Portfolio Manager Commentary

February 5, 2021

Trustmark Investment Advisors, Inc.

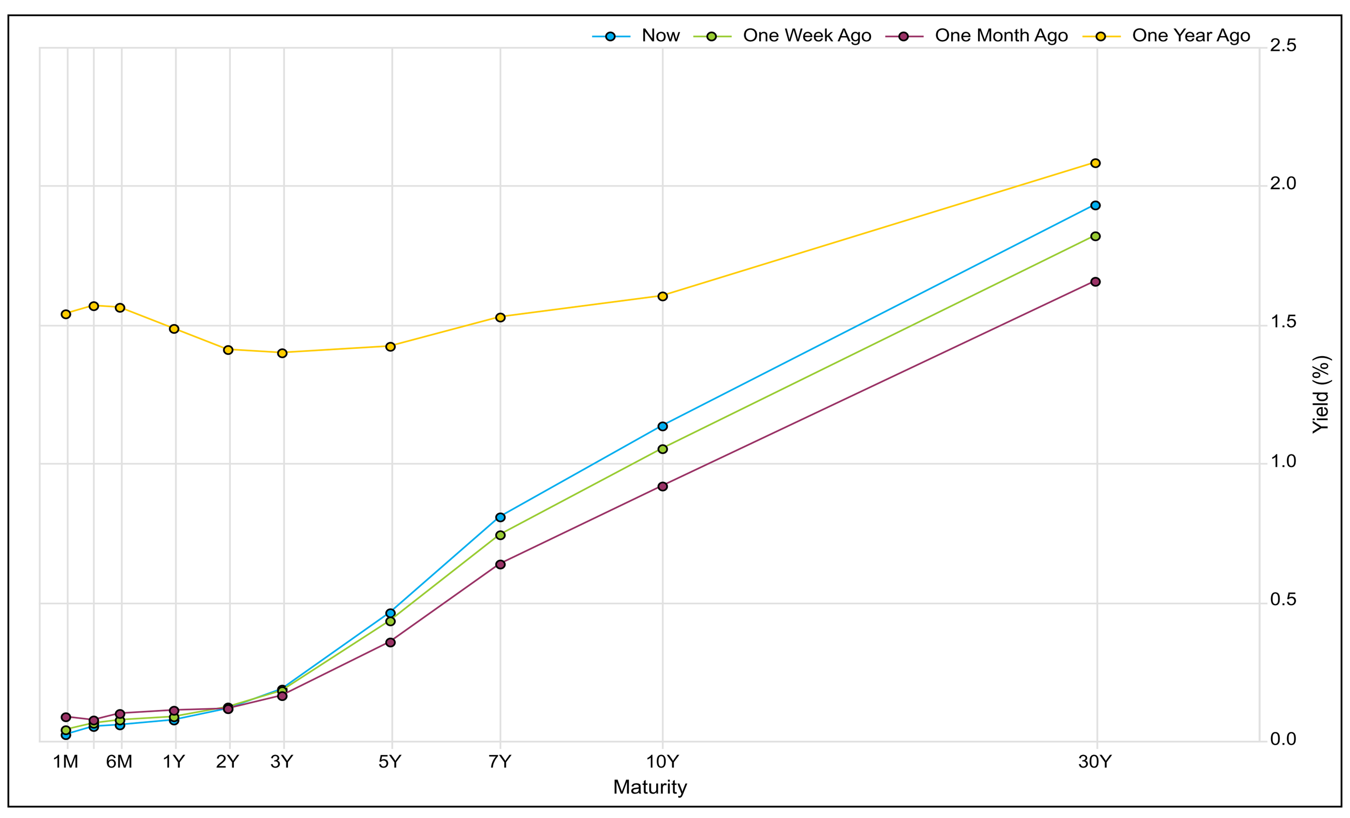
Economic Outlook

The U.S. Purchasing Managers' Index came in at 59.2 for January, approximately the same as December. The ISM Manufacturers' Index was 58.7 for January, down a bit from the 60.7 reading in December. Construction Spending in the U.S. was up 1.0% for December. The Markit Services PMI was 58.3 and the ISM Services Index was 58.7, both for January. U.S. Productivity was down 4.8% in the fourth quarter of 2020, and Unit Labor Costs were up 6.8% for the same period. Factory Orders were up 1.1% for December. Finally, the U.S. Unemployment Rate came in much better-than-expected, at 6.3% versus a consensus of 6.7%. U.S. Treasury Secretary Janet Yellen noted this week that President Biden's stimulus plan could get the U.S. to full employment by 2022.

