2017 Weekly Portfolio Manager Commentary

September 22 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Single-Family Housing Starts were strong for August, up to a 851,000 annualized rate. The Index of Leading Indicators rose a nice 0.4% for August, up from 0.3% for July. The FOMC had their most recent meeting this week, with not much new information coming out of the meeting. The FOMC officially announced its well-known plans to begin shrinking the Fed's balance sheet.

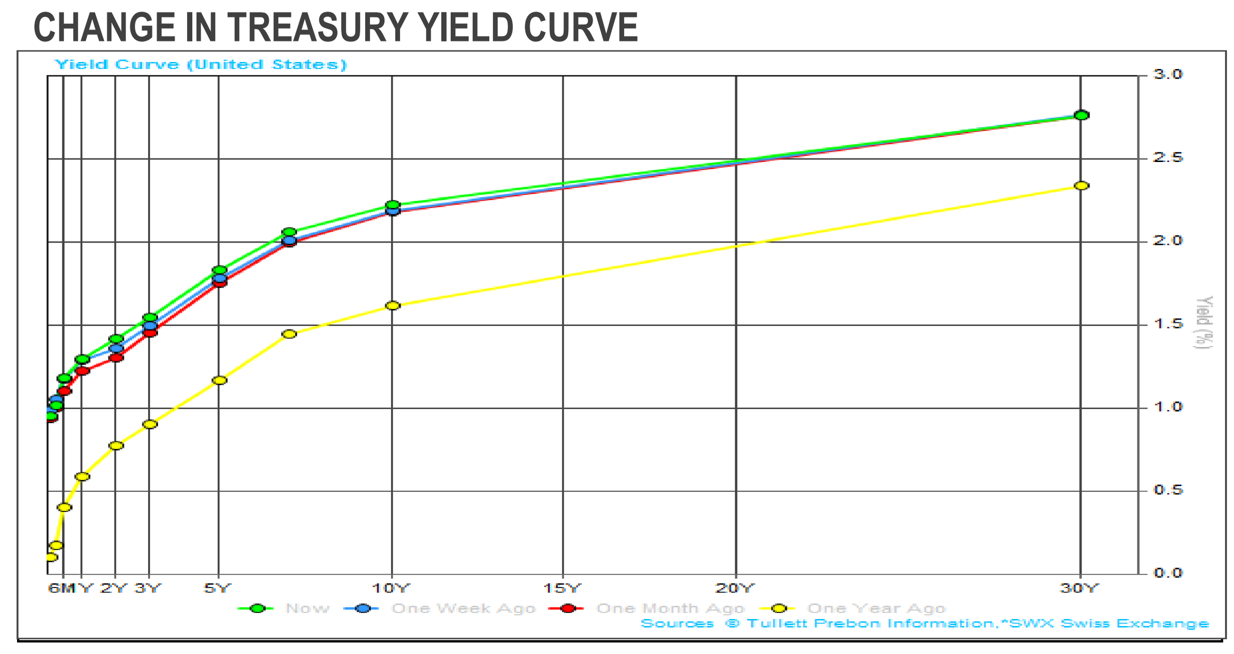
FIXED INCOME

The bond market is about to face a marathon of Federal Reserve speakers who could make or break traders' move to embrace a December rate hike as practically a given. In the wake of the central bank's meeting last week, the market-implied odds of a December tightening surged above 60%, from a third of that earlier this month, as policymakers stuck to projections of another hike in 2017 and three more in 2018. Yet traders also keyed on Chair Janet Yellen's comment that stubbornly low inflation is something of a "mystery," and they reacted by pushing the yield curve to the flattest in months. Officials will have more than enough opportunities in the days ahead to adjust market sentiment. New York Fed President William Dudley kicks the week off on Monday, and Yellen appears on Tuesday. A bevy of other U.S. central bankers are also on the docket. "There is a Fed speakerthon," said Gennadiy Goldberg, an interest-rate strategist at TD Securities in New York. "It will be interesting to see what they focus on and how they paint inflation. We wouldn't expect a huge shift in their near-term hawkish tone." With the Fed chair highlighting the puzzle of tame inflation, Wall Street dealers were stuck with an above-average share of last week's auction of inflation-protected Treasuries. This week, investors will digest auctions of a combined $88 billion of two-, five- and seven-year notes. For two-year debt, yields are close to the highest since 2008. The benchmark ten-year Treasury yield, at 2.25%, is coming off its second straight weekly increase. The spread between two- and thirty-year yields tumbled to as narrow as 134 basis points, its slimmest since June, after the Fed in quarterly projections cut its peak rate outlook.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.02%	3 mo	1.02%	3 mo	1.35%	3 mo	0.66%
6 mo	1.18%	6 mo	1.15%	6 mo	1.42%	6 mo	0.71%
1 yr	1.30%	1 yr	1.31%	1 yr	1.51%	1 yr	0.77%
2 yr	1.43%	2 yr	1.49%	2 yr	1.75%	2 yr	0.94%
5 yr	1.88%	5 yr	1.78%	5 yr	2.34%	5 yr	1.40%
10 yr	2.25%	10 yr	2.66%	10 yr	3.06%	10 yr	2.13%
30 yr	2.78%	30 yr		30 yr	3.85%	30 yr	3.28%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.36%	15.17%
S&P 500 (Large Cap)	0.09%	13.43%
S&P 400 (Mid Cap)	0.85%	7.67%
Russell 2000 (Small Cap)	1.35%	7.88%
NASDAQ Composite	-0.33%	20.41%
MSCI EAFE (International)	0.48%	20.40%
