2018 Weekly Portfolio Manager Commentary — December 7, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The PMI and ISM Manufacturing Indexes came in at 55.3 and 59.3 for November, respectively. The PMI and ISM Services Indexes came in at 54.7 and 60.7 also for November, respectively—all fairly well expansionary numbers. U.S. Non-Farm Productivity was +2.3% on an annualized basis for the third quarter of 2018, with Unit Labor Costs up 0.9% (also on an annualized basis). U.S. Factory Orders were down 2.1% for October versus being relatively flat on a revised basis for September. Finally, the U.S. Unemployment Rate came in at 3.7% for November, unchanged from October.

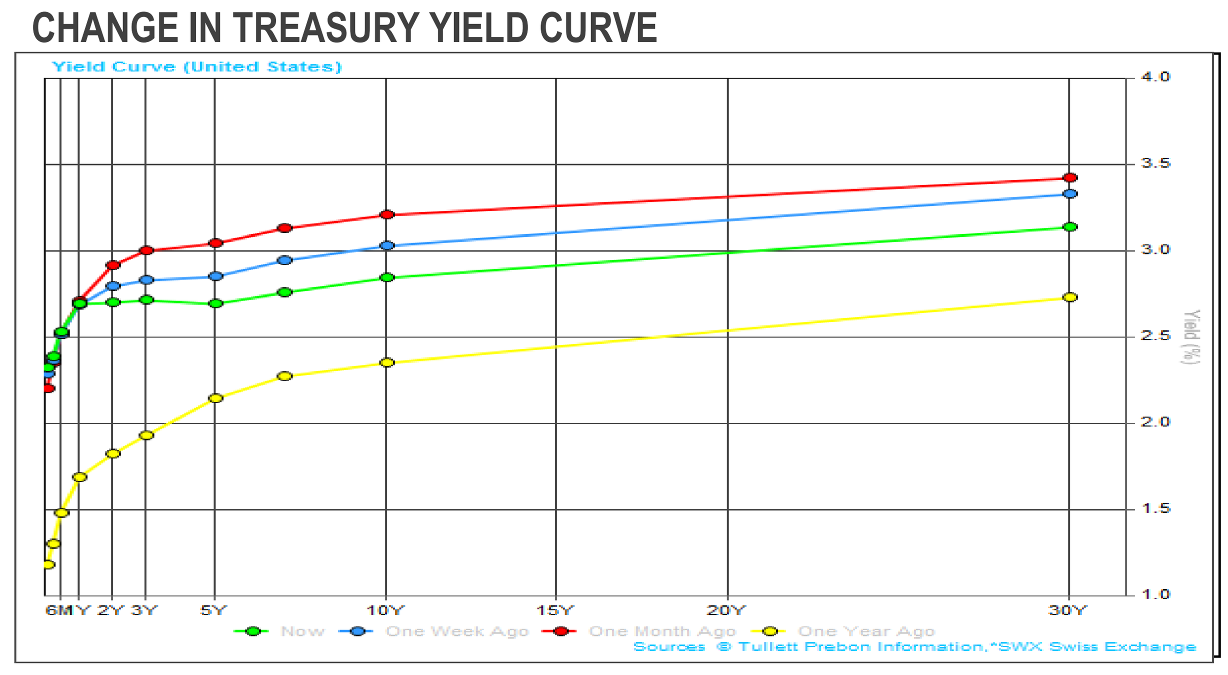
FIXED INCOME

After the longest advance in Treasuries since April, bond traders banking on even lower yields have some hurdles to clear as the market prepares to absorb $78 billion in new coupon-bearing securities and some key readings on the economy. A five-week rally has brought benchmark ten-year yields to the brink of the lowest levels in the past six months, and the closely watched two- to ten-year spread nearer to inversion than it's been in 11 years. Now traders will look to reports on consumer prices and retail sales to confirm deepening gloom, after weaker-than-expected U.S. employment data on Friday. While Federal Reserve Chairman Jerome Powell gave a bullish assessment of the economy last week, the markets are losing confidence that officials will raise interest rates even once in 2019. The swoon in stocks has been a major catalyst for the shift in Fed bets and the downward spiral in yields, leaving trade tensions between the U.S. and China in focus as investors assess the impact on global growth. The benchmark ten-year yield will begin the week at 2.85%, after touching 2.82% last Thursday, its lowest since August. Politics and central banks may spur volatility in debt markets this week. The U.K. Parliament is scheduled to vote on Prime Minister Theresa May's Brexit deal, amid predictions she may not win approval of her divorce agreement with the European Union. Thursday the European Central Bank meets, with economists expecting officials to lower their growth forecasts yet still project optimism for future growth prospects. The flattening of the curve last week, with one section inverting for the first time in more than a decade, also has traders monitoring whether the phenomenon becomes more pervasive. The spread between three- and five-year, as well as two- to five-year yields both fell below zero, although the two- to ten-year gap is more closely watched as a potential recession indicator. With the last Fed meeting of the year coming next week, there are no Fed speakers this week as officials enter the standard quiet period before making their final interest-rate decision for the year.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.39%	3 mo	2.45%	3 mo	2.79%	3 mo	1.77%
6 mo	2.53%	6 mo	2.54%	6 mo	2.87%	6 mo	1.81%
1 yr	2.68%	1 yr	2.67%	1 yr	2.96%	1 yr	1.86%
2 yr	2.71%	2 yr	2.71%	2 yr	3.20%	2 yr	1.97%
5 yr	2.69%	5 yr	2.80%	5 yr	3.48%	5 yr	2.20%
10 yr	2.85%	10 yr	3.21%	10 yr	3.85%	10 yr	2.64%
30 yr	3.14%	30 yr		30 yr	4.28%	30 yr	3.44%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-4.44%	0.90%
S&P 500 (Large Cap)	-4.55%	0.32%
