2017 Weekly Portfolio Manager Commentary

December 15, 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Final Demand Producer Prices were up 0.4% for the month of November, and up a healthy 3.1% for the past year. Core PPI was up 2.4% for the year. Consumer Prices, which sometimes lag Producer Prices, were up 0.4% for November, but up only 2.2% for the past year. Core CPI was up 1.7%. Retail Sales surged 0.8% for November, far above consensus of +0.3%. Automobile sales and Electronics sales looked like the standouts for the month. Finally, the FOMC had their December meeting and decided to increase the Federal Funds Rate to 1.25%-1.50%. The vote was 7-2.

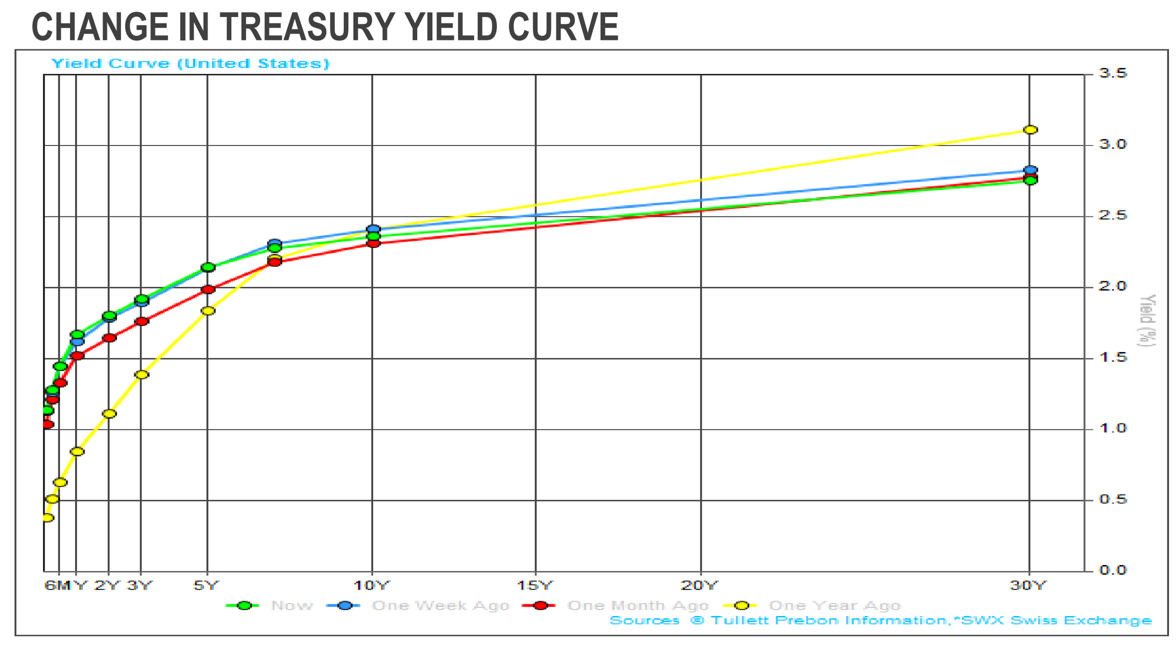
FIXED INCOME

Federal Reserve officials followed through on an expected interest-rate increase and raised their forecast for economic growth in 2018, even as they stuck with a projection for three hikes in the coming year. "This change highlights that the committee expects the labor market to remain strong, with sustained job creation, ample opportunities for workers and rising wages," Chair Janet Yellen told reporters Wednesday in Washington following the decision. In her final scheduled press conference, Yellen noted that her successor, Jerome Powell, has been part of the consensus shaping the Fed's gradual rate-hike strategy. In a key change to its statement announcing the decision, the FOMC omitted prior language saying it expected the labor market would strengthen further. Instead, Wednesday's missive said monetary policy would help the labor market "remain strong." That suggests Fed officials expect improvement in the job market to slow. The yield on the ten-year Treasury fell after the Fed announcement, as did the Bloomberg Dollar Spot Index. Asked during a press conference about rising asset prices, Yellen said the high valuations don't necessarily mean that they're overvalued and that she's not seeing a worrisome buildup of leverage or credit. The 7-2 vote for the rate move raises the benchmark lending rate by a quarter percentage point to a target range of 1.25% to 1.5%. In another move that could help tighten monetary conditions, the Fed confirmed that it would step up the monthly pace of shrinking its balance sheet, as scheduled, to $20 billion beginning in January from $10 billion. Through the policy adjustments and the statement, the Fed continued to seek a delicate balance between responding to positive news on growth and unemployment that encouraged gradual tightening, while signaling caution due to persistently weak inflation readings that have befuddled policymakers.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.31%	3 mo	1.37%	3 mo	1.68%	3 mo	1.16%
6 mo	1.46%	6 mo	1.45%	6 mo	1.77%	6 mo	1.23%
1 yr	1.68%	1 yr	1.62%	1 yr	1.85%	1 yr	1.30%
2 yr	1.84%	2 yr	1.87%	2 yr	2.07%	2 yr	1.44%
5 yr	2.15%	5 yr	2.10%	5 yr	2.51%	5 yr	1.74%
10 yr	2.35%	10 yr	2.71%	10 yr	3.06%	10 yr	2.24%
30 yr	2.69%	30 yr		30 yr	3.62%	30 yr	3.19%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.34%	27.75%
S&P 500 (Large Cap)	0.95%	21.86%
S&P 400 (Mid Cap)	-0.17%	15.30%
Russell 2000 (Small Cap)	0.61%	14.15%
NASDAQ Composite	1.43%	30.30%
MSCI EAFE (International)	0.19%	23.18%
iShares Real Estate	1.08%	10.10%

In what has been a recurring theme for 2017, the S&P 500 closed last week at new price highs – closing the books on the fourth straight weekly gain for the index.

Sector performance last week was a bit of a mixed bag – six groups rose while five declined. Technology and Consumer Discretionary led advancers – while Utilities and Energy declined the most. Year-to-date, Technology is still the clear winner – with gains over 30% so far in 2017.

The unusual price behavior for 2017 was put into historical context in a note Bespoke wrote last week. They pointed out that with two weeks left in 2017, there has not been a single point in the year where the S&P 500 was down 3% from its year-to-date high, and there was never a single point during the year where the S&P 500 was down year-to-date. The only other year where the index saw a smaller maximum drawdown from a closing high was in 1995, when it declined just -2.5%.

A report last week from Sentimentrader made note of the fact that households are the most exposed to stocks in 65 years, outside of the 2000 bubble, either as a percentage of total assets or economic output.

For the week ahead, the earnings calendar is fairly light with results expected from FedEx, Nike, Micron, and General Mills. On the economic front, we get US housing data at the beginning of the week followed by final Q3 GDP on Thursday and Core PCE on Friday. Overseas, the Bank of Japan's rate meeting will garner the most attention.

In corporate news, on Thursday Disney announced it has reached an agreement to purchase select assets of Twenty-First Century Fox for $52.4 billion in stock. The purchased assets include Fox's film studio and regional sports networks.

With only two more trading weeks left in 2017, we are watching the following support levels – 2595, 2555, 2490, and 2470. The index closed last week at 2675.

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.