2017 Weekly Portfolio Manager Commentary

November 17, 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Final Demand Producer Prices were up 0.4% for the month of October, and up a strong 2.8% year-over-year. Core PPI was up 2.4% year-over-year. Consumer Prices were more muted, up only 0.1% for October and 2.0% year-over-year. Retail Sales for October were up 0.2%, with the growth being fairly diverse. Industrial Production was up 0.9% for October, with the Capacity Utilization coming in at 77.0%, up from 76.0% in September. The U.S. Homebuilders Index came in at 70 in November, versus 68 in October, both figures being quite expansionary.

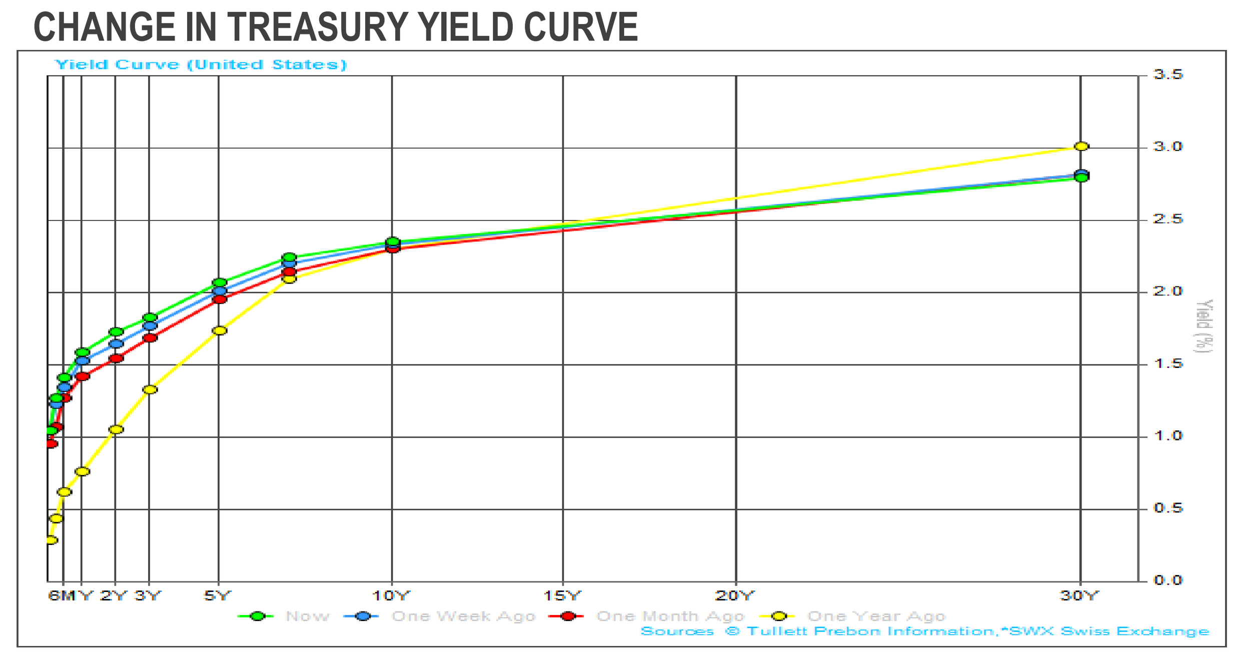
FIXED INCOME

Just how much further can the relentless flattening of the U.S. yield curve go? All the way to zero, according to many on Wall Street. Asset manager T. Rowe Price, which oversees about $948 billion, is the latest to weigh in on the trend that's pushed the Treasury curve to the flattest level in a decade. The Federal Reserve has raised interest rates twice this year and is set for a third hike in December, leaving two-year notes at the highest yields since 2008. Meanwhile, demand from overseas investors, insurers and pension funds has kept ten-year yields near their 2017 average. "The peak yield on the ten-year Treasury should roughly approximate where the final level of fed funds settles out, so that implies a flat yield curve if we assume the Fed will do two or three hikes in 2018," says Chief Investment Officer of Fixed Income at T. Rowe Price Mark Vaselkiv. With the Fed likely to stay the course of higher short-term rates, the difference between short- and long-term debt could reach zero as soon as the second half of next year. Expectations are beginning to build for the Fed to step up its pace of rate hikes as inflation shows signs of stabilizing and with the lowest unemployment rate since 2000. Economists at Goldman Sachs and JPMorgan are among those forecasting that the Federal Open Market Committee next year will likely tighten four times, rather than the three implied in policymakers' projections. If the committee does what Goldman and JPMorgan project, on top of a December move, the midpoint of the fed funds target rate would be 2.375%. That's higher than the current ten-year Treasury yield of 2.34%. Some bank strategists aren't so sure the Fed would willingly allow that to happen. Bank of America says the flattening trend will prevent the Fed from raising rates as fast as officials may want. The yield curve from two- to ten year Treasuries is currently about 62 basis points, near the flattest since November 2007.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.26%	3 mo	1.30%	3 mo	1.53%	3 mo	1.07%
