



Taxable Fixed Income

Commentary | Quarterly update: 4Q 2023

Separately managed account (Core Fixed Income, Current Income Portfolio and Intermediate Fixed Income)



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Markets and performance

Last quarter we discussed how volatility would continue throughout the end of the year, as uncertainty remained as to what the exact path forward for not only the Federal Reserve, but all central banks, would be. We saw yields move higher and the U.S. 10-year Treasury yield hit 5.0% at the end of October as equity markets hit lows for the year. There were concerns over increased treasury issuance, interest expense reaching high levels, sticky inflation and geopolitical issues, just to name a few. However, at the latest FOMC meeting in December, the markets interpreted comments by Chair Powell as a defined pivot and the doves were let loose. The determination that interest rate hikes were done and a belief in around six interest rate cuts in 2024 led yields dramatically lower while stocks rocketed higher. Yields dropped to, in our opinion, a very oversold position, as we did not believe that the Fed would cut rates as much as was being priced in to the market. Although that narrative has now found its way to the forefront in the new year, yields remained below 3.9% to end 2023.

Positive and negative contributors to performance

In an environment of steeply falling yields, all the taxable fixed income strategies generated positive returns but underperformed their respective benchmarks for the quarter ending Dec. 31, 2023, while still outperforming their respective benchmarks for the year. The corporate fixed income strategy is the only strategy that underperformed for the year due to the drag from the month of December. While duration had been one of the largest positive contributors to outperformance through the first three quarters of 2023, the shorter duration as yields moved lower was the largest drag on performance for the final quarter of the year. The drop in the U.S. 10-year yield was over 100 basis points, and that large drop during the quarter was such a dramatic move that duration actually turned out to be the largest drag on performance for the entire year as well. The allocation within the strategies – an overweight to the corporate sector in the strategies, and the preferred allocation within the Current Income and Income Opportunities strategies - were the largest positive contributors to performance along with the income effect.

Looking ahead

We have seen in the early days of 2024 that the oversold condition in yields has begun to correct, as the market reprices with fewer rate-cut expectations from the Federal Reserve. This has driven yields higher and back over the 4.0% level for the U.S. 10-year treasury which is a positive turn with our short-to-neutral duration positioning. We will continue to focus on generating income for the strategies while investing in investment-grade securities, with an overall strategy duration close to or moving towards neutral as compared to the benchmark. Our four-step investment process of focusing on duration, yield curve placement, sector and security selection allows us to evaluate the economy and participate in opportunistic trades as appropriate.

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.

Composite performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Core Fixed Income (Wrap) – Gross	5.40	6.16	6.16	-1.30	2.00	2.12
Core Fixed Income (Wrap) – Net¹	4.63	3.04	3.04	-4.23	-1.03	-0.91
Bloomberg U.S. Govt/Credit Index	6.63	5.72	5.72	-3.53	1.41	1.97
Composite performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Corporate Fixed Income (Wrap) – Gross	6.70	7.28	7.28	-1.78	2.15	2.37
Corporate Fixed Income (Wrap) – Net¹	5.92	4.13	4.13	-4.70	-0.89	-0.67
ICE BofA U.S. Corporate Index	7.92	8.43	8.43	-3.15	2.65	2.99
Composite performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Current Income Portfolio (Wrap) – Gross	4.38	6.47	6.47	-0.85	2.08	2.54
Current Income Portfolio (Wrap) – Net¹	3.62	3.32	3.32	-3.81	-0.95	-0.51
Bloomberg U.S. Govt/Credit Intermediate Index	4.56	5.24	5.24	-1.63	1.59	1.72
Composite performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Income Opportunities – Gross	6.07	7.80	7.80	-0.75	2.25	2.87
Income Opportunities – Net²	6.04	7.65	7.65	-0.90	2.09	2.69
Bloomberg U.S. Govt/Credit Index	6.63	5.72	5.72	-3.53	1.41	1.97
Composite performance (%)	QTD	YTD	1-year	3-year	5-year	10-year
Intermediate Fixed Income (Wrap) – Gross	3.85	5.07	5.07	-0.77	1.56	1.59
Intermediate Fixed Income (Wrap) – Net¹	3.08	1.97	1.97	-3.72	-1.45	-1.42
Bloomberg U.S. Govt/Credit Intermediate Index	4.56	5.24	5.24	-1.63	1.59	1.72

1 Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00% by deducting 0.75% 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.

2 Net performance was calculated using actual management fees.

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