2017 Weekly Portfolio Manager Commentary

March 31, 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Real U.S. GDP growth was +2.1% on an annualized basis for the fourth quarter of 2016. One headwind facing the economy was a large revision to inventory accumulation. The Chicago Purchasing Managers Index came in at a strong 57.7 for March 2017. Finally, Personal Income was up 0.4% for February, while the PCE Price Index was up 2.1% year-over-year.

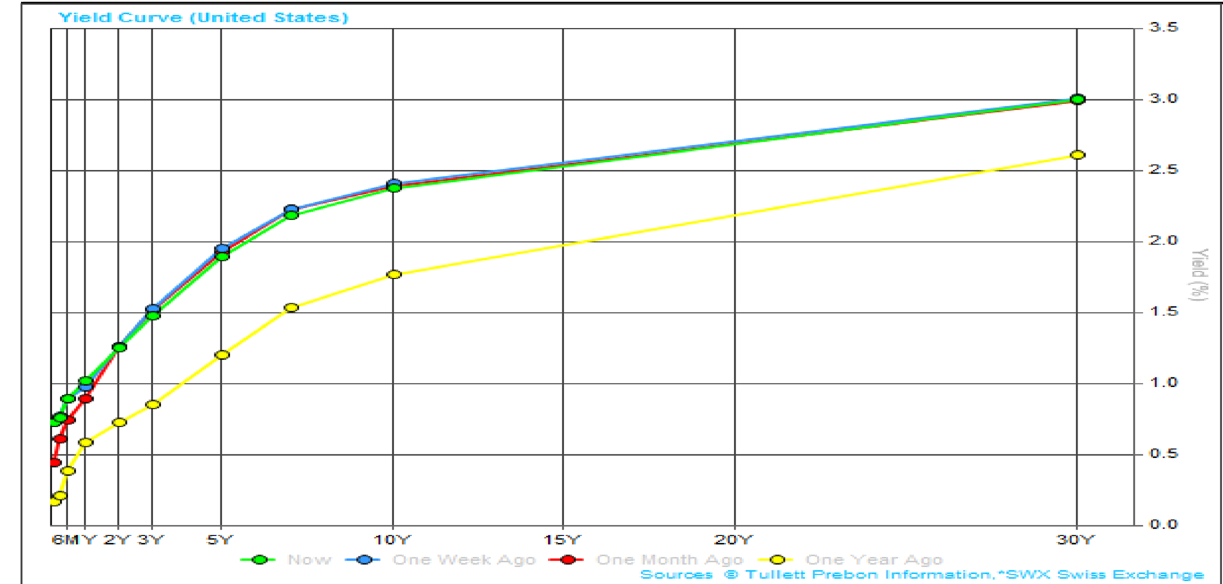
FIXED INCOME

To kick off the second quarter, bond traders will look to a fresh reading on the job market to gauge which Federal Reserve speaker has the best grip on the U.S. economy. Ten-year yields ended last week near the lowest levels of March, after gaining Friday when New York Fed President William Dudley said three rate hikes in 2017 is a "reasonable" projection and the economy isn't overheating. The Boston Fed's Eric Rosengren voiced the risk of running too hot two days earlier. He said four rate increases in 2017 could be warranted, and the San Francisco Fed's John Williams also didn't rule out four. The bond market has sided with Dudley, amid growing skepticism about the reflation trade. A market-based gauge of inflation expectations isn't far above its 2017 low, and economic data surprises, which peaked just in time for the central bank's March hike, are retreating from the highest levels since 2014, according to data gathered by Citigroup Inc. "The Treasury market is taking a more cautious view and just saying, 'Prove it to me,'" said John Bredemus, an investment strategist for Allianz Investment Management, which oversees $700 billion. "There's a lot of promise out there, and we've been disappointed often in the last few years around inflation moving up and justifying higher rates." The ten-year Treasury yield ended last week at 2.39% and has fluctuated in a range of 2.30% to 2.63% during the first three months of the year. Traders will also get a better glimpse into the minds of Fed officials from the April 5 release of the minutes of the March meeting. The futures market is pricing in almost 1.7 additional Fed increases this year, so not quite three for all of 2017.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.75%	3 mo	0.80%	3 mo	1.16%	3 mo	0.72%
6 mo	0.90%	6 mo	0.75%	6 mo	1.28%	6 mo	0.80%
1 yr	1.02%	1 yr	0.97%	1 yr	1.36%	1 yr	0.86%
2 yr	1.25%	2 yr	1.34%	2 yr	1.68%	2 yr	1.08%
5 yr	1.92%	5 yr	1.92%	5 yr	2.44%	5 yr	1.65%
10 yr	2.39%	10 yr	2.90%	10 yr	3.28%	10 yr	2.43%
30 yr	3.01%	30 yr		30 yr	4.18%	30 yr	3.63%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.32%	5.19%
S&P 500 (Large Cap)	0.82%	6.07%
S&P 400 (Mid Cap)	1.55%	3.94%
Russell 2000 (Small Cap)	2.37%	2.46%
NASDAQ Composite	1.45%	10.13%
MSCI EAFE (International)	0.24%	7.90%
iShares Real Estate	0.96%	2.99%

The S&P 500 rebounded last week, recovering almost all the declines experienced in the aftermath of the collapse of the Republican push to enact new health care legislation. All eyes will now seemingly be focused on how effective the Trump administration can be at moving forward on tax reforms.

Cyclical sectors had a better week than their defensive brethren with Energy, Materials, and Consumer Discretionary posting the largest gains. Ten of the eleven major sectors groups rose, with Utilities the only decliner. Oil prices crept higher last week, reversing recent weakness—ending the week above $50 a barrel for the first time since March 8. As interest rates backed off their recent highs, bond proxies like dividend-paying Utilities continued their weak performance.

Another interesting post-election shift has been seen in the U.S. dollar. The U.S. dollar last week gave up the last of its post-election rally and is now in negative territory for 2017. Dampened fiscal policy expectations here in the U.S. following the healthcare bill failure coupled with economic strength in the Eurozone suggesting the ECB can be less accommodative in tone has helped put downward pressure on the dollar. A weak dollar is not necessarily a bad thing, as it makes U.S. produces goods and services cheaper on the global stage relative to other currencies.

The other notable post-election trend is the recent strength in international markets—ending March with four straight monthly gains. Stronger growth – from the world's biggest economies down to emerging markets—has helped underpin the rally. The rally has had plenty of headwinds not the least of which was Wednesday's announcement that British Prime Minister Theresa May formally triggered Article 50 kicking off what will likely be a multi-year negotiation to lay out the terms for Brexit.

Samsung introduced its new Galaxy S8 smartphone last week—the company's first new mobile phone since the debacle with the Note 7 battery fires that led to widespread recalls.

The S&P 500 fell below its uptrend line off the November lows prior to the election; however, the trend for the index is still clearing higher. The S&P briefly touched its 50 day moving average on March 28 and resumed a move higher. A continuation of last week's rally will likely encounter resistance at all-time closing highs of 2395. Any weakness would find support at 2340, 2290, and 2175 as short, intermediate, and longer term levels. The S&P 500 closed last week at 2362.

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.

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