2018 Weekly Portfolio Manager Commentary *January 19, 2018*

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Industrial Production was up 0.9% for December, and Capacity Utilization was a healthy 77.9%. Housing Starts came in at 1.192 million units for December, decently below estimates of 1.280 million. Most of the weakness was in single-family home starts. Finally, the U.S. Consumer Price Index was up 2.1% for the 2017 calendar year.

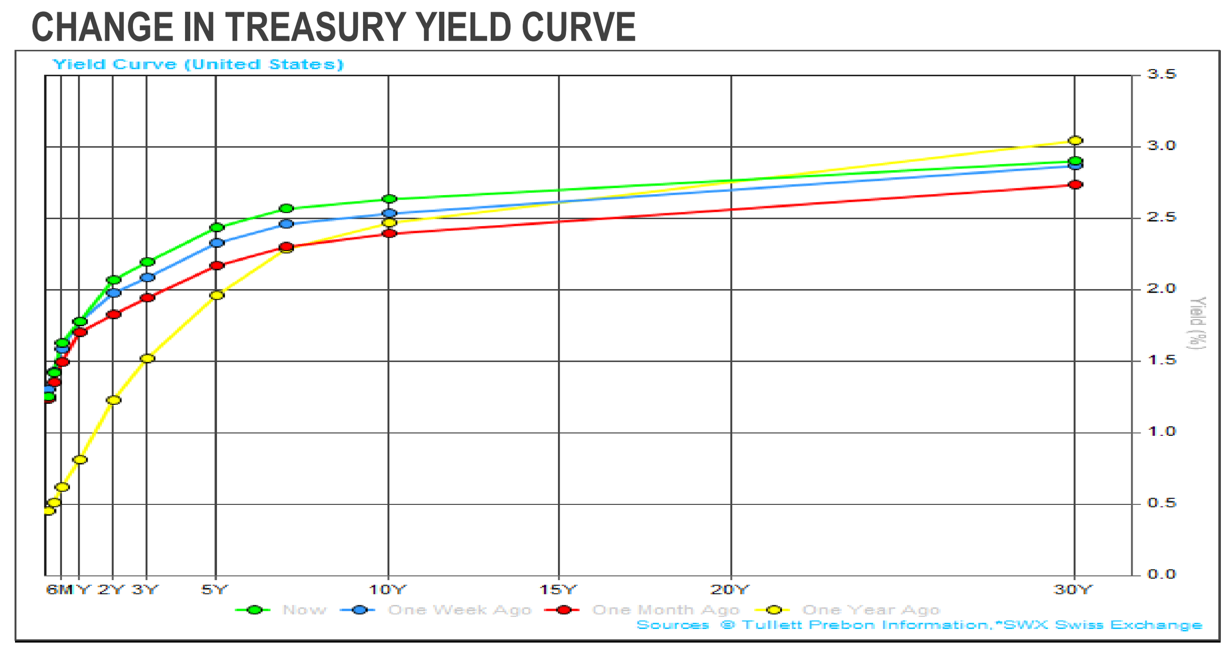
FIXED INCOME

The world's biggest bond market probably needs a little push from central banks to prop up yields at the highest in more than three years. The Bank of Japan and the European Central Bank both have policy decisions this week, before an announcement from the Federal Reserve on January 31. While no action is expected from any of the three this month, investors will be on alert for the latest signals on withdrawal of policy accommodation after years of unprecedented stimulus. Any dovish hints from officials could pull the benchmark ten-year Treasury yield back from the brink: It closed trading Friday at 2.66%, the highest since July 2014. Traders are on edge because technical indicators signal weak support for the ten-year Treasury if the yield breaks even higher. That's not to say there's any hint of panic. In fact, strategists are questioning the pace of the ascent in yields, and anticipate a reversal if policymakers signal they're hesitant to remove the proverbial punch bowl. The challenge for investors to start the year is that there's a sense that yields are finally pushing higher, but the forces driving that trend are so slow-moving, such as central-bank policy. Bill Gross at Janus Henderson Group, for instance, declared a bond bear market this month, yet he expects it'll be "mild," without big losses. Traders have long focused on the yield levels cleared last week, because they represented the top of the range since December 2016. DoubleLine Capital's Jeffrey Gundlach, for one, said this month that the ten-year yield could accelerate higher if it traded past last year's peak of about 2.63%. He added context to that in an email Friday, saying "closing levels are what matter. And preferably two in a row. Other markets, such as Bunds, need to confirm too." The Treasury market is on pace to post losses in January for the first time since 2013. Traders will be scanning the globe for affirmation that the selloff isn't a fake-out.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.43%	3 mo	1.46%	3 mo	1.80%	3 mo	1.29%
6 mo	1.62%	6 mo	1.47%	6 mo	1.91%	6 mo	1.34%
1 yr	1.77%	1 yr	1.63%	1 yr	2.00%	1 yr	1.40%
2 yr	2.07%	2 yr	2.07%	2 yr	2.26%	2 yr	1.60%
5 yr	2.45%	5 yr	2.33%	5 yr	2.74%	5 yr	1.79%
10 yr	2.66%	10 yr	3.01%	10 yr	3.30%	10 yr	2.31%
30 yr	2.93%	30 yr		30 yr	3.76%	30 yr	3.24%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.08%	5.56%
S&P 500 (Large Cap)	0.88%	5.20%
S&P 400 (Mid Cap)	0.68%	4.17%
Russell 2000 (Small Cap)	0.36%	4.07%
NASDAQ Composite	1.04%	6.30%
MSCI EAFE (International)	0.86%	5.43%
