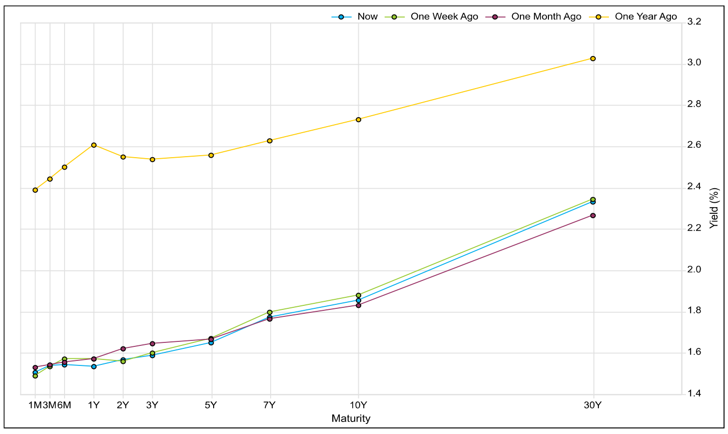
Trustmark Investment Advisors, Inc. *Weekly Portfolio Manager Commentary* January 10, 2020

ECONOMIC OUTLOOK: The Services PMI and ISM Non-Manufacturing Index came in at 52.8 and 55.0, respectively, for December. Factory Orders were down 0.7% for November, after having been up 0.2% for October. The U.S. Unemployment Rate remained at 3.5% for December. Average Hourly Earnings were up 0.1% for December after having been up 0.3% for November.

FIXED INCOME: With tension in the Middle East appearing to ease for the moment, bond managers are turning their attention back to the U.S. economy, with a particular focus on the risks to the tightest labor market in a half-century. With U.S. manufacturing showing some signs of weakness, any sign that weakness is spreading to job creation could bolster the view that the Fed will have to cut rates at some point this year after three rate cuts in 2019. "There are lots of things out there that have potential to drag on global growth, and if U.S. jobs start to roll over, it's going to be a very unhappy place," said James Athey of Aberdeen Asset Management in London. He added they are "bullish on Treasuries" and most developed-market sovereign debt. Nonfarm payrolls rose 145,000 in December, the lowest reading since May, and the previous month was revised downward to 256,000 jobs created. Average hourly earnings rose 2.9% year-over-year, which was less than expected and the first reading below 3% since July 2018. Treasuries moved higher in price on Friday after the release of the jobs report as the wage figures erased any worries of inflation moving substantially higher in the short-term. A key event on the calendar for this week will be the expected signing of the phase one U.S.-China trade deal on Wednesday, with attention being focused on any details that may be revealed as to the extent of areas benefiting from this first step toward a full trade deal.

Change in Treasury Yield Curve



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	1.53%	3 mo	1.55%	3 mo	1.83%	3 mo	1.00%
6 mo	1.55%	6 mo	1.53%	6 mo	1.81%	6 mo	1.02%
1 yr	1.52%	1 yr	1.49%	1 yr	1.78%	1 yr	1.03%
2 yr	1.57%	2 yr	1.61%	2 yr	1.74%	2 yr	1.03%
5 yr	1.63%	5 yr	1.62%	5 yr	1.98%	5 yr	1.16%
10 yr	1.82%	10 yr	2.02%	10 yr	2.46%	10 yr	1.54%
30 yr	2.28%	30 yr		30 yr	3.21%	30 yr	2.28%

EQUITY: U.S. Equity closes higher for the week as Information Technology (+2.08%) and Communication Services (+1.16%) lead the way. Energy (-1.2%) and Utilities (-0.7%) seem to be the only negative sectors in the S&P 500. So far, tension in the Middle-East, China-U.S. phase one trade deal, renewed central bank balance sheet expansion, and concerns revolving valuation seem to be the biggest factors at play within the market.

December's employment report came in soft than expected, but unemployment remains unchanged. The nonfarm payrolls report came in at 145K failing to beat the consensus of 160K. Along with this report, private payrolls reported at 139K versus the expectations of 151K, manufacturing payrolls are down 12K, the average hourly earnings report of 0.1% is 0.3% below the expectation, and the labor force participation rate remains unchanged at 63.2%. Though the numbers came in softer than expected, the S&P 500 still closed positive on Friday to end the week.

U.S. and China are set to sign phase one of the trade deal next week, with January 15th being the expected date. There doesn't seem to be much specificity about the deal besides it being centered around some tariff relief in exchange for a ramp in Chinese purchases of U.S. ag products.

Bloomberg released a report noting several signs that "hint" at caution for stock bulls. The release noted the cost of a bearish put option versus that of a call has continued to slide, recently touching levels that have been rare throughout the bull market. The latest surge in breadth has taken 82% of S&P 500 companies above their 200-day average, and the last time this happened, a correction followed not long after. Short sales in the SPDR S&P 500 ETF Trust as a percentage of shares outstanding fell to 1.1% on Tuesday, the lowest level since January 2018. In addition, assets in leveraged long ETFs have gained more than 15% over the past month, while short products have lost more than 10%. Though this is certainly not impending a downfall for the equity market, it is important to monitor these hints and others for cautionary tales regarding the current bull market.

The S&P 500 continues to track along as it made a new high at the end of the week to hit 3282. The Large Cap Index just broke a recent short-term, couple-of-weeks long consolidation stage and continues to track into unknown territory. The S&P 500 closed at 3265.

Index Returns	Last Week	YTD
Dow Jones Industrials	0.43%	1.05%
S&P 50 (LCap)	0.62%	1.13%
S&P 40 (MCap)	-0.13%	-0.54%
Russell (SCap)	-0.33%	-0.63%
NASDAQ Composite	1.19%	2.32%
MSCI EAFE (Int'l)	-0.13%	0.01%
iShares Real Estate	0.14%	-0.17%

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.

Sources of statistical information are Bloomberg and Ned Davis Research.