iShares Real Estate	-2.45%	6.01%

Dividend-oriented sectors lagged their growth counterparts as interest rates rose last week. Consumer Staples, Real Estate, and Utilities all fell at least -2%, while most cyclical sectors such as Industrials, Financials, and Energy rose.

Apple shares were under pressure on Wednesday after a sell-side note suggested iPhone 8 preorders are trending weaker than with the iPhone 6 and 7 series. Some commentators suggested that many consumers are waiting for the iPhone X, which does not begin preorders until October. There were also some early reviews that the new Apple Watch may have LTE connectivity issues.

Jason Goepfert of SentimenTrader noted the market's unusual September trading pattern this year. He wrote in a report that September has a reputation for being the month most likely to see large declines and generate the fewest number of new highs for the S&P 500. So far this month, 2017 has bucked that historical tendency with the S&P booking several new all-time highs. In past instances where it set new all-time during September, the market has shown below-average returns in the shorter-term, but for the remainder of the year, the few losses were minimal, with only one larger than -1%.

Ryan Detrick of LPL Financial added to the bullish case for the remainder of 2017 noting the market's strength from the February 2016 lows. The S&P 500 has risen in ten consecutive months on a total return basis since that recent low. On a price only basis, the S&P 500 is up five straight months, which historically is one of the most bullish market signals. Since 1950, this is the 25th time the S&P 500 has booked five straight monthly price gains. In 23 of the prior 24 cases, the market was higher 13.2% on average over the next 12 months.

One potential trend to watch for the remainder of this year is the recent weakness in the Consumer Discretionary sector, and most notably the Retailing industry. In fact Bespoke mentioned in a report last week that short interest reading for the Consumer Discretionary sector was at the highest level since March 2009. In other words, investors have not been this negative towards the group since the very beginning of this bull market. The short interest in retailing stocks is at its highest level since September 2008 – the same month Lehman Brothers went bankrupt.

For the week ahead, look for earnings from Nike, Micron, KB Homes, and Accenture. Also Fed Chair Yellen speaks on inflation and monetary policy on Tuesday. On the economic front, the third look at 2nd Quarter GDP gets released on Friday.

For the S&P 500, last week's action did not change the support levels we are watching – 2465, 2435, 2400, and 2380 – the S&P closed last week at 2502. The all-time high for the index stands at 2508.

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.