2018 Weekly Portfolio Manager Commentary

February 2, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Personal Income increased at 0.4% for December, approximately as expected. The Price Index was up 0.2% for the month and up 1.7% for the year. The Employment Cost Index was up 0.6% for the fourth quarter and up 2.6% for all of 2017. No interest rate hike arose from the January FOMC meeting. The Chicago Purchasing Manager's Index came in at a strong 65.7 for January 2018. This was well above the 50 neutral level, and decently above consensus of 64.0. The overall U.S. Purchasing Manager's Index came in at 55.5 for January 2018, which while expansionary, was unchanged from December. The ISM Manufacturing Index was stronger still, at 59.1 for January. Construction Spending was up 0.7% for December and up 2.6% for all of 2017. U.S. Non-Farm Productivity was flat for the fourth quarter while unit labor costs were up 2.0%. U.S. Factory Orders were up 1.7% for December. Finally, the U.S. Unemployment Rate was flat, at 4.1% for January.

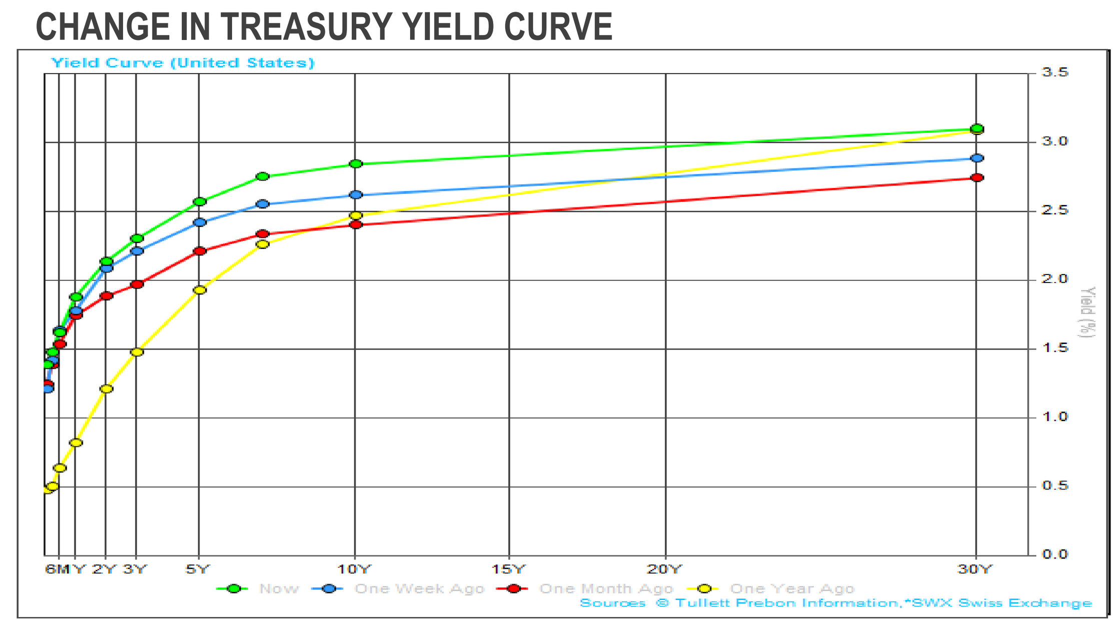
FIXED INCOME

In the $2 trillion Treasury-bill market, where the U.S. government turns for short-term funding, investors are showing they are plenty nervous about the approaching deadline to raise the nation's debt ceiling. With Treasury expected to exhaust its borrowing authority as early as the first half of March, a four-week bill sale this week will serve as the latest gauge of investor anxiety. There's a growing concern that the impasse over the debt limit will become entangled with efforts to keep the government open. Current federal funding expires this Thursday, and the Republican-led Congress has been working on a stopgap measure to extend that into late March. Treasury has deployed extraordinary measures to stay under the debt cap since it was reinstated in early December, but investors are wary. The new securities mature March 8, around when the Congressional Budget Office expects Treasury to run out of room. Traders are asking for higher yields to own previously issued bills maturing March 8. What's more, an auction last week of bills due March 1, drew the weakest demand since May. "People are kind of getting skeptical of March 8 bills," said Joseph Abate, a strategist at Barclays Capital in New York. "You might argue that the March 1 bill isn't necessarily vulnerable to payment delay because the Treasury probably has sufficient resources to meet outflows and thus might be able to last until March 5." Treasury has placed the drop-dead date around the end of February. But investors are leaning toward the projection from the nonpartisan CBO, which said last week that the U.S. may run the risk of default without a debt-ceiling increase in the first half of March. The debt-ceiling showdown is roiling the bill market in another way: Treasury has been shrinking bill auctions. This week's four-week sale, the size of which will be announced Monday, could be at least $10 billion smaller than last week's, according to Abate. So far, Republican leaders' plan for keeping the government open doesn't include a move to lift the cap. As long as that's the case, dislocations in the bill market may persist.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.47%	3 mo	1.47%	3 mo	1.86%	3 mo	1.25%
