2017 Weekly Portfolio Manager Commentary

August 18 , 2017

Trustmark
Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Retail Sales were up 0.6% for July 2017, with strength fairly well diversified. Housing starts were down to an annualized level of 1.155mm units, from 1.215mm units in June. Single-Family Home starts remained the strong area, holding steady at an 856,000 annualized unit rate (up 11% over the past year). The only news out of the FOMC minutes was some members wanted to begin unwinding the Fed's balance sheet from the July meeting forward, but were outvoted. Industrial Production was up 0.2% for July, in line with consensus estimates. Capacity Utilization remained at 76.8%. Finally, the Index of Leading Indicators was up 0.3% for July, also in line with consensus estimates.

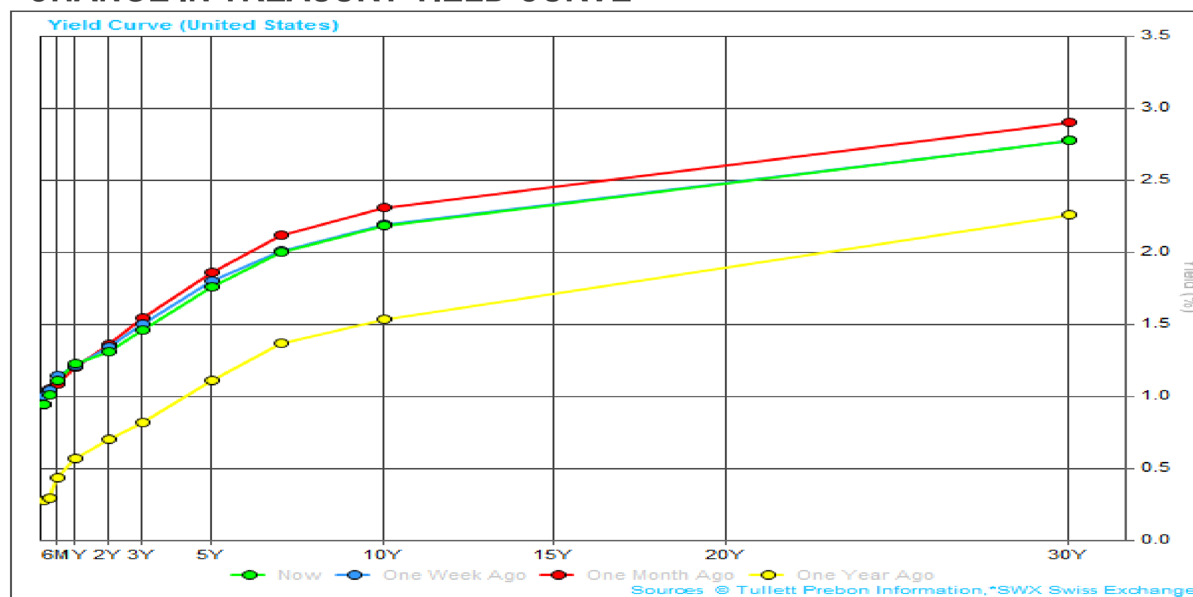
FIXED INCOME

Federal Reserve officials must think that something soon has to give in this economy. The current equilibrium, characterized by low inflation, low unemployment, low wage growth and high corporate profit margins, isn't sustainable indefinitely, but they don't know how or when it will crack. The July consumer price inflation data did not exactly support the Fed's position that another interest-rate hike this year and three totals for 2018 are necessary to keep the economy from overheating. It becomes increasingly difficult to argue that inflation is being held down by transitory factors when each month's data delivers another new factor. The Fed can always fall back on the unemployment rate to claim that although inflation is low now, it will creep back up to its 2% target with the economy operating at full employment. The minutes of the July FOMC meeting made clear that central bankers remain committed to this Phillips curve framework. Although persistently low wage growth calls that claim into question, the Fed has good reason to believe wage growth will soon accelerate. The Fed's relative confidence that the economy is operating at full employment is not unreasonable. If recent data are historical outliers, then wage growth will move higher and probably soon if unemployment keeps pushing lower. New York Fed President William Dudley recently said "Wage growth has also been comparatively modest even as unemployment has declined. In part, this likely reflects the fact that productivity growth has been sluggish compared to historical experience." One nugget the Fed is probably happy to see is that in the most recent employment report, average hourly earnings moved higher by 0.3% on a month to month basis and 2.5% year-over-year. Not huge but a start.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.00%	3 mo	1.04%	3 mo	1.29%	3 mo	0.60%
6 mo	1.11%	6 mo	1.07%	6 mo	1.37%	6 mo	0.65%
1 yr	1.22%	1 yr	1.17%	1 yr	1.44%	1 yr	0.70%
2 yr	1.31%	2 yr	1.39%	2 yr	1.65%	2 yr	0.83%
5 yr	1.76%	5 yr	1.66%	5 yr	2.23%	5 yr	1.27%
10 yr	2.19%	10 yr	2.60%	10 yr	2.98%	10 yr	2.06%
30 yr	2.78%	30 yr		30 yr	3.83%	30 yr	3.28%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.77%	11.43%
S&P 500 (Large Cap)	-0.58%	9.76%
S&P 400 (Mid Cap)	-1.05%	2.86%
Russell 2000 (Small Cap)	-1.17%	0.84%
NASDAQ Composite	-0.58%	16.39%
MSCI EAFE (International)	0.36%	16.53%
iShares Real Estate	0.24%	4.83%

