2017 Weekly Portfolio Manager Commentary

May 12 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Final Demand Producer Prices were up 0.5% for April 2017 and up 2.5% year-over-year. Consumer prices were up 0.2% for April and up 2.2% year-over-year. Finally, retail sales were up 0.4% for April, roughly in line with consensus. Otherwise it was a fairly slow economic week.

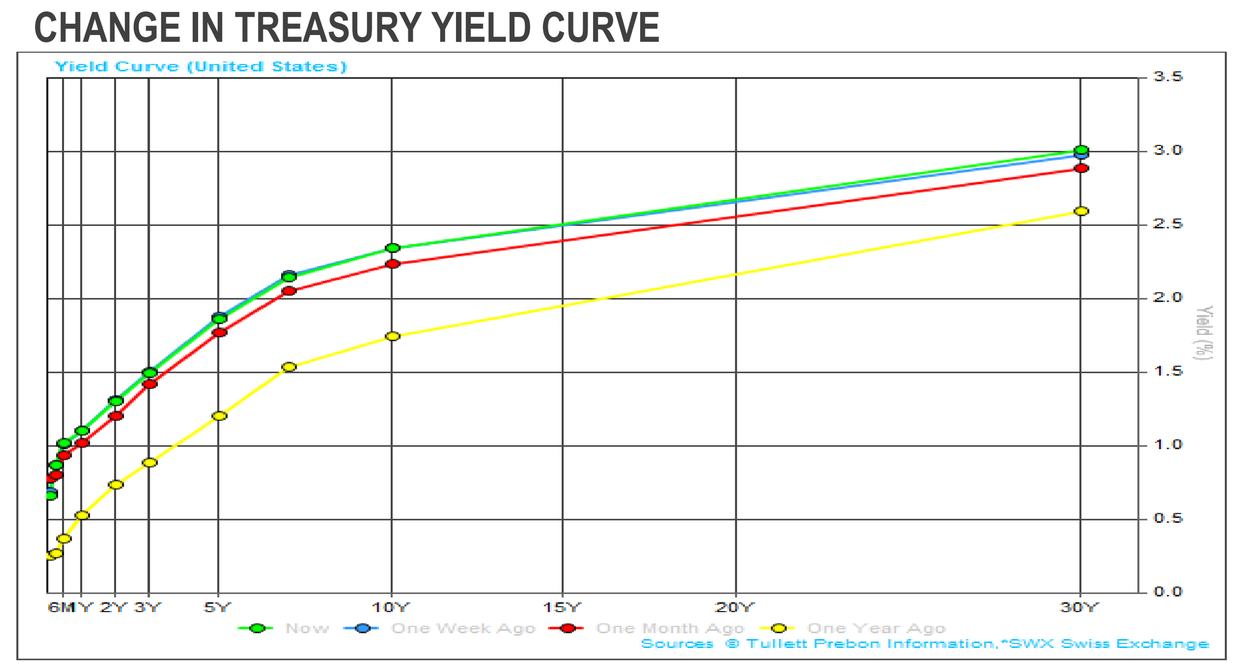
FIXED INCOME

Bond-market wagers on a pickup in U.S. inflation have been dealt a body blow. The five-year breakeven rate, which measures the yield spread between Treasuries and Treasury Inflation Protected Securities, fell about 0.06 basis points Friday, the biggest drop since last June, while the ten-year gauge sank the most this year. The shift in expectations came as the core consumer price index rose less than forecast in April, building on figures for March that showed the first negative month-over-month reading since 2010. Bolstering the market's view that the inflation outlook may be waning, the University of Michigan's survey of expected price changes over the next five to ten years slipped to 2.3%, matching the lowest level since the school began collecting data in 1979. While the latest figures stopped short of quashing traders' bets that the Federal Reserve will raise rates next month, they underscore the central bank's challenge in achieving its inflation goal even amid a robust labor market. The fact that both of the price-growth gauges missed "reduces the indicators the Fed can point to show that its inflation mandate is sustainably achieved," Aaron Kohli, a fixed-income strategist at BMO Capital Markets, wrote in a note to clients. "It's also one more sign, after two disappointing CPI prints, that inflation may be a bit more fragile than the Fed anticipated." The odds of a Fed hike next month are about 70%, down from close to 80% earlier in the week, based on the current effective fed funds rate and the forward overnight index swap rate. Policy makers have signaled they remain on a path of normalization with the unemployment rate at the lowest in nearly a decade. Data last Thursday underscored the labor market's momentum with jobless claims at a 28-year low.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.87%	3 mo	0.94%	3 mo	1.16%	3 mo	0.66%
6 mo	1.01%	6 mo	0.94%	6 mo	1.25%	6 mo	0.72%
1 yr	1.10%	1 yr	1.16%	1 yr	1.34%	1 yr	0.79%
2 yr	1.29%	2 yr	1.33%	2 yr	1.63%	2 yr	0.96%
5 yr	1.85%	5 yr	1.83%	5 yr	2.33%	5 yr	1.48%
10 yr	2.33%	10 yr	2.80%	10 yr	3.14%	10 yr	2.30%
30 yr	2.99%	30 yr		30 yr	4.08%	30 yr	3.56%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.35%	6.69%
S&P 500 (Large Cap)	-0.20%	7.58%
S&P 400 (Mid Cap)	-1.06%	4.06%
Russell 2000 (Small Cap)	-0.98%	2.34%
NASDAQ Composite	0.42%	14.21%
MSCI EAFE (International)	-0.53%	13.01%
iShares Real Estate	-1.37%	1.81%

The strongest earnings season in almost six years has been marred with the drama taking place in Washington, which continues to raise questions if President Trump will be able to follow through with his pro-business policies. Last week, the Dow Jones Industrial Average and the Standard and Poor's 500 snapped three weeks of gains whereas the Nasdaq Composite notched a fourth week of gains.

90% of companies in the S&P 500 have reported earnings and are on track for earnings growth of 13.6 % for the first quarter, which is the strongest increase since the third quarter of 2011. A little shine might be taken off this earnings season especially after traditional retailers have released disappointing earnings such as Macy's (M) last week.

On the positive side, Nvidia Corp and Advance Micro Devices released strong earnings report, which saw their respective stock prices increase significantly.

Walmart (WMT), Target (TGT) and Home Depot (HD) will be releasing earnings this coming week.

The S&P 500 has been within a trading range of 0.5% of its all-time high for 14 straight sessions. A stretch like this has never happened

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