2018 Weekly Portfolio Manager Commentary — April 20, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Housing Starts were quite strong for the March 2018 data release with 1.319mm homes started on an annualized basis—multi-family was the standout for the month. U.S. Industrial Production was up 0.5% for March, and Capacity Utilization stood at a strong 78.0%. Retail sales were up 0.6% for March with strength across the board.

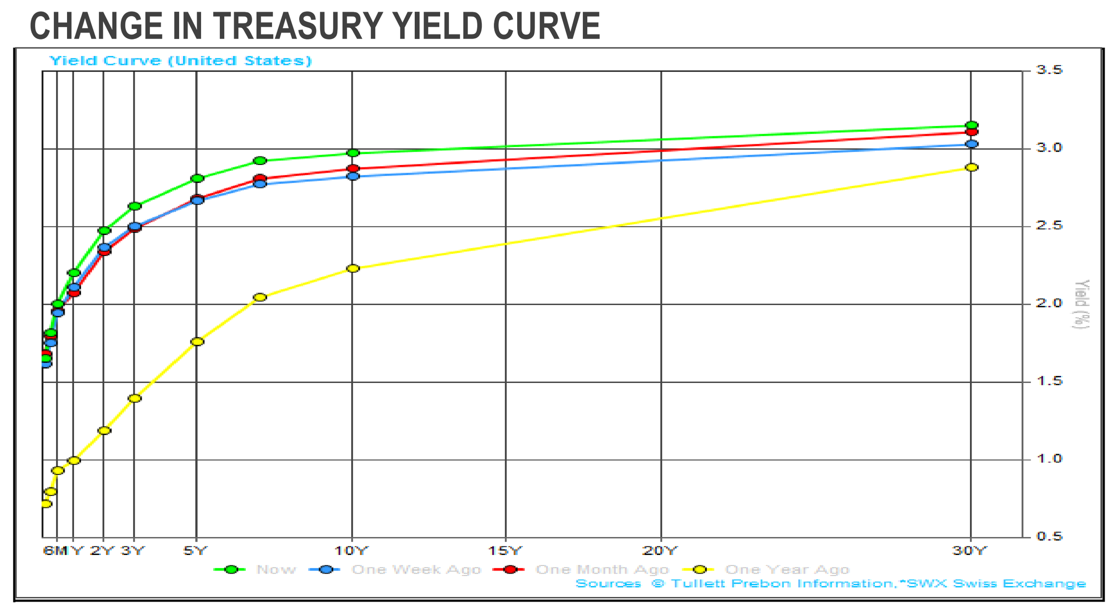
FIXED INCOME

The global bond market's primary benchmark, the ten-year U.S. Treasury yield, is knocking on the door of 3%, a level it hasn't topped in more than four years. That's more than just a nice round number. Higher yields make the burden of everything from mortgages to student loans and car payments even heavier. Some market gurus see it as a turning point with effects that could be felt for years, and not just in bonds. With the Federal Reserve signaling interest rates are going up even more, investors in riskier assets like stocks and high-yield are left to wonder if this is how their post-recession party ends. Since 2011, 3% on the U.S. ten-year Treasury has been touched only twice, briefly, in 2013 and early 2014, before a bond bull market drove yields to record lows. But 3% has also been citied by prominent fixed-income investors like Jeffrey Gundlach at DoubleLine Capital and Scott Minerd at Guggenheim Partners as critical to determining whether the three-decade bull market in bonds is at an end. In the minds of analysts who look at market patterns, once the yield breaks much beyond the 3.05% mark, to levels last reached in 2011, that threshold could flip to a floor from a ceiling. The Bloomberg Barclays U.S. Aggregate Bond Index, the benchmark for a wide swath of mutual funds, fell 1.15% in January and another 0.95% in February. The general consensus is that yields have moved very far, very fast already. More than half of the 56 analysts surveyed by Bloomberg expect the ten-year yield to end 2018 within 25 basis points of three percent, meaning a range-bound remainder of the year. Bond bears counting on even higher yields would argue that inflation is just around the corner and the economy is about to get even hotter. Bond bulls would say the Federal Reserve is getting close to its limit for rate hikes because the economy can't withstand much steeper borrowing costs without slowing down. Only time will tell which side is correct.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.80%	3 mo	1.81%	3 mo	2.28%	3 mo	1.57%
6 mo	2.00%	6 mo	1.85%	6 mo	2.36%	6 mo	1.63%
1 yr	2.19%	1 yr	1.98%	1 yr	2.48%	1 yr	1.69%
2 yr	2.46%	2 yr	2.40%	2 yr	2.76%	2 yr	1.82%
5 yr	2.80%	5 yr	2.73%	5 yr	3.25%	5 yr	2.18%
10 yr	2.96%	10 yr	3.28%	10 yr	3.77%	10 yr	2.67%
30 yr	3.15%	30 yr		30 yr	4.14%	30 yr	3.60%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.46%	-0.41%
S&P 500 (Large Cap)	0.54%	0.44%
S&P 400 (Mid Cap)	0.89%	0.42%
Russell 2000 (Small Cap)	0.95%	2.23%
NASDAQ Composite	0.56%	3.83%
MSCI EAFE (International)	0.37%	1.05%