U.S. equity markets declined last week – with small cap falling more than large caps. International and emerging market equities booked gains as continued global growth overshadows geopolitical concerns. There was decisively a defensive tilt towards last week's sector performance as Utilities and Consumer Staples closed the week with gains, while the Energy sector saw a decline of -2.53% as crude oil fell nearly -4% to close at $46 a barrel.

Several notable retailers and retailing related stocks sold off sharp, single day declines after reporting earnings that missed estimates last week. Some of the stocks and their single day declines include: Dick's (-23%), Advance Auto Parts (-20%), Coach (-15%), Urban Outfitters (-17%), and Foot Locker (-26%).

Minutes from the July Fed meeting were released last week and while they hinted that participants collectively are viewing future rate hikes in a dovish manner, the report did continue to bolster expectations of a September balance sheet normalization announcement.

One measure used to gauge how broad participation is in market advances or declines is the number of stocks trading above their 50-day moving averages. For example, if the broad market is acting strong, while this indicator is moving lower, it suggests that fewer and fewer stocks are pushing the market higher – not a healthy sign for the market. After the equity market weakness so far in August, this breadth measure stands just above 50%. Breaking the market down by sector clearly shows that a defensive tilt to sector leadership – with Utilities and Consumer Staples showing the strongest breadth. Further deterioration in this measure can be viewed as a bearish sign.

Bespoke noted in a report last week that 2017 has seen 35 record highs for the Dow Jones Industrials Average – ranking this year as the 7th most new highs through the first week of August and the most since 1997, when there were 39. 1987 holds the record of most new highs through early August at 49, while the record of most new highs for a calendar year is 70 back in 1995.

Levels to watch for the S&P 500 have not materially changed. We are watching 2420, 2400, 2355, and 2340 – the S&P closed last week at 2422.

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.

Non-deposit investment products are not insured or guaranteed by any government agency or government sponsored agency of the federal government or any state; are not deposits, obligations, or guaranteed by Trustmark National Bank or its affiliates; and are subject to investment risks, including the possible loss of principal. *The opinions and analysis in this report are accurate to the best of our knowledge and are based on information and sources that we consider to be reliable and appropriate for due consideration. The volatility of market conditions and any change from the basic set of assumptions used herein could lead to substantial differences in the projected results and conclusions in this report. All projections, prices and assumptions herein are subject to change without notice. We do not guarantee the results, performance or liquidity of the securities discussed and any strategy or investment selection remains your responsibility. This report is strictly for information purposes and is not intended as an offer or solicitation for any transaction. Trustmark Investment Advisors, Inc. is a registered investment adviser under the Securities and Exchange Commission, a wholly owned subsidiary of Trustmark National Bank, and a division of Trustmark Wealth Management.*