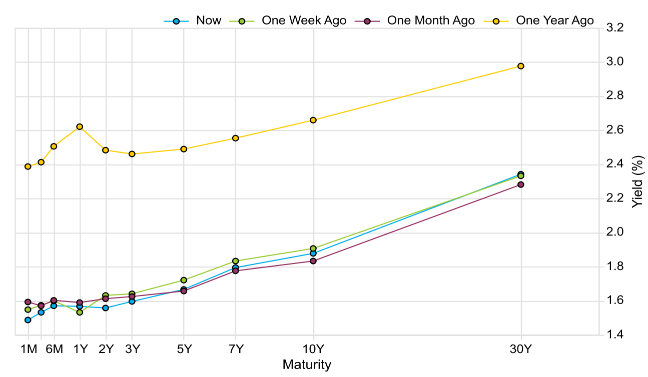
Trustmark Investment Advisors, Inc. *Weekly Portfolio Manager Commentary* January 3, 2020

ECONOMIC OUTLOOK: U.S. Industrial Production was up 1.1% for November, after having been down 0.9% in October. Capacity Utilization stood at 77.3%.

FIXED INCOME: U.S. Treasury yields fell last week, especially last Friday, after a closely watched manufacturing gauge fell to its lowest in a decade, adding to the safe-haven inflows initially sparked by a U.S. drone strike on Iranian Major General Qassem Soleimani. The ten-year note moved lower in yield by about 8 basis points on Friday to a four-week low of 1.79%. The ten-year also was lower for the week by its largest amount since the week ending November 15. The two-year note yield fell about five basis points to 1.53%, its lowest yield since October 10. The thirty-year yield fell about ten basis points last week to 2.24%. The potential for retaliation from Iran will keep investors on watch for any response from Tehran, but analysts say it is unclear what actions its military leaders might take. The bond market also got a boost from the weaker-than-expected economic data from the manufacturing sector. Some analysts attributed the drop to the production struggles at Boeing and General Motors. The Institute for Supply Management's U.S. Manufacturing Purchasing Managers Index for December fell to 47.2%, its lowest reading since June 2009. A reading below 50 represents a contraction in that sector of the economy. Friday was also busy in that the minutes from the December meeting of Federal Reserve Open Market Committee were released. They showed that policymakers were generally optimistic about the U.S. economy in part due to improvements in relations between China and the U.S. concerning the current trade dispute. Chicago Fed President Charles Evans said during an interview on CNBC last Friday that he was content with the current level of interest rates, and that it was important for inflation to reach the central bank's target level of two percent. Personal-consumption expenditures, the Fed's favored inflation metric, is up 1.5% year-over-year.

Change in Treasury Yield Curve



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	1.51%	3 mo	1.55%	3 mo	1.83%	3 mo	1.10%
6 mo	1.53%	6 mo	1.55%	6 mo	1.81%	6 mo	1.12%
1 yr	1.52%	1 yr	1.51%	1 yr	1.78%	1 yr	1.13%
2 yr	1.53%	2 yr	1.60%	2 yr	1.74%	2 yr	1.14%
5 yr	1.59%	5 yr	1.57%	5 yr	1.98%	5 yr	1.26%
10 yr	1.79%	10 yr	2.00%	10 yr	2.45%	10 yr	1.64%
30 yr	2.24%	30 yr		30 yr	3.19%	30 yr	2.36%

EQUITY: After multiple weeks of successive gains and finishing 2019 on an extremely strong note (The S&P 500 finishing the year up 31.48%), the U.S. equity market saw a drawdown on Friday largely due to geopolitical conflicts and December's ISM manufacturing numbers missing. Information Technology (+2.14%) and Industrials (+1.84%) are the market leaders while Utilities (-0.87%) were the biggest decliner.

2019 was an excellent year for U.S. equity as the S&P 500 Large Cap Index finished up 31.48%, the Russell 2000 up 25.49%, the Dow up 25.34%, the S&P 400 Mid Cap Index up 26.17, the iShares MSCI Eafe Fund up 22.03% and the iShares U.S. Real Estate Fund up 28.19%.

December's ISM Manufacturing Index came in at 47.2, which missed the estimate of 49.0. This number was released down from the prior month's 48.1. Amongst other indexes, the New Orders Index is down 0.4 to 46.8, the Production Index is down 5.9 to 43.2, the Employment Index is down 1.5 to 45.1, and the New Export Orders Index is down 0.6 to 47.3. This downtrend where activity has declined for 5 consecutive months continues though the report does note improved sentiment from the third quarter. There are also signs of supply constraints as prices and supplier deliveries are both up into expansionary territory. On another note, November's construction spending number is up +0.6% against the expected +0.3%.

December's Federal Reserve meeting minutes were released Friday in which the consensus for the sell side agreed with Fed Chairman Powell's description of the policy being in the right place and no need for change at the moment. According to FactSet, with year-end worries about liquidity not materializing, some economists still see the repo market as a work in progress for the Fed.

The equity markets are seeing a drawdown on Friday due to news that Qassem Soleimani, an Iranian General who led Iran Revolutionary Guards' Quds force, was killed in a U.S. airstrike on Friday. The U.S. strike came after demonstrators attacked the U.S. Embassy in Iraq last week, protesting earlier American airstrikes on Hezbollah militia bases, according to Bloomberg. President Trump authorized the deployment of 3,500 additional troops to the Middle East, as noted by CNBC.

The S&P 500 Large Cap Index continues to steadily climb as it hovers near 52-week highs of 3258.14. The Large Cap Index closed at 3234.

Index Returns	Last Week	YTD
Dow Jones Industrials	0.65%	0.38%
S&P 50 (LCap)	0.45%	0.15%
S&P 40 (MCap)	-0.22%	-0.34%
Russell (SCap)	-0.18%	-0.44%
NASDAQ Composite	0.85%	0.55%
MSCI EAFE (Int'l)	0.22%	-0.24%
iShares Real Estate	0.18%	-0.40%

ASSET ALLOCATION:

Current Sentiment

Cash	Neutral
Short FI	Neutral
Intermediate FI	Neutral
Inflation-Adjusted FI	Unfavorable
High Yield FI	Neutral
International FI	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

Summary below - 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 provide 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.