2017 Weekly Portfolio Manager Commentary

September 15 , 2017

Trustmark
Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Final Demand Producer Prices were up 0.2% for August, and up 2.4% for the year ended August. Consumer Prices were up 0.4% for August, and up 1.9% year-over-year. Retail Sales were down 0.2% for August. Industrial Production was down 0.9% for August, while Capacity Utilization was down to 76.1% from 76.9% in July.

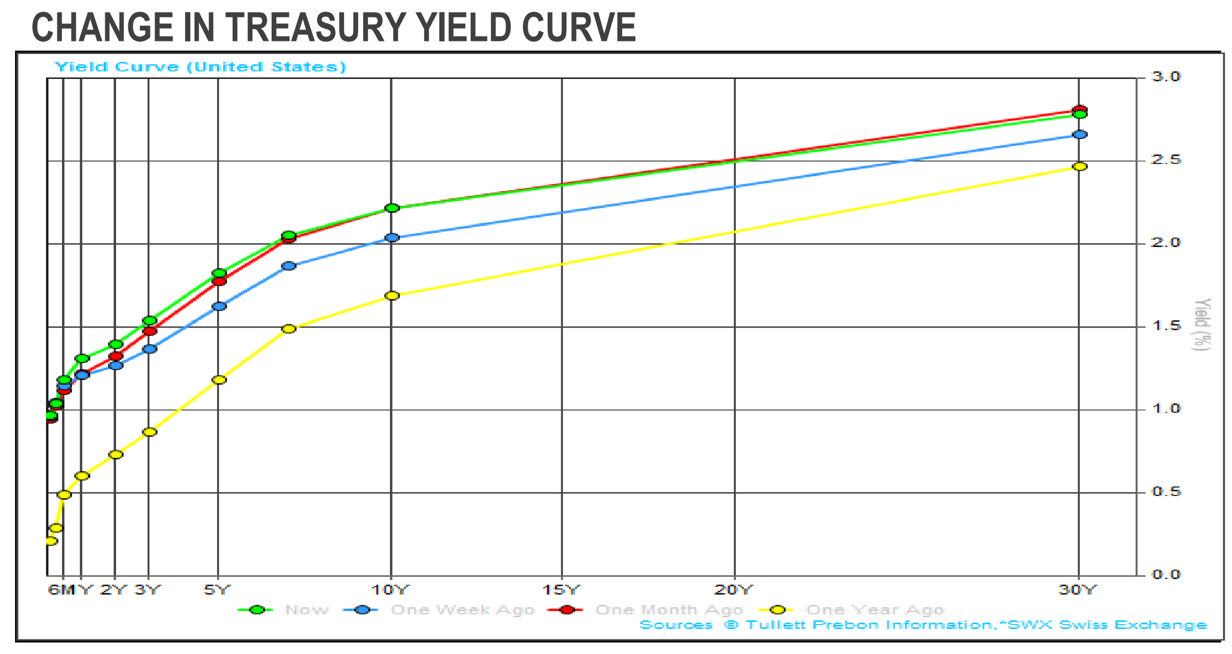
FIXED INCOME

The Federal Reserve has room to announce balance-sheet runoff at their meeting this week now that the debt ceiling and budget hurdles are temporarily out of the way. Inflation will remain a concern, but recent stability in core CPI should calm the Fed. The market would be surprised if balance-sheet runoff wasn't announced this week. The focus should be on changes to the dot plot, the summary of economic projections and hints during the post-meeting press conference for overall sentiment on the committee. The Fed's statement and Chair Janet Yellen's press conference are likely to keep all options open but lean slightly hawkish. The odds of Fed hikes have moved significantly in the past month on the back of domestic and geopolitical risks. On September 5, the FOMC meeting date overnight indexed swaps were pricing for a mere 23% chance of a Fed rate increase in December. The market isn't pricing for a full hike until the second half of 2018 but odds of a December hike are now closer to 50%. The risk is that a hawkish Fed could push the market to price earlier hikes. The first maturing Treasury securities held in the Fed's System Open Market Account come due on October 31. If the Fed begins runoff next month, this means the Treasury will have to increase issuance of bills and perhaps that of two-year notes at the end of October. It's possible that for ease, Treasury will issue an additional $6 billion of bills to settle on October 26 and then outline more detailed plans at the November quarterly refunding announcement. The Treasury Department could raise coupon and bill issuance slowly, as it wouldn't need to deal with substantial runoff until midyear and by that time could have raised short-end issuance by enough as to not add duration risk to the market.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.03%	3 mo	1.06%	3 mo	1.31%	3 mo	0.63%
6 mo	1.17%	6 mo	1.17%	6 mo	1.39%	6 mo	0.68%
1 yr	1.29%	1 yr	1.27%	1 yr	1.46%	1 yr	0.74%
2 yr	1.38%	2 yr	1.44%	2 yr	1.69%	2 yr	0.89%
5 yr	1.81%	5 yr	1.72%	5 yr	2.26%	5 yr	1.34%
10 yr	2.20%	10 yr	2.61%	10 yr	2.99%	10 yr	2.07%
30 yr	2.77%	30 yr		30 yr	3.83%	30 yr	3.22%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	2.19%	14.75%
S&P 500 (Large Cap)	1.63%	13.33%
S&P 400 (Mid Cap)	2.08%	6.77%
Russell 2000 (Small Cap)	2.35%	6.45%
NASDAQ Composite	1.41%	20.81%
MSCI EAFE (International)	0.81%	19.82%
iShares Real Estate	0.49%	8.67%

Domestic equity markets booked another strong week with the S&P 500, Dow Jones Industrials, and Nasdaq Composite all reaching new highs. Small and Mid-Cap U.S. stocks also showed strength closing the week with positive returns.

For the week, Energy, Financials, and Materials were the best three performing of the eleven major market sectors - all three rose around 2%. The utilities sector was the outlier on the down side, falling as a group -1%.

U.S. equities started out last week in strong fashion with all four major indexes rising at least 1%. There was a bit of a relief rally as the damage from Hurricane Irma was going to be far less than originally feared. Also of note is that the recent hurricanes in Texas and Florida have decreased the market-implied odds of a December Fed rate hike.

The weakness this year in the U.S. dollar has garnered lots of attention—the magnitude of this year's decline needs some historical context. Bespoke noted in a report on the performance of the greenback that through August 31, the only two years since 1972 that have seen weaker performance has been 1973 and 1986. The world shifted to a floating exchange rate in 1973 and 1986 followed the signing of the Plaza Accord that devalued the dollar. Through August 31, the U.S. dollar is down -9% year-to-date.

One area of concern casting doubt on the recent stock rally has been the number of stocks making new all-time highs. When lots of stocks are making new highs during a market advance, it is generally viewed as a positive sign and that there is broad participation. Bespoke wrote in a report that during the market rally of 2016 through the first part of 2017, each new high in the broad market was accompanied by a new high in the percentage of stocks hitting new highs. Since June though, the numbers of new highs has been narrowing, even while the broad market continued to rally. This divergence suggests that fewer stocks are participating in the rally.

For the week ahead, the FOMC rate decision is set to be announced on Wednesday. Expectations are for no rate hike this month, while the committee will spend the majority of their time on balance sheet normalization. The earnings calendar is light with notable earnings next week expected from Bed, Bath, and Beyond, General Mills, AutoZone, and CarMax.

For the S&P 500, we continue to watch the following support levels on any sell-offs: 2465, 2435, 2400, and 238. The S&P closed last week at 2500.

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.