iShares Real Estate	-0.70%	-7.98%

It was a choppy week for stocks as an early week rally was largely erased by declines on Thursday and Friday. Eight of the eleven sector groups rallied last week—Consumer Staples was the notable standout to the downside, falling over -4%. Energy stocks rallied over +2.5% as crude oil continued its climb, finishing the week at 3 year highs near $70 a barrel.

Shares of Netflix rose sharply on Tuesday, up over 9%. The company reported Q1 earnings ahead of estimates. The other positive news was that customer growth expanded ahead of expectations, with domestic net adds +1.96 million and international net adds +5.46 million.

Bespoke wrote in a report last week noting that since the S&P 500 peaked on February 5, 250 stocks have traded higher and 250 stocks are lower. They noted that since the S&P 500 is down almost -8% from its recent highs, the average decline of individual stocks in the index is quite a bit larger. The average stock in the S&P 1500 is down -16.2% from its 52-week high.

The same report broke down the S&P 1500 by market cap and showed that small caps are down the most from their 52-week high (-18.3%) followed by mid-caps (-15.9%) and large cap stocks are down an average of -13.8%.

The latest reading of individual investor sentiment showed that investors are continuing to leave the bullish camp. The weekly AAII poll of bullish sentiment dropped to 26.09% from 31.9%. The respondents leaving the bullish side are not turning neutral—they are flat our bearish. In the week's survey, bearish sentiment surged to 42.75% from 36.6%. Bearish sentiment has now increased by 20% in the last four weeks and is at its highest level since last March.

This week marks the largest volume weak of the earnings reporting period. Notable companies reporting include Kimberly-Clark, Alphabet, Coca-Cola, Eli Lilly, United Technologies, Amgen, Comcast, Twitter, Facebook, Ford, Visa, General Motors, Pepsi, Amazon, Microsoft, and Starbucks. On Friday, we will see the first look at U.S. Q1 GDP, the rest of the economic calendar is relatively slow.

One news report to keep an eye on in the week ahead is that Axios reported last week that President Trump is planning an April 26 speech on prescription drug prices. The event is scheduled to parallel a Department of Health and Human Services request for information on different drug price policy ideas.

The HealthCare space also rallied last week on reports that Amazon is moving back from plans for its Amazon Business unit to sell and distribute drugs to healthcare providers. CNBC reported that the company has been unable to convince big hospitals to change their purchasing processes.

Last week's rally did little to change the support and resistance levels we are watching for the S&P 500. Support still stands at 2580 and at the 200-day moving average of 2600, while rallies will run into resistance at 2730, 2800, and 2840. The index closed last week at 2670.

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.