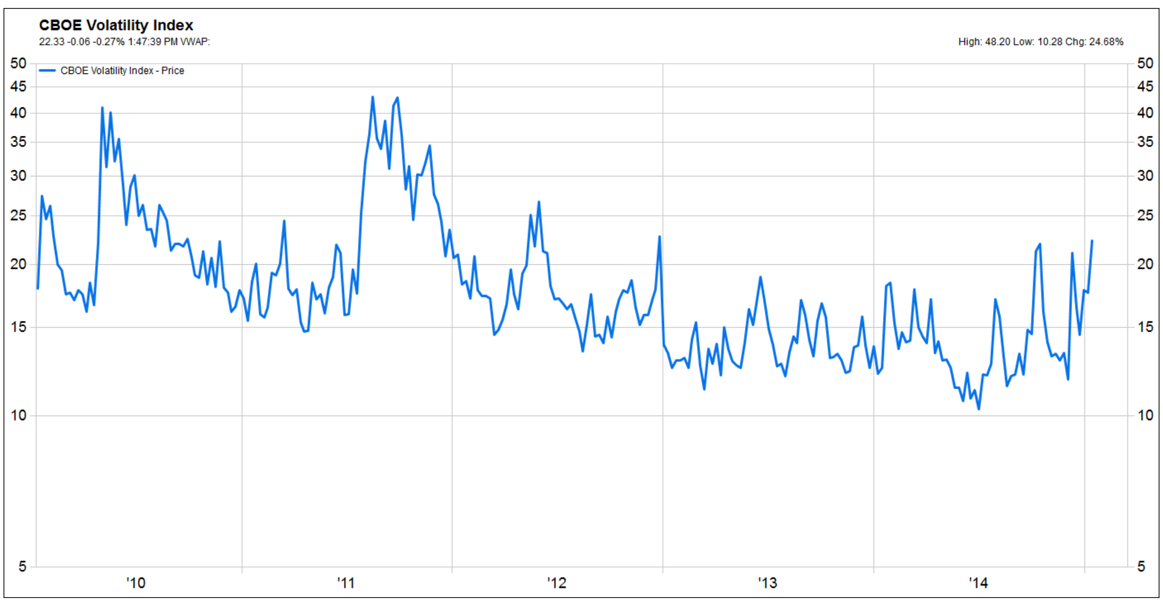
![Trustmark Investment Advisors, Inc.]

SPECIAL TIAI COMMENTARY
January 20, 2015

2015 – A Year of Volatility?

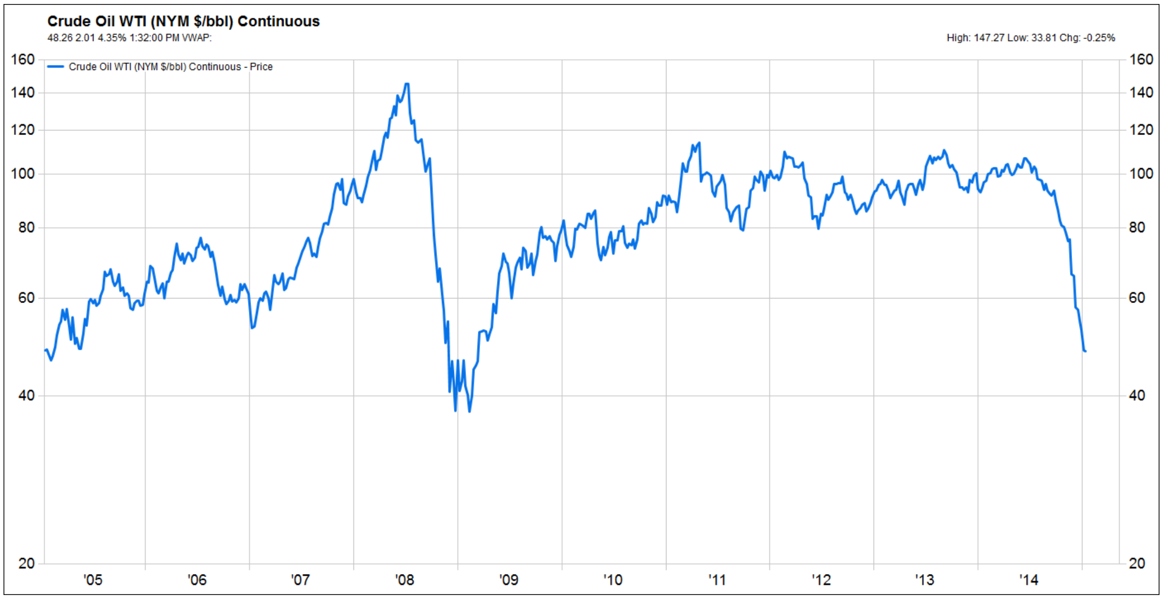
The stock market has gotten off to a rough start in 2015 as volatility has picked up in recent weeks. The **S&P 500** Index is coming out of the third worst "Santa Claus" period since 1950. And for the last two quarters, investors have seen some wild moves in the currency, commodity and interest rate markets. This will likely require some time for the market to settle down and find its footing. Outlined in this commentary are common investor concerns and some of the underlying sources of the recent bouts of volatility.

