2017 Weekly Portfolio Manager Commentary

June 16 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Producer Prices were flat in May, as were Consumer Prices. For the year ended May, Producer Prices were up 2.4% and Consumer Prices were up 1.9%. Industrial Production was also flat for May, with Capacity Utilization stuck around 76.7%. The FOMC raised its overnight rate by 0.25% to a range of 1.00-1.25%, as widely expected. The Fed also expects to unwind its $4.5 trillion balance sheet starting this year.

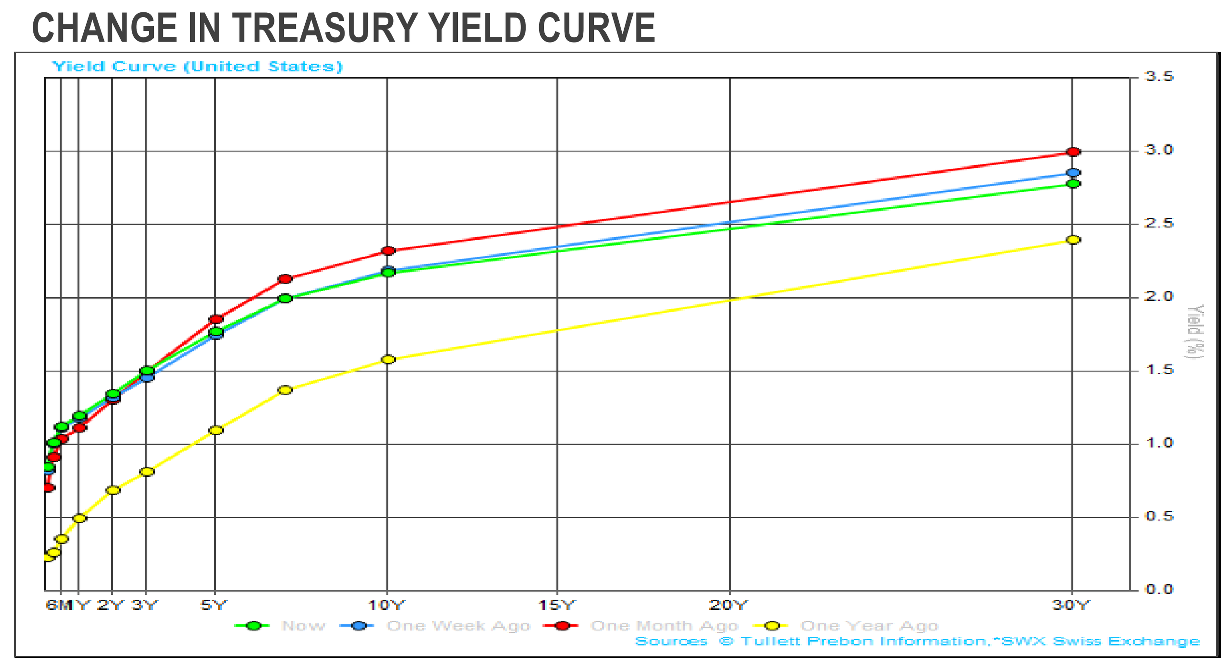
FIXED INCOME

It's been 18 months since the Federal Reserve's first post-crisis increase in interest rates. Four hikes in, investors in the $14 trillion Treasuries market are laughing all the way to the bank. The ten-year yield ended last week at 2.15%, after touching the lowest levels of 2017 as weaker-than-forecast inflation data stoked speculation that the Fed was erring with its tightening plans. In December 2015, before the central bank's first hike in nine years, the note yielded about 2.27%. The decline shows how the bond market continues to defy the Wall Street consensus, which was for higher yields this year. By February, hedge funds built up an unprecedented position betting against ten-year notes, and investors were debating what level would mark the start of a bear market. Three months later, the market had swung to the most bullish since 2007. Heading into the U.S. summer doldrums, traders seem almost resigned to the notion that a ten-year yield of 2% looks far more achievable than 3%. This week brings little in the way of significant economic data, leaving market participants contemplating what may affect the direction of rates for the coming days. With summer fast approaching, seasonal forces may keep yields at bay. The ten-year yield has declined in July in eight of the past ten years, more than any other month, according to data compiled by Bloomberg. China's holdings of Treasuries rose in April to the highest since October. The demand is crucial, after the second-largest foreign holder of U.S. government debt reduced ownership last year. Closer to home, Investment Company Institute data showed bond funds added $8.1 billion in the week ended June 7, the most in two years.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.00%	3 mo	1.00%	3 mo	1.24%	3 mo	0.73%
6 mo	1.10%	6 mo	1.11%	6 mo	1.31%	6 mo	0.79%
1 yr	1.19%	1 yr	1.17%	1 yr	1.40%	1 yr	0.85%
2 yr	1.32%	2 yr	1.35%	2 yr	1.65%	2 yr	0.98%
5 yr	1.74%	5 yr	1.73%	5 yr	2.25%	5 yr	1.40%
10 yr	2.15%	10 yr	2.57%	10 yr	2.98%	10 yr	2.11%
30 yr	2.78%	30 yr		30 yr	3.86%	30 yr	3.31%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.59%	9.52%
S&P 500 (Large Cap)	0.12%	9.74%
S&P 400 (Mid Cap)	-0.18%	6.34%
Russell 2000 (Small Cap)	-1.00%	4.26%
NASDAQ Composite	-0.88%	14.94%
MSCI EAFE (International)	0.12%	15.00%
iShares Real Estate	1.49%	6.54%

Last week was mixed as the S&P 500 ended trading on Friday with not much to show. Gold posted a weekly loss of 1.2%, as well as, oil that has now dropped for the fourth consecutive week.

U.S. political headlines remained in focus as GOP infighting has continued to stymie the FY18 budget process. Furthermore, an article from the Washington Post reported that special counselor Mueller's Russia probe will expand its investigation to include President Trump for obstruction of justice.

Information technology was the worst performing sector, dropping 4 out of the 5 trading days. The decline for the week, which was 1.7%, was not as sharp as the one experienced two weeks ago, which dropped 2.7%. Mega-tech names such as Apple, which dropped 1.4%, weighed heavily on the tech industry.

Materials under performed as industrial and precious metal firms were a drag for the week. Consumer Discretionary firms were in line with the market despite retailers being down. Strength in home builders and media firms helped keep the sector afloat. Financial names were up as property & casualty insurers and asset managers surged. Large cap names barely moved whereas regional banks under performed. Energy names performed well despite the drop in oil prices. Industrial names were the stand out performers, buoyed by multinational and machinery names. Airlines, on the other hand, were laggards.

The big story for the week was Amazon announcing that they will be buying Whole Foods market for $42 a share, which represents a 27% premium, valued at $13.7 billion. The deal is expected to close in the second half of the year.

Renewed attention will be paid on the tech sector as investors will watch if the market leading sector will dictate the broad direction of the S&P 500 in the coming weeks as the Federal Reserve has made a commitment to tightening and economic data continues to remain tepid.

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.