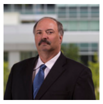
Municipal Fixed Income

Commentary | Quarterly update: 1Q24

Separately managed account



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Markets and performance

Municipal bonds experienced negative volatility to end 1Q24 as investment grade municipal yields moved lower from a December peak across all maturities. Five-year through 20-year final maturities have moved lower in yields as the FOMC verbiage of holding rates "higher for longer" was reiterated, with CPI and PCI confirming stubborn inflation is not dropping as fast as anticipated. Separately managed accounts, ETFs, funds and money manager flows continue to focus on the short end of the curve for attractive yield and a short-term defensive position heading into 2Q24. The narrative in January of a possible seven Fed funds short-term rate cuts for 2024 has shifted to potentially three or fewer by year end.

Positive and negative contributors to performance

The Crossmark Municipal Fixed Income composite portfolio posted a loss of -0.07% for the quarter ending March 31 versus a loss of -0.46% for the Bloomberg Quality Intermediate Municipal Index. Investing in high-quality credit of essential service revenue and general obligation bonds with a premium coupon outperformed the benchmark index. For 1Q24, the Hospital/Healthcare sector and BBB Credit sector, which Crossmark currently avoids, continued to tighten the spread. Crossmark Municipal Fixed Income portfolios benefited from lower coupon bond spreads widened, giving up some performance from last quarter in the index. Crossmark Municipal Fixed Income will continue to focus on the higher quality rated and premium municipal bonds as a conservative hedge against potential declines in the economy of the future.

Looking ahead

Municipal bond volatility could continue as media and investors focus on the timing for FOMC rate cuts in the near future. 2Q24 redemptions appear to be less than scheduled new issuance coming to the market, which may place negative price pressure on the municipal bond market. This could continue to be an opportunity to establish or add to municipal bond Separately Managed Accounts (SMA) in 2024. Based on CreditSights' preliminary supply and redemption data, net supply in April 2024 may increase to $11 billion surplus with potential lower price pressure in 2Q24. If the FOMC holds to the guidance of "higher for longer" rates to track the effectiveness of the FOMC hike cycle actions, the yield curve should begin to flatten out, then normalize, as the rate cycle matures with potential rate cuts in 2024. Regardless of future FOMC decisions and economic data, municipal bond yields are better than what we have seen in over a decade, resulting in a great period to reassess asset allocation to fixed income.

Crossmark continues to find value in the primary and secondary municipal market with bonds rated A or better by Moody's, Standard & Poors, or Fitch at the time of purchase and involved with essential services like water, sewer, power, streets, highways, public education, and general obligations. Our strategy focuses on maturities in the 12- to 20-year range with call features between 2029 and 2034. The municipal bond yield curve has increased in the five- to 12-year maturities, making these call features an ideal area to focus on during volatile periods. The strategy will utilize longer duration positioning than the benchmark index on reinvestments as the FOMC continues their battle with inflation, focusing on higher-quality municipalities with a goal to move duration longer as the interest rate curve normalizes.

Composite performance (%)	Quarter	YTD	1-year	3-year	5-year	10-year
Municipal Fixed Income (Wrap) – Gross	-0.07	-0.07	2.67	0.51	1.33	1.59
Municipal Fixed Income (Wrap) – Net[1]	-0.82	-0.82	-0.37	-2.48	-1.68	-1.42
Bloomberg Quality Intermediate Municipal Index	-0.46	-0.46	2.05	-0.14	1.41	2.04

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.

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

Crossmark Global Investments is a faith-based firm that creates and manages values-based investment strategies for financial intermediaries and their clients. Founded over 35 years ago, the firm has a rich history of inspiring and equipping its clients to go further in aligning their investments with their values. Crossmark is based in Houston, Texas. For more information, visit crossmarkglobal.com.

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Municipal Fixed Income strategy 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). Many municipal bonds also include call features that allow the issuer to call the bonds—repaying the principal before maturity—usually done in the context of a refinancing transaction if/when interest rates fall. When a bond is called, the holder does not incur a loss, but cash received from the call must be re-deployed, generally in a less favorable interest rate environment (call risk).

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Crossmark claims compliance with the Global Investment Performance Standards (GIPS®). Prospective clients can obtain a GIPS Composite Report by sending a request to: advisorsolutions@crossmarkglobal.com.

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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