The chart below illustrates the recent volatility as measured by the VIX. Although rising, note that levels were much higher in 2010 and 2011.

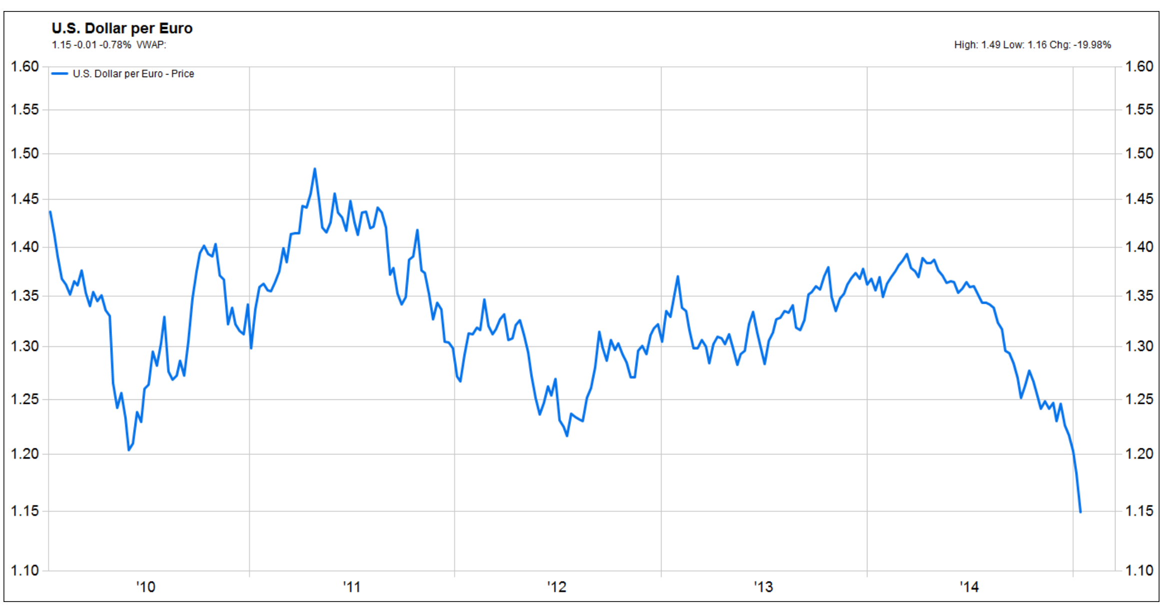


1. How low could oil prices go? – Oil prices have fallen from roughly $100 per barrel six months ago to $47 today, driven by an increase in supply from American drilling and fracking, and falling demand as global economic growth has recently slowed. This has been a boon for consumers, as they pay lower prices at the pump, but is expected to put downward pressure on corporate earnings this next quarter.

Although predictions are of little value, we expect prices to find a bottom sometime in the next month, in the upper 30's or lower 40's, and then move back towards the $75/barrel level over the next year. This would also coincide with prices for oil during the midst of the financial crisis of ’08 - ’09, as depicted in the chart below.



2. What’s going on in Europe? – The Euro Zone economy continues to struggle and confidence in the Euro is vanishing. This drop in confidence has fueled a rally in the U.S. Dollar, and the Euro has dropped to levels we haven’t seen in nine years. Deflation is a primary concern, along with EU member confidence and the possibility for member defections. Stay tuned to the upcoming Greek election on Jan 25 – the results could strain relations with the rest of the EU.



3. What is causing the drop in interest rates? – Short Answer: Global Rates. Ten year U.S. Treasury bond yields have fallen to 1.79% from 2.90% only one year ago. While American investors are wondering why interest rates are falling, the answer is to look globally, where yields are largely lower than the U.S. In Germany, for example, the ten year government bond yields only .40%. Therefore, German investors and institutions would consider a 1.79% yield on U.S. Treasuries an absolute gift; not to mention the fact that they would also receive the potential benefit of a rising U.S. dollar.

The equity markets have moved considerably higher over the past two years with limited bouts of volatility. So perhaps the swings in the markets are ushering in a period of price discovery. While higher volatility creates an additional level of uncertainty to the market place, it doesn't necessarily mean that the markets will go considerably lower. At present, a number of cycle indicators point to positive returns for the equity markets in 2015, and a rising U.S. dollar (as we saw in 2014) is typically very positive for the next year's equity returns. We will continue to monitor events and make changes to the recommended allocation models, if warranted, by market conditions.

Chart Source: Factset