2017 Weekly Portfolio Manager Commentary

October 13 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Final-Demand Producer Prices increased at a strong 0.4% for September 2017, and were up 2.6% year-over-year. Consumer Prices were equally strong, up 0.5% for September and 2.2% year-over-year. Fed Chair Janet Yellen said this week that "My best guess is that these soft (inflation) readings will not persist." Retail sales were up 1.6% for September, and up 0.5% after stripping out autos and gasoline. Finally, Business Inventories were up 0.7% for August, as expected.

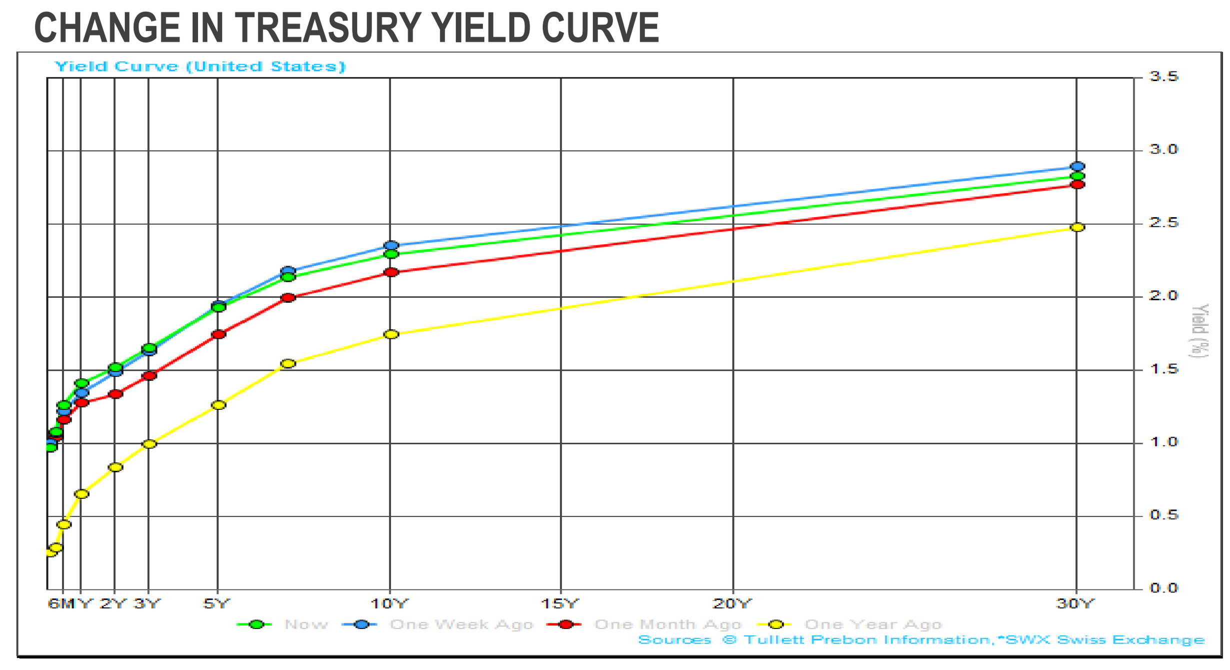
FIXED INCOME

U.S. Treasuries rallied last Friday after a core inflation reading slowed, adding to evidence that economic growth continues apace without stoking price increases. Bonds in Europe gained after a report that the European Central Bank may continue asset purchases for at least nine months after it starts tapering in January. Phil Orlando, chief equity strategist at Federated Investors Inc. commented on the lower than expected core CPI saying, "There's nothing here to suggest why the core number was as weak as it is, but that's just consistent with the trends that we've seen. Inflation has been befuddling everyone for a really long time." Excluding food and energy, so-called core prices rose 0.5% in September, below an estimate of 0.6%, according to Bloomberg. At the same time, a Commerce Department report also released last Friday showed U.S. retail sales rose in September by the most in more than two years, as Americans replaced storm-damaged cars and paid higher prices at the gasoline pump. Excluding autos and gas, sales still increased at the second-fastest pace since January. The inflation data bolstered the view that U.S. inflation below the Federal Reserve's target may be structural rather than transitory, prompting traders to slightly reduce the odds of another rate increase in December. "The presumption that, with softer inflation, it would mean that maybe the Fed is not going to be as aggressive as people expected," said Chris Verrone, head of technical analysis at Strategas Research in New York. Back in Europe, central bank officials are considering reducing quantitative easing to 30 billion euros ($36 billion) a month from the current pace of 60 billion euros, according to officials familiar with the debate.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.07%	3 mo	1.10%	3 mo	1.36%	3 mo	0.88%
6 mo	1.24%	6 mo	1.20%	6 mo	1.44%	6 mo	0.92%
1 yr	1.39%	1 yr	1.36%	1 yr	1.52%	1 yr	1.01%
2 yr	1.49%	2 yr	1.54%	2 yr	1.76%	2 yr	1.10%
5 yr	1.90%	5 yr	1.79%	5 yr	2.32%	5 yr	1.48%
10 yr	2.27%	10 yr	2.66%	10 yr	3.03%	10 yr	2.19%
30 yr	2.81%	30 yr		30 yr	3.81%	30 yr	3.20%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.43%	17.92%
S&P 500 (Large Cap)	0.17%	15.86%
S&P 400 (Mid Cap)	0.04%	10.83%
Russell 2000 (Small Cap)	-0.49%	11.84%
NASDAQ Composite	0.24%	23.82%
MSCI EAFE (International)	1.67%	22.48%
iShares Real Estate	1.64%	8.91%

U.S. equity markets finished the week on a positive note as the NASDAQ notched an all-time high. The S&P 500, aided by gains by McDonalds and American Express posted a positive tick up. The Dow Industrial Average notched a gain for the week as well. The S&P 500 and the Dow were up 0.17% and 0.43%, respectively. Year-to-date, the Dow is up 17.92% and the S&P 500 is up 15.86% and the NASDAQ composite is up over 23.82%

Bank of America (BAC) slipped 1.5% despite posting a rise in third quarter profit. Wells Fargo dropped 2.8% after reporting results that were weaker than expected.

Monsanto (MON) ticked higher by 2% after Bayer AG confirmed that it had reached a $7 Billion deal to sell its crop science business.

How quiet has this market been? The S&P 500 is on pace to register the longest stretch of trading without a 3% decline since November 7, 2016. The 236 day span without a decline is second to the 241 days of barely any declines between January 26, 1995 and January 9, 1996 according to Pension Partners' Charles Bilello.

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.