6 mo	1.63%	6 mo	1.53%	6 mo	1.97%	6 mo	1.31%
1 yr	1.87%	1 yr	1.73%	1 yr	2.08%	1 yr	1.38%
2 yr	2.14%	2 yr	2.12%	2 yr	2.36%	2 yr	1.53%
5 yr	2.59%	5 yr	2.45%	5 yr	2.89%	5 yr	1.95%
10 yr	2.84%	10 yr	3.16%	10 yr	3.46%	10 yr	2.60%
30 yr	3.09%	30 yr		30 yr	3.86%	30 yr	3.57%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-4.11%	3.34%
S&P 500 (Large Cap)	-3.82%	3.44%
S&P 400 (Mid Cap)	-3.85%	0.98%
Russell 2000 (Small Cap)	-3.74%	0.84%
NASDAQ Composite	-3.51%	4.94%
MSCI EAFE (International)	-3.59%	3.19%
iShares Real Estate	-2.93%	-5.62%

The S&P 500 ended the week lower, ending its streak of four consecutive weekly gains. The Dow closed Friday with a 665 point loss – however, the index is only 4% off its recent all-time high - 2.5% of that 4% came on Friday alone. All eleven major sector groups ended the week lower with Energy, Health Care, and Materials leading decliners.

Last week the S&P 500 closed the books on January with a positive return of 5.73% - marking the 15th straight monthly positive return for the index. Bespoke noted in a report this year marked the best start to any year since 1987. They noted that in years when January is up at least 5%, the S&P has been up over the next 11 months 13 out of 19 times.

Also of note is that January saw the S&P 500 make 14 new record closing highs. According to Bespoke, there have only been two months in the index's history that have seen more all-time closing highs, and they came in 1955 and 1928.

Healthcare stocks dropped on Tuesday after news came out that Berkshire Hathaway, Amazon, and JPMorgan plan to create a company to address healthcare issues for their US employees, with the stated goal of improving satisfaction and reducing costs. The three companies said they will pursue this objective through an independent entity that is free from profit-making incentives and constraints.

One thing to keep in mind as the market resides at elevated levels is the psychological impact a decline might have. From a psychological perspective, investors have not experienced the pain of any meaningful decline in over a year. Consider at elevated levels a small percentage drop equates to a seemingly large point loss. For example, a 2% drop for the Dow Jones Industrial Average from its high of 26,616 translates to a point drop of over 530 points.

For the week ahead, corporate earnings continue to be the main focus with notable releases expected from Bristol-Myers, Sysco, Dunkin Donuts, Disney, Tesla, and Nvidia. Several Federal Reserve officials are slated to give speeches over the course of the week – the group voted unanimously to keep U.S. rates unchanged last week in Fed President Janet Yellen's last meeting as head of the group.

The S&P 500 closed down last week, finishing at 2762. Support levels haven't changed and we are watching 2760, 2720, and 2620 – the 200-day moving average for the S&P 500 ended the week at 2540.

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.