2018 Weekly Portfolio Manager Commentary

June 22, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The Index of U.S. Leading Indicators was up 0.2% for May, not accelerating from April but still indicative of future growth. Also, New Home Starts were strong, at 1.35 million units (both multi and single-family). The five-month moving average for housing starts continues to grind higher. Otherwise, it was a slow week for meaningful economic releases.

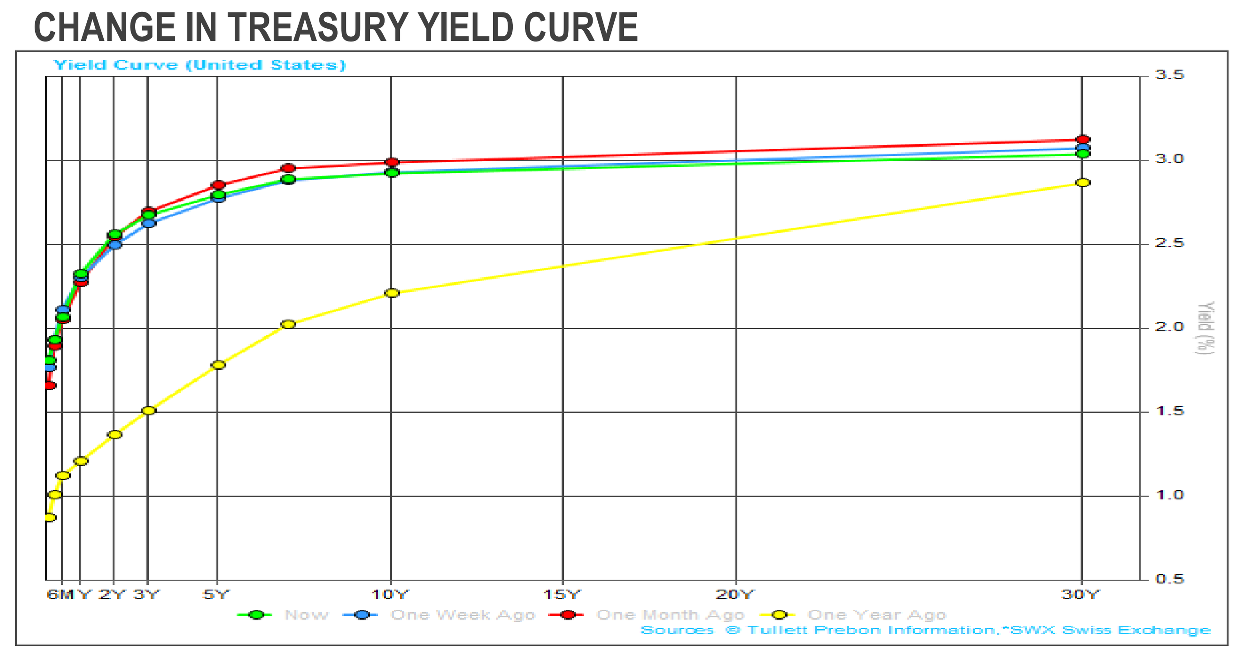
FIXED INCOME

Global wrangling over tariffs is throwing a wrench into the ten-year Treasury yields advance beyond three percent as key deadlines approach in the growing spat between the U.S. and its trading partners. Trade tensions will be in focus this week as the U.S. prepares to release China investment restrictions by Friday and a July 6 deadline looms for both nations to apply import levies. The widening rifts between major economies are threatening global growth just as the Federal Reserve has foreshadowed two more hikes in interest-rates this year. Bond traders are also cognizant of curve flattening, with new supply of seven-year notes potentially adding to risks of a partial curve inversion. Yields on ten-year notes, which have largely held between around 2.85% and 3.00% this month, might climb if the trade situation improves. They could also receive a boost if economic data, such as personal income and spending due to be released this Friday, prove more robust than forecast. But there is also scope for sudden renewed risk aversion, as President Donald Trump's repeated threats underscore. Trade is also on the agenda of a European Union summit later in the week, while month-end duration needs may dull any meaningful move above 3%. The benchmark ten-year note yield has closed below 3% for the last twenty-three trading sessions, moving in a range of 2.76% to 3.06%. The closing yield of 2.90% is below the current 50-day moving average of 2.95%. The spread between 7- and 10-year yields is holding just a few basis points above zero, and strategists warn the new sale of the shorter maturity debt this week could be the trigger to send the gap into negative territory, a potential harbinger of inversion further along the curve. The potential that trade skirmishes deepen prompted analysts at Bank of America Merrill Lynch last week to warn that ten-year yields may fail to reach their 3.25% year-end forecast.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.91%	3 mo	1.97%	3 mo	2.38%	3 mo	1.31%
6 mo	2.08%	6 mo	2.05%	6 mo	2.48%	6 mo	1.38%
1 yr	2.32%	1 yr	2.15%	1 yr	2.59%	1 yr	1.45%
2 yr	2.54%	2 yr	2.55%	2 yr	2.87%	2 yr	1.62%
5 yr	2.77%	5 yr	2.83%	5 yr	3.31%	5 yr	2.05%
10 yr	2.90%	10 yr	3.20%	10 yr	3.78%	10 yr	2.66%
30 yr	3.04%	30 yr		30 yr	4.20%	30 yr	3.61%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-2.03%	0.54%
S&P 500 (Large Cap)	-0.87%	4.00%
S&P 400 (Mid Cap)	-0.13%	5.44%
Russell 2000 (Small Cap)	0.11%	10.39%
NASDAQ Composite	-0.68%	12.02%
MSCI EAFE (International)	-1.20%	-1.64%
iShares Real Estate	2.04%	0.45%

The Dow Jones Industrials snapped an eight-day losing streak on Friday, but it was not enough to overcome losses amassed earlier in the week. Crude oil jumped over 5% on Friday and rose and booked its best weekly gain since April rallying after a volatile week of headlines surrounding the latest OPEC meeting.

