2018 Weekly Portfolio Manager Commentary

March 16, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Inflation numbers for February both at the Consumer and Producer level increased from their January readings at 2.2% and 2.8% year-over-year, respectively. Housing starts for February came in a little less than expected at an annualized 1.236 million versus an estimate by Bloomberg of 1.29 million. Job openings as based on the JOLTS report showed over 6.3 million jobs were available in the U.S. for the month of January. That is the highest reading ever recorded by this survey. Consumer Sentiment as measured by the University of Michigan rose to its highest level since 2004.

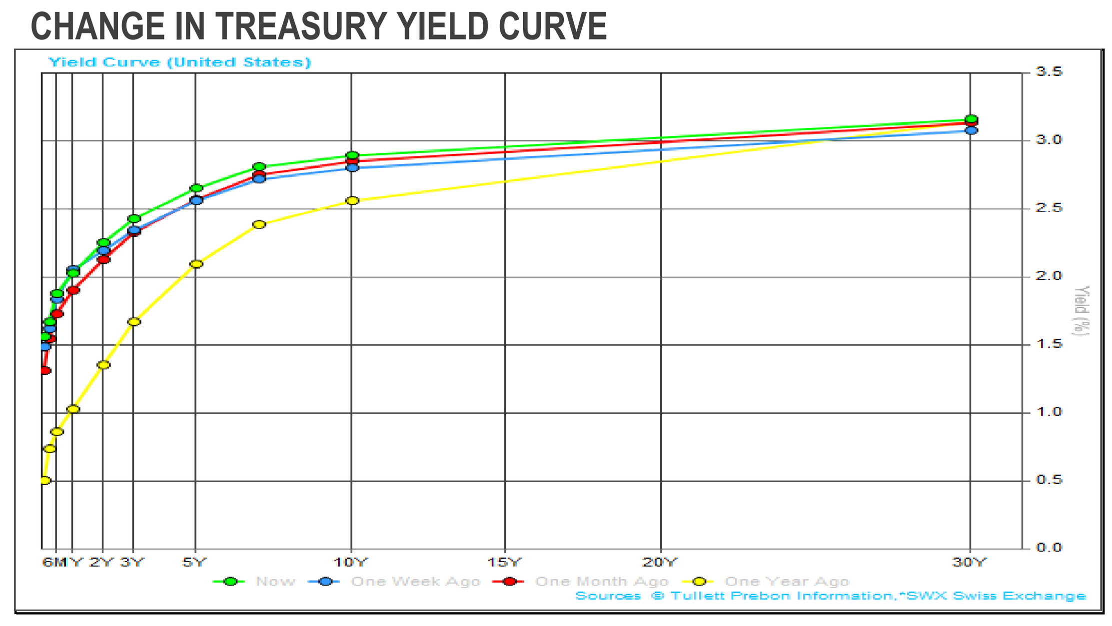
FIXED INCOME

The U.S. economy has begun the year with a downshift in growth. Unexpectedly weak, February retail sales pushed down forecasts for the annualized pace of expansion in the first quarter, with the Federal Reserve Bank of Atlanta's GDPNow tracking estimate at 1.8% last Friday, down from 2.5% a week earlier. While strong job gains, rising industrial production and elevated consumer confidence indicate underlying health, the data as a whole suggest the tax cuts haven't had a major impact yet. With Americans starting to enjoy fatter paychecks, though, most economists see the sluggishness as temporary, blaming it on factors including inclement weather, delays in tax refunds and consumers taking a break after a late-2017 spending spree tied partly to post-hurricane rebuilding. If GDP expands in the first quarter at a pace slower than the previous quarter's 2.5%, it would mark the third year in a row that the economy is beginning the year with softer growth than the ending to the previous year. One explanation is so-called residual seasonality, or quirks in the data that the government is trying to address. In three of the past four years, the first quarter has been the weakest of all quarters of the year. "Don't lose sleep over it," said Ryan Sweet, Director of Real-Time Economics at Moody's Analytics, which cut its estimate of first-quarter growth to 1.7% from 2.4%. "Growth in the second half of 2017 was juiced by hurricane rebuilding and replacement demand for vehicles." Forecasts compiled by Bloomberg show economists remain optimistic on growth for the full year. While the median estimate of analysts for first-quarter expansion has declined to 2.5% this month from 2.7% in February, the full-year projection has edged up to 2.8% from 2.7%. Fed officials agree the outlook is relatively bright, even if they don't share the White House's view that 3% growth is sustainable. Jerome Powell, the central bank's new chairman, told Congress this month the economy was "strong" and tax cuts would add "meaningfully to growth."

