2017 Weekly Portfolio Manager Commentary

September 1 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Real GDP growth came in at +3.0% on an annualized basis for the second quarter 2017. This was higher than the first quarter and a bit better than consensus. The GDP Price Index was up 1.0% on an annualized basis for the quarter. The Chicago Purchasing Managers Index came in as expected, at an expansionary 58.9. Personal Income was up 0.4% for the month of July. The ISM Manufacturing Index was equally expansionary for August; however, the PMI U.S. Manufacturing Index came in at only 52.8 for August. The PCE Price Index was up 1.4% for the year ended July. Construction spending was down 0.6% for July but up 1.8% for the year ended July. Finally, the U.S. Unemployment Rate rose slightly to 4.4% for August.

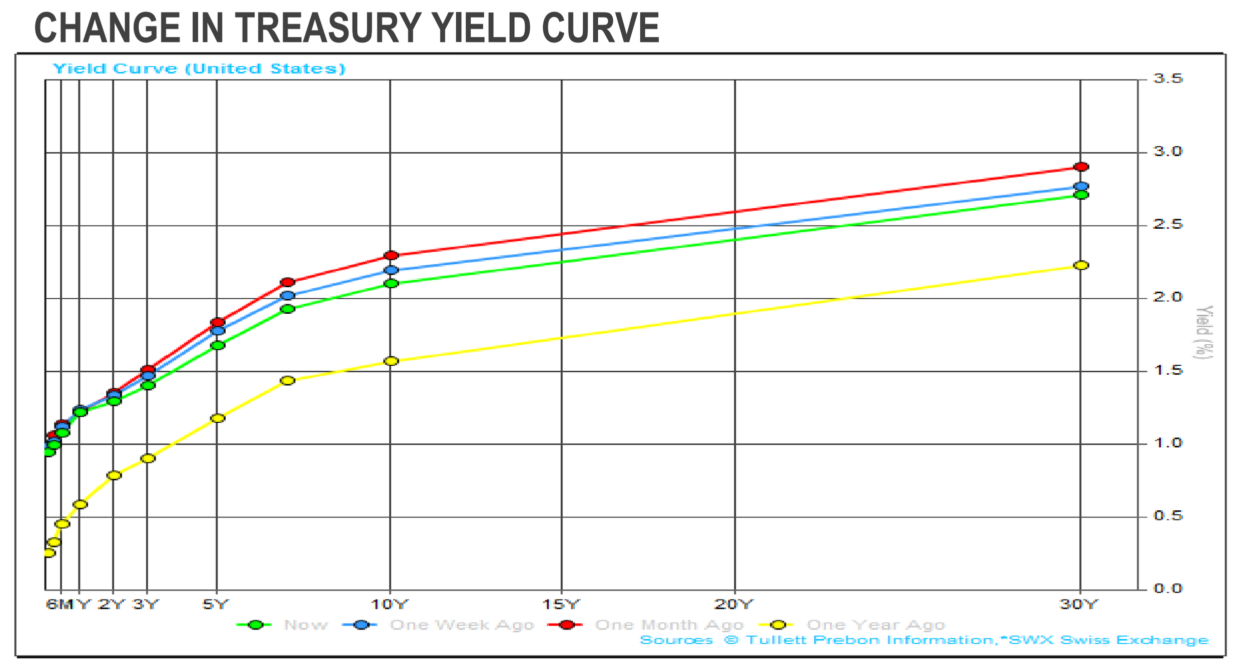
FIXED INCOME

Members of Congress return from summer recess Tuesday with the eyes of bond traders squarely upon them. Among their pressing tasks: increase America's borrowing authority and prevent an unprecedented default. Investors have already been shunning Treasury bills that come due in early October, just in case there's no solution by the September 29 deadline that Treasury Secretary Steven Mnuchin has deemed "critical" for Congress to act. That's even as he and other members of the Republican leadership have reiterated that they will undoubtedly raise the debt ceiling. Come Tuesday, the time for talk is over, and the time for action begins. Political pundits say a viable solution could come from President Donald Trump convincing lawmakers to attach an increase in the debt limit to an emergency aid package for the victims of Hurricane Harvey. That could be a tough sell to some House Republicans, who are likely to vote only for the disaster relief funding. In either case, traders are wary of the political gamesmanship that's become all too familiar around the debt ceiling. Market angst has percolated for weeks leading up to lawmakers' return to Washington. It's poised to get worse as the days remaining to raise the debt ceiling dwindle. The White House is said to want to extend the debt limit long enough to move back the specter of a U.S. default until after Congress can address funding for the full federal fiscal year and the Trump administration's tax-overhaul efforts. Rates on Treasury bills maturing October 5, one of the maturities most vulnerable to a failed debt-ceiling increase, rose last week to 1.21% from 1.12% a week earlier. Bills that come due on October 12, which could also be at risk, have a rate of 1.16%.

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	1.08%	6 mo	1.00%	6 mo	1.37%	6 mo	0.66%
1 yr	1.22%	1 yr	1.17%	1 yr	1.43%	1 yr	0.71%
2 yr	1.34%	2 yr	1.40%	2 yr	1.65%	2 yr	0.85%
5 yr	1.74%	5 yr	1.67%	5 yr	2.21%	5 yr	1.26%
10 yr	2.17%	10 yr	2.56%	10 yr	2.95%	10 yr	2.06%
30 yr	2.78%	30 yr		30 yr	3.82%	30 yr	3.23%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.88%	13.21%
S&P 500 (Large Cap)	1.43%	12.16%
S&P 400 (Mid Cap)	1.73%	5.70%
Russell 2000 (Small Cap)	2.66%	5.04%
NASDAQ Composite	2.73%	20.52%
MSCI EAFE (International)	0.36%	17.93%
iShares Real Estate	0.53%	7.52%

U.S. equities finished the week on a higher note following back to back weeks of losses. Healthcare, Information Technology, and Industrials led the sector groups for the week. On the other hand, bond proxies such as telecoms and utilities ticked lower. Gold and Silver had a strong week as the metals moved up 2.7% and 3.85%, respectively.

Hurricane Harvey dominated the newscape as pundits estimated that losses would be in the billions. However, economists downplayed the larger impact on the economy despite the focus on the effect on the energy infrastructure. Markets, on the other hand, focused on the industries that might benefit from the rebuilding after the storm passed.

On the corporate front, M&A drove the talk as biotech stocks rallied on merger announcements. There were a few notable developments on Wall Street this past week as Kite Pharma (Kite) agreed to be acquired by Gilead Sciences (GILD) for $11.9B. Both stocks jumped 28% and 13.5%, respectively. Healthcare was the best performing sector as Biotech names lead the group.

There was increased chatter on the “Amazon effect” as the grocery industry ticked lower as Amazon and Whole Foods finalized their merger this past week.

Tech performed well as the FAANG names performed handsomely. Apple (AAPL) ticked 2.6% higher helped by news of its upcoming product release.

Retail names were mixed as Best Buy (BBY) dropped 11.9% after releasing lackluster comps. Financials, such as Progressive Corporation (PGR), ticked lower as insurance companies lagged on potential losses due to Hurricane Harvey.

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.