

QUARTERLY UPDATE: 4Q 2021

STEWARD SELECT BOND FUND COMMENTARY



written by
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Steward Select Bond Fund - Instl	
Ticker	SEACX
Inception Date	10/1/2004
Net Expense Ratio	0.70%
Primary Benchmark	Bloomberg US Govt/Credit TR USD

Top 10 Holdings	
United States Treasury	4.01%
Qualcomm, Inc.	2.85%
Valero Energy Corp .	1.87%
Amazon.com, Inc .	1.84%
Nike, Inc .	1.82%
Comcast Corp.	1.82%
Adobe, Inc.	1.81%
McDonald's Corp.	1.54%
Freddie Mac REMICs	1.53%
US Bank NA	1.49%
Total % of Portfolio	20.57%

Markets and Performance

Over the last two quarters, we believed that growth and increased inflation expectations would push the longer end of the yield curve higher, matching or slightly surpassing the high of the year back on March 31 when the U.S. 10-year Treasury yield closed at 1.74%. We neared that level in October with a close of around 1.70%, but otherwise, it has been mostly a downward trend for yields further out the Treasury curve from the March level. Although no one explanation is provided, a combination of new COVID variants, concern over global growth, negative global sovereign yields, and periods of short covering on Treasury notes all added to push longer-term yields lower. With the change in expectation that the Federal Reserve would end tapering sooner than expected, and rate hikes might begin as soon as the first quarter of 2022, shorter-term yields pushed higher. This resulted in a much flatter curve than investors anticipated for this part of the market cycle. For the year 2021, although sprinkled with volatility, the 10-year Treasury yield moved from 0.91% on January 4 to 1.51% on December 31. The year-end move was beneficial, but with yields trending lower for much of the quarter and year, the Steward Select Bond Fund underperformed the Bloomberg U.S. Capital Government/Credit Index, returning -0.44% vs. 0.18% for the quarter and -2.00% vs. -1.75% for the year, respectively.

Positive and Negative Contributors to Performance

In December, we saw 10-year Treasury yields move higher by 11 basis points. This favored our more conservative approach of a shorter duration positioning and resulted in the Fund outperforming the Index for the month by 33 basis points. However, that was not enough to compensate for the lower yields earlier in the quarter. The two positive contributors to performance for the Fund were the effects of duration and income. As yields moved higher late in the quarter, the overall shorter duration positioning worked as a positive contributor to performance compared to the Index. Just as we witnessed in previous quarters this year, the corporate and Treasury allocations for the Fund have a much shorter duration than those in the Index – this was the most significant positive contributor to performance. Our overweight to the corporate allocation provided a higher level of income generation for the Fund compared to the Index. The income component of total return was one of the most prominent positive contributors to the Fund's performance. The significant negative contributor was the yield curve effect. With the Federal Reserve (and other central banks around the world) laying out plans to quicken tapering and raise rates in 2022, the short end of the curve rose dramatically while the longer end remained more stagnant. This flattening of the yield curve driven by the shorter maturities was a drag on Fund performance.

Looking Ahead

As described in our CIO, Bob Doll’s Annual 10 Predictions, we anticipate that yields will continue to trend higher to start 2022. In our opinion, the long end of the curve has been mispriced for some time. With volatility predicted to dominate the next few quarters, we need to focus on quality and interest-rate sensitivity for the Fund. Therefore, a shorter duration and investment-grade focus remain appropriate for the near term. As yields approach the 2.0% level (which is getting near to the Federal Reserve’s terminal rate), our duration positioning will shift to neutral versus the benchmark.

Trailing Returns

	Qtr	YTD	1 Year	3 Years	5 Years	10 Years
Steward Select Bond Fund - Institutional	-0.44%	-2.00%	-2.00%	3.24%	2.36%	2.04%
Bloomberg US Govt/Credit TR USD	0.18%	-1.75%	-1.75%	5.50%	3.99%	3.13%

Source: Morningstar Direct

Our Firm

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Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. The Fund’s current performance may be lower or higher than quoted. Before investing in a mutual fund, you should read the fund’s prospectus carefully and consider the fund’s investment objectives, risks, charges, and expenses. The prospectus contains this and other information about the fund. To obtain Fund performance as of the most recent month-end or to obtain a copy of the Steward Funds’ prospectus free of charge, call Crossmark Distributors at 888.845.6910.

The Fund may not achieve its objective if the managers’ expectations regarding particular securities or markets are not met. Fixed income investments generally involve three principal risks—interest rate risk, credit risk, and liquidity risk. Prices of fixed-income securities rise and fall in response to interest rate changes (interest rate risk). Generally, when interest rates rise, prices of fixed-income securities fall. The longer the duration of the security, the more sensitive the security is to this risk. There is also a risk that the issuer of a note or bond will be unable to pay agreed interest payments and may be unable to repay the principal upon maturity (credit risk). Lower-rated bonds, and bonds with longer final maturities, generally have higher credit risks. As interest rates rise and/or the credit risk associated with a particular issuer changes, bonds held within a portfolio may become difficult to liquidate without realizing a loss (liquidity risk).

The Fund’s values-based screening policies exclude certain securities issuers from the universe of otherwise available investments. As a result, the Fund may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the Fund has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the Fund. Further, the Fund’s values-based screening policies may prevent the Fund from participating in an otherwise suitable investment opportunity.

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