S&P 400 (Mid Cap)	-5.18%	-4.94%
Russell 2000 (Small Cap)	-5.53%	-4.61%
NASDAQ Composite	-4.90%	2.00%
MSCI EAFE (International)	-3.22%	-11.86%
iShares Real Estate	-0.04%	3.76%

The week started on a positive note but sold off sharply last Friday to match the lows for the month of November. The majority of the major sectors finished mixed with REITs leading the market. Communication Services, Consumer Discretionary, Tech, Utilities, and Consumer Staples ended the week in positive territory. Energy trailed the market as Oil-services stocks notched lower on uncertainty in oil prices. Financials were broadly lower and industrials, materials, and healthcare slightly underperformed.

November saw choppy trading for U.S. equities, in which they ended relatively flat. The dollar was down compared to the Euro, Yen, and Franc.

Research by Bespoke Investment Group noted that, although it has been a painful couple of months for both U.S. equities and global equities, the 2011 and 2016 pullbacks were larger than the current decline that we are experiencing. A key reason the global equity market cap decline is smaller than prior drawdowns is that up until this point, the U.S. has been relatively contained. It should be noted that when it comes to global equity market impact, the US steers the ship by accounting for just under 40% of the global market cap.

Positive sentiment came with news that President Trump and China's Xi Jinping reached a ceasefire in their bilateral trade conflict, with the U.S. agreeing to hold off on increasing tariffs on Chinese imports. The market welcomed the G20 news, though equities eased a bit from their Monday morning highs due to the tariff-hike pause being expected by analysts, as well as, talk of more hurdles having to be cleared to form a concrete settlement that would remove tariffs altogether. The latest news of Huawei's CFO, Meng Wanzhao, being arrested due to violations on U.S. sanctions in Iran has added pessimism into the market, which has explained the latter-week sell off.

OPEC concluded its semiannual meeting in Vienna on the 6th, with headlines suggesting the cartel has come to preliminary agreement about some form of production cut. Early indications point to a reduction in output back to October 2016 levels; however, it remains unclear whether Russia will sign on to the plan and how any cuts will be distributed.

From November and into early December, trading continues to be very volatile. Support levels have been shown to be around 2632 with the index's range being approximately 2632-2800. The S&P ended the first week of December at 2634.

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	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

Below is a summery of our current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
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 floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.
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 continues to be a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. 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. However, trade uncertainty and dollar strength provides a headwind for EM in the near term.
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. Volatility will be higher and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.