2017 Weekly Portfolio Manager Commentary

November 3 , 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The PMI Manufacturing Index came in at 54.6 for October, versus 58.7 for the ISM Manufacturing Index and 66.2 for the Chicago PMI. All three measures were nicely expansionary. The readings on the non-manufacturing side were equally expansionary, at 55.3 for the PMI Index and 60.1 for the ISM Index. U.S. Unemployment was at a 4.1% rate for October vs. 4.2% for September. Nonfarm Productivity was up 2.0% and unit labor costs were up 0.5%, both for the third quarter of 2017. The Employment Cost Index was up 0.7% for the third quarter and up 2.5% year-over-year.

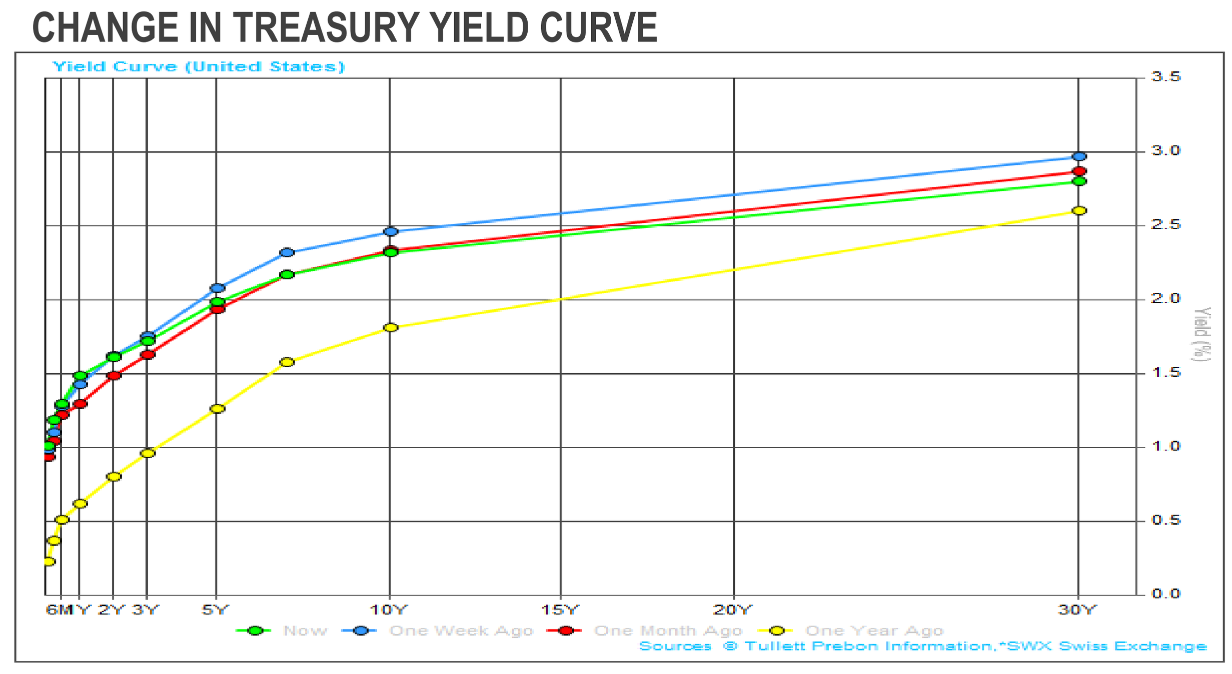
FIXED INCOME

After the first two consecutive down months for the Bloomberg Barclays Global Aggregate Index this year, the debate about whether the $120 trillion global bond market is entering a bear market is heating up once again. But as usual when it comes to fixed-income assets, the discussion isn't as simple as whether investors are in for a prolonged period of falling bond prices and higher yields. That's already happening in some parts of the world. Instead, the next bear market in bonds is likely to be characterized by a slow grind to very low returns rather than a sudden sell-off. The place to start when assessing what's ahead for the bond market is global forward rates, which basically provide a sense of where debt investors expect yields to land at some point in the future. Currently, those rates imply expected returns of 1% to 3% over time, reflecting lower term premiums that resulted from central bank asset purchases. The term premium is simply the extra yield a bond investor would get for locking up money for an extended period - 10 years, for example - rather than continuously buying shorter-term debt over the same amount of time. Using a Federal Reserve model, the term premium for Treasuries is a negative 0.3% across all maturities, indicating that yields are insufficient to compensate for the risk of higher rates of interest and inflation. It would be wise to keep a close eye on the U.S. bond market. Some investors say there will be a "moment of truth" for the global market if 10-year Treasury yields break through key levels near 3%. Others claim higher yields may never happen because the post-crisis environment has structurally lowered potential output and inflation. There is probably a strong case for both sides, but if yields fail to breach those key levels, then they could end up falling much further.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.17%	3 mo	1.18%	3 mo	1.43%	3 mo	0.93%
6 mo	1.29%	6 mo	1.25%	6 mo	1.51%	6 mo	0.98%
1 yr	1.46%	1 yr	1.43%	1 yr	1.60%	1 yr	1.05%
2 yr	1.61%	2 yr	1.65%	2 yr	1.84%	2 yr	1.17%
5 yr	1.99%	5 yr	1.90%	5 yr	2.37%	5 yr	1.55%
10 yr	2.33%	10 yr	2.71%	10 yr	3.04%	10 yr	2.20%
30 yr	2.82%	30 yr		30 yr	3.77%	30 yr	3.27%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.45%	21.42%
S&P 500 (Large Cap)	0.29%	17.50%
S&P 400 (Mid Cap)	-0.14%	11.93%
Russell 2000 (Small Cap)	-0.87%	11.31%
NASDAQ Composite	0.96%	26.82%
MSCI EAFE (International)	0.90%	22.88%
iShares Real Estate	1.04%	7.39%

U.S. Equity markets notched another positive week with the exception of small caps who could not keep up with their Large Cap counterparts. This week was busy with earnings announcements. 81% of S&P500 companies having reported and 74% of them reporting positive EPS surprises, which is above the historical 5 year average of 69% according to Factset. Tech companies continue to best their respective Wall Street estimates. Surprises vs. revenue estimates also came in above their 5 year average.

Sanderson Farms (SAFM) posted earnings above expectations and above their respective comps, which sent shares up 13.6%.
Late Friday afternoon headlines broke that Broadcom (AVGO) was considering a bid to acquire QUALCOMM (QCOM). Needless to say, shares of QCOM shotup13.3%.

Tech led the market the market once again as the semi-conductor and hardware industry posted better-than-expected expectations. The gigantic conglomerate, Apple (AAPL), posted strong gains of 5.8% after beating expectations and anticipation of the IPhone X shipments running high. The Energy sector was a bright spot as companies, particularly E&P companies, benefited from oil prices rising.

Consumer Staples continued to lag the market with the exception of the Cosmetics industry ticked higher. Estée Lauder (EL) was up 8.8% after beating estimates. Financials were weaker with insurance companies lagging as well as regional banks.

Materials came under pressure as the Steel and paper container board companies ticked lower. Health care had a lackluster week as hospital and pharma names underperformed.

Consumer Discretionary were a drag as Homebuilders after the release of the House GOP tax bill, which proposed a lower cap of the mortgage

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.