2017 Weekly Portfolio Manager Commentary

April 21 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Housing Starts came in at 1.215 million units, a bit below expectations of 1.262 million units. March data have historically proven somewhat unreliable due to weather issues. Industrial Production in the U.S. was up 0.5% in March, with Capacity Utilization up to a stronger 76.1%. Finally , the Index of Leading Indicators was up 0.4% for March, a bit more than the +0.2% consensus.

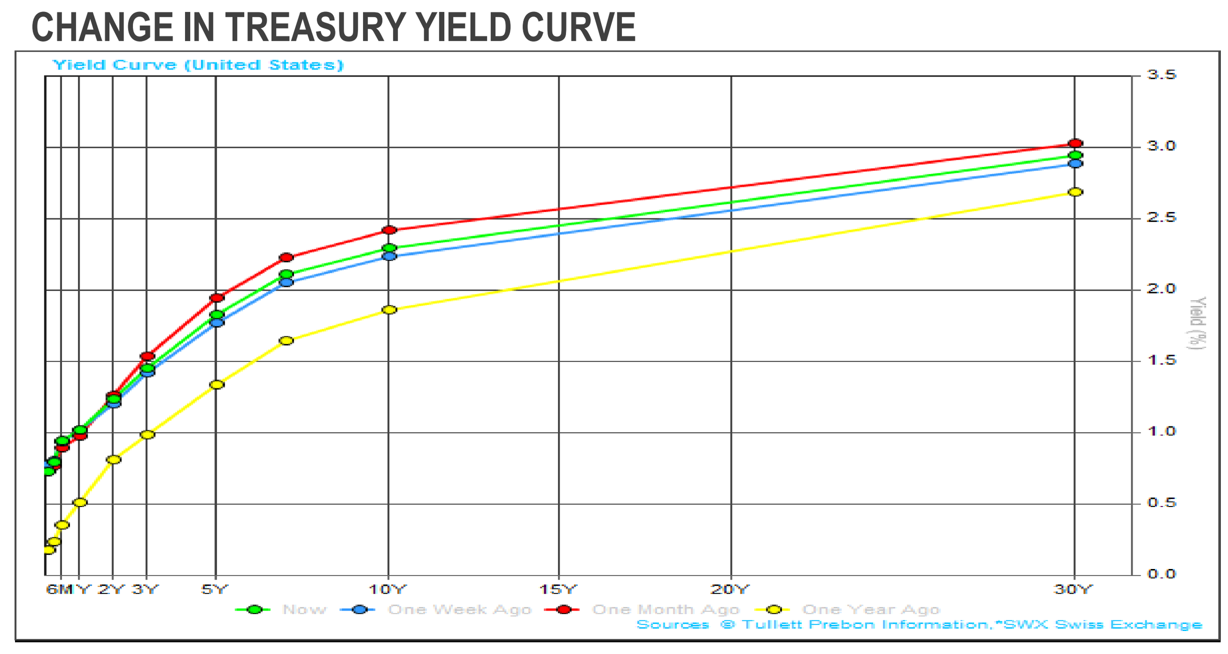
FIXED INCOME

With days to spare before Congress has to reach a deal to keep the U.S. government running, bond traders see a potential showdown breathing new life into the Treasury market's rally. Assuming France's presidential election doesn't roil markets, the April 28 deadline for Congress to at least pass a stopgap spending measure and avert a government shutdown looks set to take center stage this week, with the calendar mostly devoid of major economic data or Federal Reserve speakers. The negotiations in Washington will kick in as investors have lost confidence in the prospect of the administration and lawmakers hammering out fiscal stimulus any time soon, although President Trump intends to release a tax plan this week. Republicans' failed attempt to overhaul health care and the infighting it revealed have dampened expectations for Trump to achieve his policy goals and led ten-year yields to retrace half of their post-election surge. Should an impasse on financing the government bog down the president's agenda even further, bond bulls may be re-energized. Ian Lyngen at BMO Capital Markets sees scope for ten-year yields to fall to 2% should the standoff stretch into the week without significant progress. Ten-year yields closed last week at around 2.25%, not far from the lows of 2017. Speaker Paul Ryan told House Republican colleagues Saturday that a spending bill will be ready in time to avert a potential shutdown. And there's always the possibility that lawmakers can pass a stopgap spending measure to keep government running while negotiations continue. But if a deal can't be reached and funding expires, the government will partially shut down, similar to what happened in 2013.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.78%	3 mo	0.85%	3 mo	1.14%	3 mo	0.71%
6 mo	0.88%	6 mo	0.79%	6 mo	1.24%	6 mo	0.76%
1 yr	0.98%	1 yr	0.97%	1 yr	1.31%	1 yr	0.83%
2 yr	1.18%	2 yr	1.34%	2 yr	1.59%	2 yr	1.02%
5 yr	1.77%	5 yr	1.82%	5 yr	2.27%	5 yr	1.55%
10 yr	2.25%	10 yr	2.79%	10 yr	3.08%	10 yr	2.29%
30 yr	2.90%	30 yr		30 yr	4.03%	30 yr	3.47%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.51%	4.71%
S&P 500 (Large Cap)	0.87%	5.54%
S&P 400 (Mid Cap)	2.19%	3.87%
Russell 2000 (Small Cap)	2.58%	2.05%
NASDAQ Composite	1.82%	10.15%
MSCI EAFE (International)	0.62%	7.34%
iShares Real Estate	0.99%	5.73%

The S&P 500 reversed the losses of the prior two weeks ending in positive territory. Nine of the eleven sector groups rose – exhibiting broad participation in the week's gains. Energy and Health Care were the only two to post declines – Energy stocks were weighed down by a sharp drop in crude oil prices. Crude last week fell $4 a barrel to end the week below $50.

The price of gold ended last week at $1,286 an ounce – effectively erasing all the declines amassed immediately following the U.S. elections in November. Friday's close marks a five month price high. With an increase in geopolitical uncertainty it would seem that investors are adding the metal as a safe haven. Adding validity to this phenomenon has been the recent action in U.S. government bond yields – which have turned lower as exemplified by the 10-year Treasury bond ending last week at 2.24% marking a five month low.

The latest update to the American Association of Individual Investors sentiment survey showed that the recent weakness in equity markets has pushed sentiment of individual investors to the lowest levels of bullishness since the election. This week's print of 25.71% bulls also marks the 120th straight week of sub-50% readings. On the reverse side, bearish sentiment has been on the rise as of late and is now at 38.7%. This indicator is widely viewed as a contrarian indicator so high readings of bearishness and low readings of bullishness are widely viewed as a positive indicator for future stock returns.

Shares of Netflix (NFLX) fell over 3% on Tuesday after the company reported earnings that exceeded estimates, but madly missed on subscriptions. Net subscriber additions came in 230,000 below consensus – with domestic growth missing by 5.3% and international missing by 4.1%.

France holds the first round of its presidential election on Sunday, April 23 – the two leading candidates will run off in a winner-take-all contest on May 7. The French election in May will be followed by a June 8 general election in the U.K. where Prime Minister Theresa May is seeking to obtain a voter mandate to take the country out of the E.U.

Short-term support for the S&P 500 stands at 2325 while intermediate and longer-term levels reside at 2290 and 2240. Rallies have recently encountered resistance at the average of the last 50 days – currently at 2358. The index closed last week at 2348.

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.