For the week, Industrials were the worst performing sector, falling -3% as trade tensions escalated following another round of tariffs announced by the White House on $34 billion of Chinese imports starting July 6. President Trump also threatened an additional $200 billion tariff on Chinese imports if Beijing continued to retaliate. Reports pointed out that in total, the White House is now threatening to impose tariffs on as much as $450 billion of Chinese goods, a sum nearly as large as the total value of goods China sent to the U.S. last year.

In M&A activity, Fox agreed to sell a chunk of its assets to Disney for $38 a share, or $71.3 billion in cash and stock. This was up from the $52.4 billion all-stock deal that the companies had agreed on before a rival bid from Comcast.

Despite the continued sideways trend in the S&P 500, there are several positive readings under the surface that indicates the equity market is healthier than the top headline number might suggest. The Cumulative Advance/Decline Line for the S&P 500 is at fresh all-time highs – this indicator measures the amount of advancing and declining stocks in the index. Also of note is that 8 of the 11 major sector groups have more than 50% of their members with prices above their respective 50-day moving average – a short term indicator of whether a stock is rising or falling. Lastly, the AAII Bullish Sentiment is not at extreme levels, last week's survey was 44.8% bullish – certainly not in excessively optimistic territory.

A big headline last week was the remove of General Electric from the Dow Jones Industrial Average in favor of Walgreens Boots Alliance. GE had been the longest tenured member of the index having been in the index for 110 years. That title now belongs to Procter & Gamble, which has been in the index since 1932. Bespoke noted in a report about the change that the average and median returns for stocks that were removed from the Dow has been -2% and 0%, respectively. While those returns are certainly not exciting, they beat the average and median return for stocks that have been added, -7.8% and -6.0%.

In a report on market seasonality, Bespoke made note of the fact that stocks are entering what is historically the weakest period of the calendar, the June to September window. This seasonal weakness is often amplified during mid-term election years. Since World War II, the S&P 500 has averaged a loss of -0.4% with positive returns 61% of the time during the Memorial Day to Labor Day period of mid-term election years. This compares to all years where the same time frame has an average return of +2.3% and positive returns 70% of the time.

It is a relatively quiet week on the corporate front highlighted by a few notable earnings releases from Bed, Bath, and Beyond, Accenture, and Nike. The economic calendar starts out with new home sales in the front half and Michigan Sentiment at the end of the week.

The S&P continues to be range bound, so the support and resistance levels we are noting in these comments have not largely changed in the past four months. We continue to watch support at 2715, 2670, and 2580 – heavy resistance lies at 2800. The S&P closed last week at 2754.

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.