2017 Weekly Portfolio Manager Commentary

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Trustmark
Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The April PMI and ISM Manufacturing Indexes came in at 52.5 and 54.8, respectively, both still expansionary. The April PMI and ISM Services Indexes came in at 53.1 and 57.5, respectively, also expansionary. The FOMC kept rates steady this week, as expected. The Trump Administration received passage of its healthcare bill replacement to President Obama's former healthcare plan. Q1 Non-farm productivity came in at an annualized rate of 0.6%, which was above consensus. Unit labor costs were up at a 3.0% annualized rate for the quarter. Factory orders for March 2017 were relatively flat. Finally, the U.S. Unemployment rate fell to 4.4% in April from 4.5% in March.

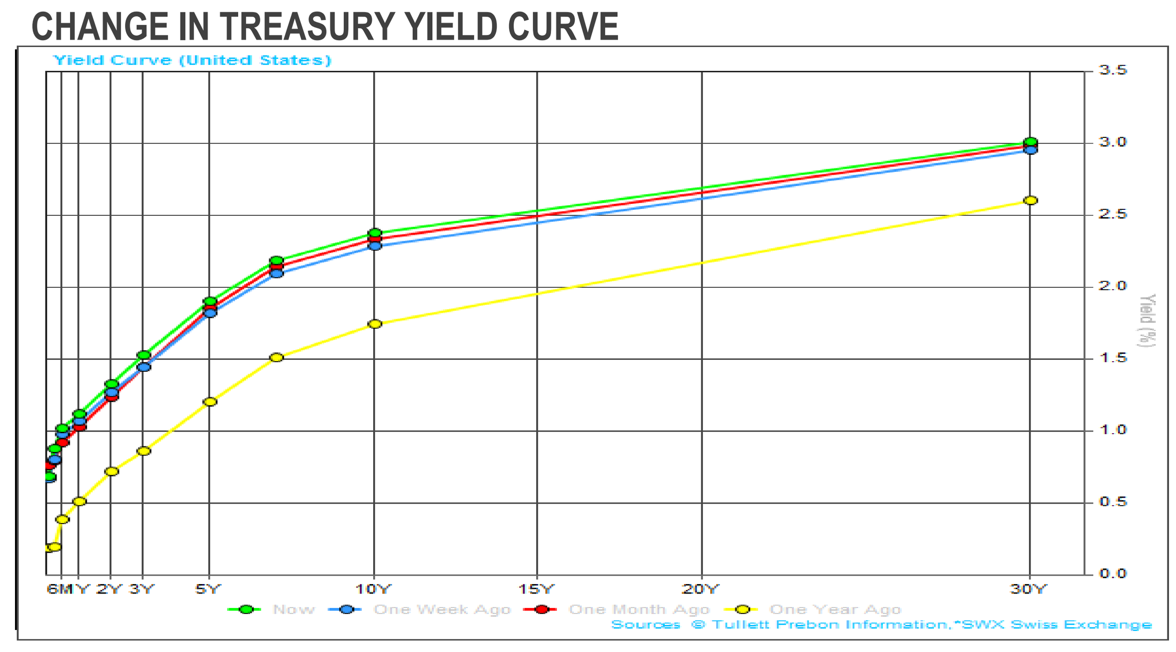
FIXED INCOME

Federal Reserve Bank of Cleveland President Loretta Mester said the central bank should continue on its gradual path of raising interest rates to prevent the risk of overheating the U.S. economy. "It's important for the FOMC to remain very vigilant against falling behind as we continue to make progress on our goals," Mester said in the text of a speech in Chicago, referring to the policy-making Federal Open Market Committee. "If we delay too long in taking the next normalization step and then find ourselves in a situation where the labor market becomes unsustainably tight, price pressures become excessive and we have to move rates up steeply, we could risk a recession," she said. After raising rates in March, Fed officials left interest rates unchanged at a meeting last week in Washington, but signaled they're still on track to hike two more times this year. In doing so, they brushed aside a first-quarter slowdown in the economy they described as "transitory". U.S. Labor Department data last Friday affirmed that view, showing employers created a greater-than-expected 221,000 new jobs in April as unemployment fell to 4.4%, the lowest since 2007. Mester was equally dismissive of data showing the economy expanded at an annual pace of 0.7% in the first three months of the year and that consumer spending was lower than expected. "The softness in the first quarter hasn't changed my medium-run outlook, and I expect a rebound in consumer spending over the rest of the year," she said. Mester said she has seen encouraging signs of businesses in her district amid both raising wages and increasing investments. Mester repeated that she would like to see the Fed change its policy this year that keeps its $4.5 trillion balance sheet at a steady level.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.89%	3 mo	0.89%	3 mo	1.20%	3 mo	0.72%
6 mo	1.00%	6 mo	0.89%	6 mo	1.29%	6 mo	0.78%
1 yr	1.10%	1 yr	1.00%	1 yr	1.38%	1 yr	0.85%
2 yr	1.31%	2 yr	1.38%	2 yr	1.68%	2 yr	1.03%
5 yr	1.88%	5 yr	1.86%	5 yr	2.37%	5 yr	1.55%
10 yr	2.35%	10 yr	2.82%	10 yr	3.18%	10 yr	2.36%
30 yr	2.98%	30 yr		30 yr	4.11%	30 yr	3.59%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.33%	7.06%
S&P 500 (Large Cap)	0.66%	7.86%
S&P 400 (Mid Cap)	0.35%	5.18%
Russell 2000 (Small Cap)	-0.22%	3.35%
NASDAQ Composite	0.90%	13.73%
MSCI EAFE (International)	2.81%	13.62%
iShares Real Estate	-0.33%	3.23%

The S&P 500 started off the month of May in a very tight trading range – with the high/low range for the week of only 20 points, or less than 1%. The index closed at 2399 within one point of the all-time high of 2400 reached back in March.

Stocks largely just shrugged off several political events – namely the passage of the ACHA on Thursday as well as comments on Monday from President Trump who said he is "actively considering" breaking up banks.

For the week, Financials, Technology, and Industrials were the three best performing sector groups – while Telecommunications and Energy were the only two groups to post negative returns. Interest rates rose slightly last week which in turn helped Financials rally and put pressure on the dividend-paying stocks.

One major headline last week was the VIX dipping below 9 on Monday. The VIX, or Volatility Index, is a common standard used to measure fear in the market. As the VIX drops it shows that volatility is declining, and that there is less fear in the market. Convergex noted in their daily missive that the VIX has closed below 10 a total of nine times since 1990 – a rare feat. Prior instances of low VIX have clustered around three dates - December 1993, late 2006/early 2007, and January 1994. In each of those prior cases, the forward 12 month return for the S&P 500 has been negative.

Bespoke issued a report last week pointing out that the Nasdaq has seen 27 closing highs so far this year. That is the third most through the first four months of any year since 1980 – only behind 1983 and 1986. While the Nasdaq continued to rally for the remainder of the first half in both 1983 and 1986, it finished both years lower by the end of the year compared to where it was on April 30.

Shares of Apple fell a little over -1% on Wednesday after the company reported revenue that was slightly lower than what analysts had projected. The company noted that sales of the iPhone were marginally softer for the quarter as customers put off purchases of a new phone in anticipation of the release of the iPhone 8 later this year.

Last week's muted action did little to change the noted support and resistance levels for the S&P 500. Short, Intermediate, and Longer term support levels remain 2365, 2325, and 2240, respectively. The 2400 all-time high is first resistance – the index closed last week at 2399.

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.