2017 Weekly Portfolio Manager Commentary

May 26 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

New Home Sales were down 11.4% for April to an annualized rate of 569,000 single-family homes. This indicator is typically volatile, yet bears watching. The FOMC released its latest minutes with nothing new. Members expressed patience to see how inflation behaves in the near future. Durable Goods Orders were down 0.7% for April, inline with consensus. Real first quarter U.S. GDP growth came in at an annualized 1.2%, which is still quite anemic.

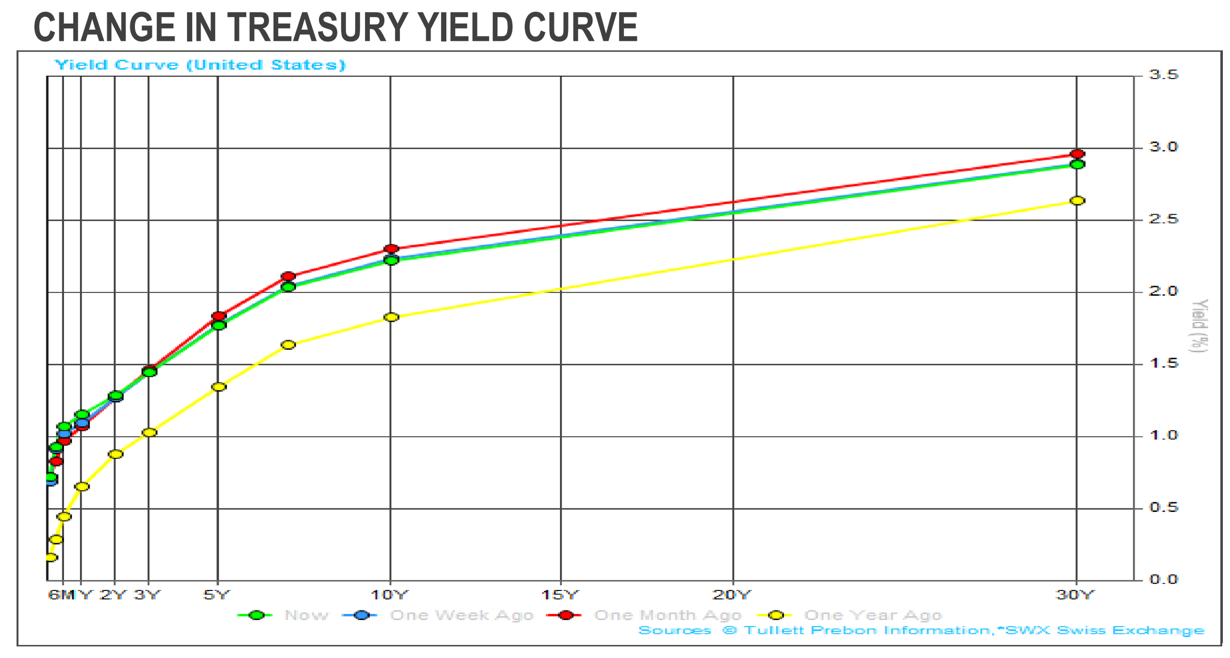
FIXED INCOME

Judging by the action last week in the $14 trillion Treasuries market, you'd never guess that traders are just days away from receiving crucial economic data. Things haven't been this quiet for the world's biggest bond market in years. The five-day average true range of the ten-year yield, which takes into account the differences between intraday highs and lows, was the narrowest since November 2015 last week. The Merrill Lynch Option Volatility Estimate Index, a gauge of expected price swings in Treasuries, fell to the lowest in almost three years. Maybe last week was especially quiet because of the impending Memorial Day holiday, but if anything, it just crams vital data on the economy into an even shorter period for traders to digest. Lately, underwhelming economic growth and unexpectedly weak consumer price increases have halted any sustained selloff in Treasuries, even though the Federal Reserve appears resolved to tighten monetary policy. The bond market is signaling policymakers will hike in June, pricing in about 80% odds. But bets on the Fed could be whipsawed as traders return to their desks this week, starting with Tuesday's Personal Consumption Expenditure Index data, the central bank's preferred gauge of inflation. Later in the week the market will get manufacturing survey results, and the week culminates with monthly payroll data for May, the current bright spot in the economic landscape. The figures will help set expectations for whether the Fed will raise rates in June, as they have been sending signals to the market that they will.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.93%	3 mo	0.96%	3 mo	1.20%	3 mo	0.68%
6 mo	1.07%	6 mo	1.04%	6 mo	1.29%	6 mo	0.73%
1 yr	1.15%	1 yr	1.13%	1 yr	1.37%	1 yr	0.79%
2 yr	1.29%	2 yr	1.33%	2 yr	1.63%	2 yr	0.96%
5 yr	1.79%	5 yr	1.76%	5 yr	2.28%	5 yr	1.43%
10 yr	2.25%	10 yr	2.72%	10 yr	3.07%	10 yr	2.17%
30 yr	2.91%	30 yr		30 yr	4.01%	30 yr	3.38%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.35%	7.78%
S&P 500 (Large Cap)	1.47%	8.81%
S&P 400 (Mid Cap)	0.93%	4.61%
Russell 2000 (Small Cap)	1.11%	2.34%
NASDAQ Composite	2.10%	15.97%
MSCI EAFE (International)	-0.09%	14.11%
iShares Real Estate	0.79%	3.83%

Domestic equity markets reversed the prior two week declines by posting gains on the week. A sharp rally on Thursday propelled the S&P 500 to new all-time highs – mid cap and small cap stocks also posted gains, while remaining below their respective high water marks. U.S. markets were remarkably resilient in the face of Monday night's terrorist attack in Manchester, England.

Energy was the only of the eleven major sector groups to finish the week with losses – the group was pressured by a sharp decline in crude oil prices, which finished last week under $50 a barrel. Technology, Utilities, and Telecom were the best performing groups – all rising over 2%.

Crude oil fell on Thursday after OPEC announced a nine-month extension to its production-cut pact with allied non-cartel producers. The terms, targets, and exemptions are the same as were outlined in the original agreement from November 2016.

The FOMC released the minutes from the last Fed policy meeting on Wednesday. While the minutes contained few surprises, the minutes suggested there was no concerted push to tighten in May. Most participants suggested another rate hike could come soon should economic conditions match the committee's expectations.

Shares of Best Buy jumped over 20% on Thursday after the company announced Q1 results that far exceeded expectations. Revenue rose more than 3% ahead of consensus, largely driven by strength in the firm's gaming unit.

Ned Davis noted in a research note last week that so far this year, over half of the gains in the S&P 500 have been attributed to 12 stocks. While that may sound like narrow leadership and a cause for concern, in reality in years where the index posts moderate gains of between 3% and 11%, 12 stocks accounting for 50% of the return is very average. The lowest was in 2007 when only four S&P 500 stocks accounted for half the gains.

The move to new all-time highs has slightly changed levels we are watching on the S&P 500. Support has now shifted to 2400, 2372, and 2320 for short, intermediate, and longer-term levels to watch. The S&P 500 closed last week at 2415.

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.