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.77%	3 mo	1.83%	3 mo	2.26%	3 mo	1.30%
6 mo	1.94%	6 mo	1.81%	6 mo	2.34%	6 mo	1.35%
1 yr	2.05%	1 yr	2.00%	1 yr	2.42%	1 yr	1.43%
2 yr	2.29%	2 yr	2.27%	2 yr	2.66%	2 yr	1.59%
5 yr	2.64%	5 yr	2.57%	5 yr	3.12%	5 yr	2.05%
10 yr	2.84%	10 yr	3.14%	10 yr	3.64%	10 yr	2.70%
30 yr	3.08%	30 yr		30 yr	4.02%	30 yr	3.69%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-1.51%	1.47%
S&P 500 (Large Cap)	-1.20%	3.37%
S&P 400 (Mid Cap)	-0.63%	2.17%
Russell 2000 (Small Cap)	-0.65%	3.54%
NASDAQ Composite	-1.02%	8.64%
MSCI EAFE (International)	-0.44%	0.23%
iShares Real Estate	1.31%	-5.59%

U.S. stocks fell modestly last week – with 9 of the 11 major sector groups posting a negative weekly return. Materials, Financials, and Consumer Staples led decliners while Real Estate and Utilities were the only two advancing sectors. This bull market recently celebrated its 9 year anniversary following the '07-'08 Financial Crisis – the S&P 500 reached an intraday low of 666 on March 6, 2009. The index closed Friday at 2752, an increase of over 300%.

The Nasdaq Composite eclipsed its prior high on Tuesday of this week – recouping all its losses from the 9-day, 10% decline in early February. Lots of stories are cropping up comparing this bull market run in the Technology sector to that of the Dot Com Bubble of the late 90's. Since March 2009, the Nasdaq has gained nearly 600%, which at first blush seems like a gaudy number. However, compared to the Tech Bubble, the Nasdaq rose over 1,200% from 1994 through 2000. In other words, the Nasdaq would need to double from here to reach the same gains amassed during the Tech Bubble. Also of note is that the price-to-earnings ratio of the Nasdaq peaked out at 80 in the Tech Bubble, while today that same valuation measure stands just under 30.

Bespoke issued a report last week putting the daily trading pattern of the S&P 500 so far this year into some historical context. Since the market last closed at an all-time high on January 26, there have been 16 days where the index saw a daily move of more than 1%. That is twice as many 1% moves as we saw in all of 2017. In 2017, the average daily move for the S&P 500 was only +/-0.3% compared to +/-1.2% since the January 26 high. This is a return to a more normal trading environment, and puts the complacency and low volatility of 2017 into context.

The market largely shrugged off political wrangling in Washington last week. Talks continued around the Trump administration's tariff plans as well as possible impacts from retaliatory efforts. There were lots of personnel changes with President Trump making a variety of changes to his staff – Rex Tillerson out as Secretary of State and CNBC personality Larry Kudlow in as Economic Advisor.

For the week ahead it is a relatively quiet week on the earnings front with a few notable reports including Federal Express, Oracle, General Mills, and Nike. The major economic news centers on Wednesday's FOMC meeting and rate decision – expectations are for a rate hike and an updated set of economic projections.

The S&P 500 has continued to move within the confines of a 2-year uptrend channel that is acting as both support and resistance. Any rallies would encounter resistance at 2815 and the prior all-time highs of 2872. Support for the index stands at 2660, 2600, and 2585.

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.