Fixed Income

Yields on two-year Treasuries dropped to a record low and Treasury bill rates made a move on zero percent last week, weighed down by demand from investors scurrying to find investments to park short-term cash as the market continues to be flush with cash. The two-year note traded as low at 0.1013% last week, breaking below the previous all-time low set last May. Treasury bills that mature between this Thursday and April 1 are within basis points of zero percent, while the bill maturing this week traded in negative territory briefly last week. The enormous amount of cash searching for a home looks set to get even larger as the Treasury Department draws down its mammoth cash balance in the coming months, with stimulus spending likely to shrink the pile by hundreds of billions of dollars. Declines in the U.S. government's deposits at the Federal Reserve adds cash to the financial system, which banks often plow into short-term assets including Treasuries. The Treasury noted last week at its quarterly refunding announcement that the path and extent of the coming cash draw down will depend on "several uncertain factors," including the pace of outflows under current law and the potential for additional legislation. It also noted that it will curtail issuance of some cash management bills. In other parts of the yield curve, the pace of inflation over a ten-year time horizon that is implied by the bond market has surged to the highest level since 2014, as investors wager on a strong economic global recovery and crude oil prices trading at their highest levels since early 2020. The yield differential between the nominal ten-year Treasury note and its inflation-protected counterpart, widened to as much as 2.21% during trading last week, eclipsing the 2018 high of 2.2078%. Ten-year Treasury yields soared to a 10-month high of 1.19% during trading last Friday, after the employment report for January came in below consensus expectations, before ending the week at a yield of 1.16%.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.02%	3 mo	-0.07%	3 mo	0.15%	3 mo	0.14%
6 mo	0.04%	6 mo	-0.06%	6 mo	0.17%	6 mo	0.14%
1 yr	0.05%	1 yr	-0.04%	1 yr	0.19%	1 yr	0.15%
2 yr	0.10%	2 yr	0.13%	2 yr	0.24%	2 yr	0.18%
5 yr	0.46%	5 yr	0.47%	5 yr	0.76%	5 yr	0.32%
10 yr	1.16%	10 yr	1.32%	10 yr	1.72%	10 yr	0.80%
30 yr	1.97%	30 yr		30 yr	2.84%	30 yr	1.56%

Equity

U.S. equity finished the week higher as the S&P 500 closed the week up +4.77%. This strong finish follows a week that saw the Market's largest pullback since October. Market focus shifts from short squeezes in retail stocks back to vaccine news and fiscal stimulus, though there has not been anything very significant, especially in the latter with President Biden continuing to push for the original package noting that he is unwilling to compromise on some areas of the plan. The Market risk seems to stem from a spike in rates, new virus mutations, and continued pockets of market exuberance.

All sectors finished positive as Energy (+8.24%), Financials (+6.70%), and Communication Services (+6.77%) led with Health Care (+0.56%) being the weakest of the group. Nothing notable in the growth versus value play this week as growth (+4.43%) slightly outperforms value (+4.02%).

Index Returns	Last Week	YTD
Dow Jones Industrials	3.91%	1.92%
S&P 500 (LCap)	4.65%	3.48%
S&P 400 (MCap)	5.84%	7.37%
Russell 2000 (SCap)	7.70%	13.09%
NASDAQ Composite	6.01%	7.51%
MSCI EAFE (Int'l)	3.20%	2.40%
iShares Real Estate	3.47%	3.02%

Source: FactSet Research Systems

Asset Allocation

Current Sentiment

Cash	Favorable
Short FI	Neutral
Intermediate FI	Neutral
Inflation-Adjusted FI	Neutral
High Yield FI	Unfavorable
International FI	Unfavorable
Equity Income	Neutral
Large Cap Equity	Favorable
Mid Cap Equity	Neutral
Small Cap Equity	Unfavorable
International Equity	Unfavorable
Emerging Markets Equity	Unfavorable
Real Estate	Neutral
Commodities	Unfavorable

Summary below - Current stance on most asset classes:

Cash - Overweighting due to market volatility and uncertainty from Covid-19.

Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the oversold long-end of the curve.

Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain in certain sectors.

Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.

High Yield Bonds - Spreads are rising given the market turbulence and exposure to unnecessary credit risk when compared to Treasuries would not be advised.

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 continue to be overweighed versus Value.

Mid Cap Stocks - Mid cap exposure remains neutral - more attractive than small caps but not as attractive as large caps.

Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. Underweight until a clearer picture of recovery ensues.

International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight 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 begun to stabilize and long-term valuations appear attractive. Real Estate 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