2018 Weekly Portfolio Manager Commentary

March 9, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The PMI Services Index and the ISM Non-Manufacturing Index came in at nice expansionary rates of 55.9 and 59.5, respectively. Non-farm productivity came in at 0.0% for the fourth quarter of 2017, while unit labor costs were +2.5% on an annualized basis. The ADP Employment Report had February payrolls flat with January. Change in Nonfarm Payrolls came in a much higher than expected with 313,000 jobs created in February versus the 205,000 estimate according to Bloomberg. The unemployment rate was unchanged at 4.1%.

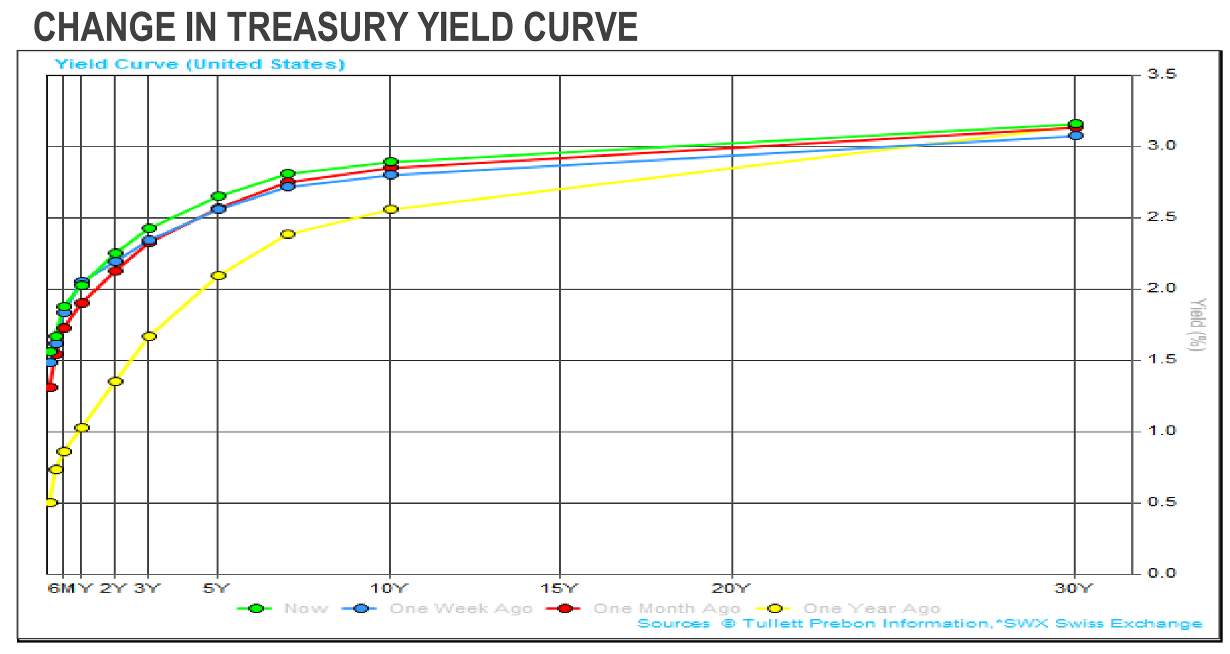
FIXED INCOME

Bond traders get another round of crucial U.S. inflation data this week as they ponder on one of the biggest debates in the market -- whether to bet on a quicker pace of Federal Reserve rate hikes. After surprisingly robust February job gains came without signs of inflationary pressures, investors will look to Tuesday's consumer price report to solidify expectations for the Fed's path. The market is on board with the central bank's projection of three increases this year, but has yet to move toward the fourth hike that some Wall Street banks predict. Strong CPI figures could upend the Goldilocks scenario that emerged from the latest jobs report leading traders to anticipate that policy makers will ramp up their rate forecasts. A move in that direction could punish shorter-maturity debt in particular and threaten to spill over into other asset classes, as seen in the turmoil that roiled financial markets earlier in the year when longer-dated yields approached a four-year high. "If the data causes the market to price in more rate hikes, that could hurt risk assets and cause the curve to flatten," said Gennadiy Goldberg, senior U.S. rates strategist at TD Securities in New York. "So yield increases could be self-limiting if risk assets start keeling over again." Consumer prices probably rose at a 2.2% annual pace last month, the fastest since November, according to a Bloomberg survey. Investors show little sign they see it picking up much more. The ten-year breakeven rate, a proxy for the annual inflation rate the market expects for the next decade, is about 2.1 percentage points. A CPI reading above expectations could spell trouble for buyers at the Treasury auctions scheduled for this week. The market will have to digest $62 billion of notes and bonds as the government issues three-, ten- and thirty-year Treasuries. Debt sales have started to swell amid worsening federal deficits and as the Fed trims its balance sheet. Ten-year yields have stabilized since nearly reaching 3% last month after January labor data showed a larger-than-expected jump in average hourly earnings. February earnings rose less than predicted.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.66%	3 mo	1.71%	3 mo	2.17%	3 mo	1.26%
6 mo	1.87%	6 mo	1.76%	6 mo	2.24%	6 mo	1.31%
1 yr	2.02%	1 yr	1.94%	1 yr	2.35%	1 yr	1.39%
2 yr	2.26%	2 yr	2.23%	2 yr	2.61%	2 yr	1.55%
5 yr	2.65%	5 yr	2.56%	5 yr	3.08%	5 yr	2.02%
10 yr	2.89%	10 yr	3.20%	10 yr	3.63%	10 yr	2.68%
30 yr	3.16%	30 yr		30 yr	4.03%	30 yr	3.69%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	3.34%	3.02%
S&P 500 (Large Cap)	3.59%	4.63%
S&P 400 (Mid Cap)	3.78%	2.82%
Russell 2000 (Small Cap)	4.20%	4.22%
NASDAQ Composite	4.20%	9.76%
MSCI EAFE (International)	1.96%	0.67%
iShares Real Estate	3.45%	-6.81%

Last week, Friday marked the nine year anniversary of the bottom of the financial crisis. Since the bottom, the S&P 500 has rallied over 300% in the past nine years!

Of course it has not been a smooth ride. During that time there were over 30 “panic attacks” such as the U.S losing its Triple A credit rating, the European Debt Crisis, the threat of a government shutdown, or the debt ceiling, that investors thought would derail the bull market.

We view the recent downtick in the market as a correction versus the end of the nine year bull market. And this is a little bit more evident when we look at the fundamental picture. We are in the midst of earnings season and it is shaping up to be a very a strong one.

According to Bloomberg, over 81% of U.S Companies have managed to beat analyst expectations, which is the strongest it has been in 7 years. Eight out of 11 sectors have reported double digit profit growth. Information Technology, Consumer Discretionary, and Financials have been the leaders year to date. Whereas, Consumer Saples, Energy, Utilities, and Real estate have been lagging the S&P 500.

This positive trend is not isolated to U.S. Companies. Last month, the number of global profit upgrades superseded downgrades by the largest margin in over 18 years.

Equities rallied last week Friday with a lot of the returns disbursed among the sectors. Industrials, Financials, Info Technology and materials were up 4%. Utilities and Consumer Staples were the laggards for the week.

Ultimately, trading has been choppy lately as investors digest the rise in interest rates and the news that is coming out Washington, particularly with tariffs dominating the headlines and concern over potential trade tensions with China. Regardless, we tend to keep the long term perspective in mind and the trend remains strong and intact. We have experienced almost unprecedented calm in the market so a little choppiness is expected.

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.