | QUARTERLY UPDATE: 4Q 2022

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



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Markets and Performance

If you just looked at where the U.S. 10yr treasury yield was at the beginning and end of the 4th quarter, you would assume it had been a very quiet end of the year. However, that is definitely not the case. U.S. 10yr treasury yields went from 3.83% as of 9/30/22 to 3.88% as of 12/31/22 but made a trip all the way up to 4.24% in late October. Volatility was the name of the game not just for the 10yr part of the curve but in the shorter end as well as the U.S. 2yr Treasury yield surged almost 50 basis points from 9/30/22 to early November. In this environment, all of the Crossmark taxable fixed income composites outperformed their respective indices for the year 2022, while only 1 composite underperformed for the quarter ending December 31, 2022. The one exception was the Crossmark Corporate Fixed Income composite which underperformed its benchmark for the quarter while still outperforming for the year.

Positive and Negative Contributors to Performance

The contribution to performance varied across the composites relative to their stated benchmarks, but all strategies had a positive contribution from the income component. As we overweight the corporate allocation in our strategies and include fixed-rate preferreds in our Current Income Portfolio and Income Opportunities strategies, it is not surprising that a higher income component is generated as compared to the benchmarks. In addition to income, the most positive contributors included the allocation and yield curve effects due to our overweight of the corporate sector and our placement along the yield curve. At Crossmark, we have been working to extend the overall duration of our taxable fixed income strategies as we anticipate that peak yields have been reached or are near. In previous quarters over the last year, our shorter duration positioning has been one of our largest positive contributors to outperformance. However, this quarter, the duration positioning had much less effect on performance as yield moved both higher and lower, as well as having a more neutral positioning as compared to the benchmarks. Selection of securities within sectors was a drag on performance for some of the strategies.

Looking Ahead

All eyes have been on central banks and their quest to tighten financial conditions and rein in some of the highest levels of inflation in decades. As we begin the new year, we could be approaching the end of the hiking cycle for the Federal Reserve, possibly by the end of the first quarter. In our taxable fixed income strategies, we have been extending duration to be closer to neutral as we near peak Fed Funds and strive to be opportunistic in order to support the income flows with locking in some higher coupons and/or better yields along the yield curve. As the economy potentially slows towards the middle of the year with the possibility of a small recession, the steady income flows from the fixed income securities will help to buffer any volatility.

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	2.29%	-8.48%	-8.48%	-1.33%	0.77%	1.42%
Core Fixed Income (Wrap) - Net*	1.53%	-11.24%	-11.24%	-4.27%	-2.23%	-1.59%
Bloomberg U.S. Govt/Credit	1.80%	-13.58%	-13.58%	-2.57%	0.21%	1.16%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Corporate Fixed Income (Wrap) - Gross	3.15%	-10.61%	-10.61%	-1.88%	0.60%	1.56%
Corporate Fixed Income (Wrap) - Net*	2.38%	-13.31%	-13.31%	-4.82%	-2.40%	-1.46%
BofA Merrill Lynch U.S. Corporate Master Index	3.54%	-15.43%	-15.43%	-2.74%	0.54%	2.01%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Current Income Portfolio (Wrap) - Gross	1.76%	-7.91%	-7.91%	-1.12%	0.93%	1.70%
Current Income Portfolio (Wrap) - Net*	0.99%	-10.69%	-10.69%	-4.08%	-2.07%	-1.32%
Bloomberg U.S. Govt/Credit Intermediate	1.54%	-8.24%	-8.24%	-1.26%	0.73%	1.12%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	Since Inception
Income Opportunities - Gross	2.26%	-10.35%	-10.35%	-1.90%	0.57%	2.10%
Income Opportunities - Net**	2.22%	-10.49%	-10.49%	-2.05%	0.41%	1.91%
Bloomberg U.S. Govt/Credit	1.80%	-13.58%	-13.58%	-2.57%	0.21%	1.16%

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years
Intermediate Fixed Income (Wrap) - Gross	1.54%	-6.07%	-6.07%	-1.05%	0.74%	0.99%
Intermediate Fixed Income (Wrap) - Net*	0.78%	-8.88%	-8.88%	-4.00%	-2.25%	-2.00%
Bloomberg U.S. Govt/Credit Intermediate	1.54%	-8.24%	-8.24%	-1.26%	0.73%	1.12%

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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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