2017 Weekly Portfolio Manager Commentary

May 19 , 2017

Trustmark
Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

A slow week for economic releases. Industrial Production was up 1.0% for April vs. 0.4% consensus.

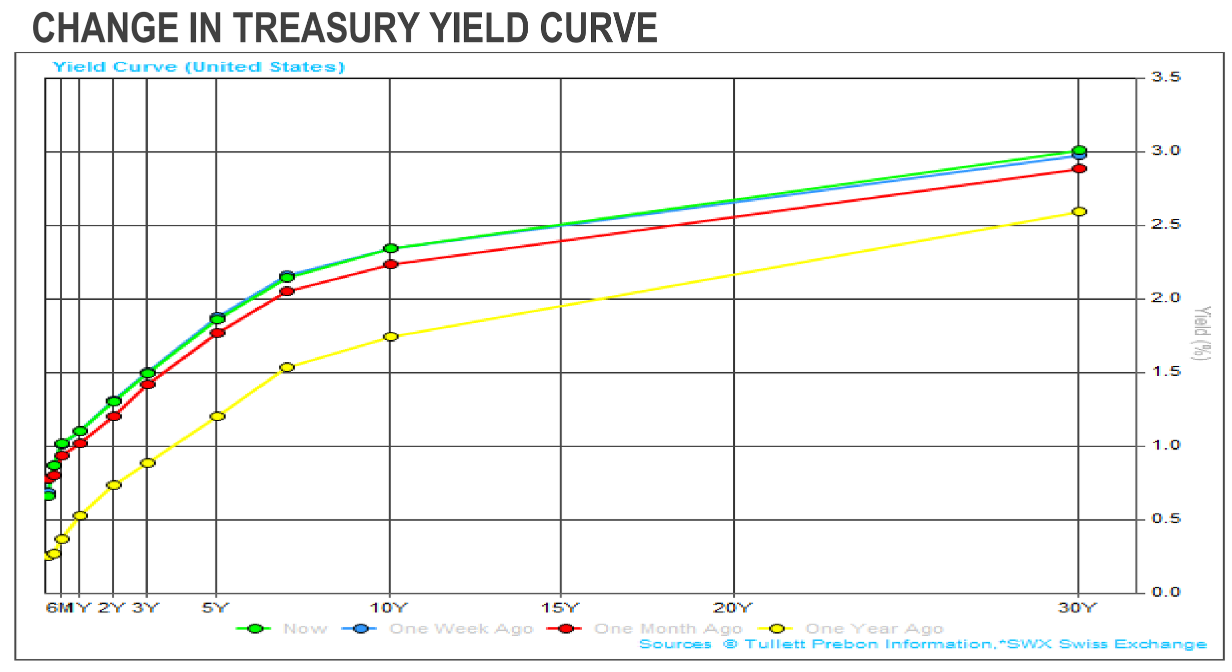
FIXED INCOME

For two of the biggest private holders of Treasuries, bond-market signals in the past week are nothing but noise when it comes to betting on the Federal Reserve. Goldman Sachs Asset Management and Vanguard Group Inc., which oversee a combined $5 trillion, say they're taking Fed officials' word that they're on track to raise rates next month. Holding to that conviction hasn't been easy lately for money managers: Market-implied bets on a hike have been whipsawed by the political storm buffeting the White House, and breakeven inflation rates are near the lowest since November. Those bond-market signals bear watching as investors assess the prospect of additional rate hikes beyond June. The odds of a rate hike next month have rebounded to about 70%, from 57% early last week, based on the current effective fed funds rate and the forward overnight index swap rate. While down from 80% the previous week, lessons from March have investors reluctant to bet against the Fed when policymakers have made clear that the path of rates is likely higher. Inflation has missed forecasts in recent months, with the core consumer price index slipping below 2% for the first time since 2015. The market for inflation-linked debt suggests some investors are questioning whether the central bank can reach its target of 2% price growth. The yield spread between ten-year Treasuries and similar-maturity Treasury Inflation Protected Securities sank as low as 1.78 percentage points last Thursday, the narrowest since November 9. At that level, investors appear to see inflation protection as a reasonable wager. Direct and indirect bidders took a record amount of the Treasury 10-year TIPS auction last week.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.91%	3 mo	0.94%	3 mo	1.17%	3 mo	0.68%
6 mo	1.02%	6 mo	1.05%	6 mo	1.25%	6 mo	0.73%
1 yr	1.09%	1 yr	1.12%	1 yr	1.34%	1 yr	0.80%
2 yr	1.27%	2 yr	1.33%	2 yr	1.61%	2 yr	0.95%
5 yr	1.78%	5 yr	1.75%	5 yr	2.26%	5 yr	1.43%
10 yr	2.24%	10 yr	2.70%	10 yr	3.06%	10 yr	2.21%
30 yr	2.90%	30 yr		30 yr	3.99%	30 yr	3.41%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.32%	6.35%
S&P 500 (Large Cap)	-0.32%	7.24%
S&P 400 (Mid Cap)	-0.39%	3.65%
Russell 2000 (Small Cap)	-1.09%	1.22%
NASDAQ Composite	-0.55%	16.58%
MSCI EAFE (International)	1.33%	14.52%
iShares Real Estate	1.19%	3.02%

Despite a strong rally on Friday, it was not enough to push the weekly return of the S&P 500 into positive territory following Wednesday's big decline. Wednesday's move was the first 1% down move for the S&P 500 since September 2016.

For the week, defensive sectors showed leadership with Consumer Staples, Real Estate, and Utilities posting positive returns – while Cyclical sectors such as Technology, Financials, and Consumer Discretionary fell the most. Helping the defensive, dividend-oriented sectors was a drop in interest rates as the 10-year Treasury yield fell from a high of 2.35% to end the week at 2.23%.

On Wednesday, the Dow Jones Average dropped 372 points and the VIX Index surged nearly 30%. Most of the blame centered on increased turmoil inside the Trump administration. It is worth noting that rallies on Thursday and Friday added back about 198 points or a little more than half of Wednesday's losses.

Precious metals spiked along with bonds on Wednesday as stocks fell. Gold rose $23 an ounce last week, ending the week at $1,255 an ounce. Silver and Crude Oil also rose sharply as the U.S. dollar fell to levels not seen since before the November election.

The Nasdaq fell over -2.50% on Wednesday marking its first 2% drop in 171 trading days. Bespoke noted in a report that streak marked the tenth longest on record, and the longest since 2006. They go on to note that in prior such instances returns for the index over the next one and three months have averaged declines of -2.37% and -0.14%, respectively. One caveat is that since 1991, the returns following steaks of 100+ trading days without a 2% decline has been positive.

Also last week, the S&P 500 made a new all-time high on Tuesday then followed it up on Wednesday with a -1.82% decline, dropping the index below its 50-day moving average. Bespoke pointed out that in the history of the index this feat has only occurred 3 times prior – 1955, 1991, and 2000. In those prior three cases, returns over the next three and six months were positive on average.

Despite the declines last week for the S&P 500, we are still watching the same short, intermediate, and long term support levels. Moving forward, keep an eye on 2365, 2325, and 2280 – while all-time highs reached last Tuesday stand at 2405. The index ended last week at 2381.

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

Sources of statistical information are Bloomberg and Ned Davis Research.