iShares Real Estate	0.65%	-4.38%

The S&P 500 ended its third straight week of gains, closing at a new all-time high. Contrasting the rise in stocks, the U.S. dollar booked its fifth straight weekly decline, while longer dated Treasury bonds fell for the third straight week – The U.S. 10-year yield closed the week at its highest level in 4 years at 2.65%.

Consumer and Cyclical sectors had the best performance of the eleven major sector groups last week – Consumer Staples, Health Care, and Technology lead advancers, while Energy, Telecom, and Utilities declined.

Bespoke provided some historical context to the performance of the S&P 500 through the first couple of weeks of the new year. They noted in a report the S&P 500 is already up nearly 5% which is the best start to a year since 2003. Since 1928, there have been 18 prior years where the index has been up at least 3% through the first 9 trading days. On average stocks went on to gain 8.10% for the rest of the year with positive returns 78% of the time.

Ryan Detrick of LPL noted too that through the first 5 trading days, the S&P 500 was up 2.8%. He pointed out that in the prior 15 times it started a year up at least 2% the index went on to finish higher every time, with an average gain of 18.6%. His data does not go back as far as Bespoke which is the reason for the slight variance in the analysis.

Lots of talk will continue to swirl about the potential for a looming government shutdown. As of the market close on Friday, things appeared to be heading in the direction of a shutdown. The House managed to pass a stopgap funding measure, but support in the Senate looked unlikely.

For the week ahead, earnings season begins to pick up steam. Notable releases this week include Netflix, Johnson & Johnson, Procter & Gamble, Verizon, Caterpillar, Intel, Starbucks, and General Electric. Also of note, the Bank of Japan makes its latest rate decision Monday night and the European Central Bank releases its latest rate policy decision on Thursday.

The S&P 500 closed last week at 2810 marking a new all-time high. Support levels continue to rise along with the index and now stand at 2675, 2615, and 2515.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

Below is a summery of our current stance on most asset classes:

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.
Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.
Large Cap Stocks - A favorable weighting is recommended. Growth has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.
Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.
International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight is recommended.
Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
Real Estate - Pricing has stabilized and long-term valuations appear attractive. Real Estate has performed well of late and should continue to be a strong alternative to other asset classes.
Commodities - Global demand should support higher prices if the global recovery remains on track. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.