6 mo	1.41%	6 mo	1.34%	6 mo	1.61%	6 mo	1.11%
1 yr	1.58%	1 yr	1.52%	1 yr	1.73%	1 yr	1.18%
2 yr	1.72%	2 yr	1.76%	2 yr	1.98%	2 yr	1.31%
5 yr	2.06%	5 yr	1.98%	5 yr	2.51%	5 yr	1.66%
10 yr	2.34%	10 yr	2.73%	10 yr	3.15%	10 yr	2.23%
30 yr	2.78%	30 yr		30 yr	3.82%	30 yr	3.21%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.19%	20.76%
S&P 500 (Large Cap)	-0.06%	17.27%
S&P 400 (Mid Cap)	0.88%	12.32%
Russell 2000 (Small Cap)	1.23%	11.22%
NASDAQ Composite	0.54%	27.33%
MSCI EAFE (International)	-0.53%	21.31%
iShares Real Estate	-0.45%	9.68%

Domestic equity markets were mixed last week with small-cap stocks booking the bets gains while the rest of the major indexes were largely flat. Volatility as measured by intraday price changes remained muted as the S&P 500 spent all of last week in a high to low price range of 1.2%.

Consumer Discretionary and Telecommunications were the best two of the eleven major groups last week – with Energy leading to the downside. Energy stocks fell over -3% as a group on the heels of a sharp move lower in crude oil on Tuesday.

Bespoke wrote in a note last week that the week of Thanksgiving has historically been a positive week for the S&P 500. Since 1945, the S&P 500 has averaged a gain of 0.64% during Thanksgiving week, and in years where the S&P 500 was already up over 10%, Thanksgiving week is even stronger with an average gain of 0.76%.

Last week marked the one-year mark for the Trump Administration. Since Election Day 2016, the Dow Jones Industrial Average is up 28.5% - marking the biggest first year of a presidential administration since Truman in 1945. One word of caution is that the second year of the Truman Administration saw the Dow fall by -17%. Hopefully, 2017 has not pulled forward future returns.

Shares of toymaker Mattel rose over 20% on Monday after rival Hasbro made a renewed takeover offer according to the Wall St. Journal.
General Electric shares tumbled -7% last week after the company announced plans to cut its dividend by half. The company also announced forward earnings guidance below consensus expectations.

For the week ahead – it should be a somewhat quiet week with the Thursday Thanksgiving holiday. Look for earnings early in the week from Hewlett-Packard, Lowe's, Campbell Soup, and DollarTree. On Wednesday the minutes from the November 1 FOMC meeting will be released.

We continue to watch the following support levels for the S&P 500 – 2545, 2530, 2490, and 2435. The index closed last week at 2578.

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.