



Taxable Fixed Income

Commentary | Quarterly update: 1Q24



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

Yields moved mostly higher throughout the first quarter of the year across the curve. The two-year U.S. Treasury notes moved higher by 59 basis points (bps) and the 10-year U.S. Treasury increased by 44 bps from the lows to the highs during the period. Although we have been moving our taxable fixed income strategies closer to a neutral duration, we are still short in our positioning versus the applicable benchmarks, which was a positive in this type of rate environment. Yield movement was quite volatile, as the market priced out additional rate cuts by the Federal Reserve while inflation surprised to the upside in all three months of the first quarter. As inflation proves stickier than what was expected, the concept of the Fed holding rates higher for longer became more palpable, and there were even whispers of a possible rate hike as the next move.

Positive and negative contributors to performance

For the quarter ending March 31, 2024, the taxable fixed income strategies outperformed their respective benchmarks. The shorter duration positioning compared to the benchmarks, as well as our allocation decision of an overweight to investment-grade corporate securities, were the largest positive contributors to the outperformance for the quarter. The overweight in the strategies to the corporate sector, and the exposure to fixed-rate preferred securities in the Current Income Portfolio strategy, also provided a high level of cash flow as compared to the benchmarks, allowing the income component to be an additional positive contributor to the outperformance of the strategies during the period.

Looking ahead

At Crossmark, we anticipated that we would see yields move higher as the market began to accept that there would be fewer rate cuts than believed during the end of last year. For this reason, although lengthening duration in anticipation of rate cuts later in 2024, we maintained a duration still slightly shorter than the benchmarks. We will continue to maintain our positioning as inflation remains higher than the Federal Reserve would like to see and rate cuts are getting pushed off to later in the year. Once a path of rate cuts is more clear, we will continue to extend duration closer to a neutral position. 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.

| Composite performance (%) | Quarter | YTD | 1-year | 3-year | 5-year | 10-year |
|---|---------|-------|--------|--------|--------|---------|
| Core Fixed Income (Wrap) – Gross | -0.47 | -0.47 | 3.11 | -0.83 | 1.37 | 1.93 |
| Core Fixed Income (Wrap) – Net ¹ | -1.21 | -1.21 | 0.07 | -3.77 | -1.64 | -1.09 |
| Bloomberg U.S. Govt/Credit Index | -0.72 | -0.72 | 1.74 | -2.35 | 0.62 | 1.70 |
| Corporate Fixed Income (Wrap) – Gross | -0.54 | -0.54 | 3.61 | -1.12 | 1.36 | 2.14 |
| Corporate Fixed Income (Wrap) – Net ¹ | -1.28 | -1.28 | 0.55 | -4.06 | -1.65 | -0.89 |
| ICE BofA U.S. Corporate Index | -0.07 | -0.07 | 4.73 | -1.68 | 1.64 | 2.68 |
| Current Income Portfolio (Wrap) – Gross | 0.98 | 0.98 | 4.85 | -0.04 | 1.62 | 2.37 |
| Current Income Portfolio (Wrap) – Net ¹ | 0.23 | 0.23 | 1.75 | -3.01 | -1.40 | -0.67 |
| Bloomberg U.S. Govt/Credit Intermediate Index | -0.15 | -0.15 | 2.69 | -1.06 | 1.09 | 1.61 |
| Income Opportunities – Gross | 0.67 | 0.67 | 5.41 | -0.02 | 1.56 | 2.48 |
| Income Opportunities – Net ² | 0.64 | 0.64 | 5.26 | -0.17 | 1.40 | 2.31 |
| Bloomberg U.S. Govt/Credit Index | -0.72 | -0.72 | 1.74 | -2.35 | 0.62 | 1.70 |
| Intermediate Fixed Income (Wrap) – Gross | 0.01 | 0.01 | 3.13 | -0.31 | 1.16 | 1.50 |
| Intermediate Fixed Income (Wrap) – Net ¹ | -0.74 | -0.74 | 0.08 | -3.28 | -1.85 | -1.51 |
| Bloomberg U.S. Govt/Credit Intermediate Index | -0.15 | -0.15 | 2.69 | -1.06 | 1.09 | 1.61 |

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.

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.

Our firm

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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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