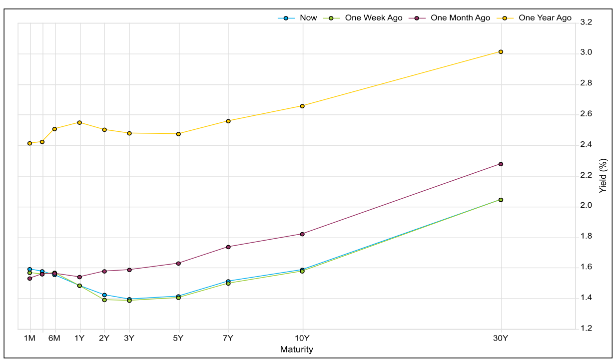
Trustmark Investment Advisors, Inc. *Weekly Portfolio Manager Commentary February 14, 2020*

ECONOMIC OUTLOOK: The U.S. Consumer Price Index was up 0.1% for the month of January 2020, and up 2.4% for the year ended January 2020. Core CPI was up 0.2% for the month. Retail Sales were up 0.3% for January, approximately as expected. Industrial Production was down 0.3% and Capacity Utilizaton came in at 76.8%, both also for January.

FIXED INCOME: When there is uncertainty on a global landscape like there is now with China and the coronavirus, bonds are usually the place where investors go to hide. According to Bank of America Merrill Lynch, bond funds saw record weekly inflows of $23.6 billion in the period ending February 12. The hope that the contagion rate for the coronavirus has peaked are dissipating and investors are becoming increasingly concerned over its effects on the world economy. Antoine Bouvet, senior rates strategist at ING Group commented, "There seems to be a wide acceptation that central banks will be proactive in dealing with any epidemic-related economic weakness which is positive for fixed income, even when we see the back of the virus crisis." The situation in China has helped to reignite a rally in bonds, which had slowed in recent months as trade tensions between the U.S. and China faded. Sovereign debt from the U.S. to Europe has climbed this year, while even some of the riskiest assets, such as Greek bonds, have seen yields fall to record lows as investors push into more remote corners of the market. These events have lead to the amount of investment-grade debt with negative yields to move back up to nearly $14 trillion. Data from EPFR, a group that tracks mutual fund flows, that investment-grade bond funds received their second-largest inflows ever at $13.4 billion, while high-yield bond funds saw the most in 21 weeks at $3.4billion. The total flow into bonds funds was nearly double that going into equity funds. Global central bankers have sounded the alarm and signaled a willingness to act should the disruption from China filter through the global economy. The Bank of England's Mark Carney noted Friday that the global economy is weaker today than during the SARS outbreak in 2003.

Change in Treasury Yield Curve



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	1.57%	3 mo	1.55%	3 mo	1.69%	3 mo	0.99%
6 mo	1.54%	6 mo	1.57%	6 mo	1.67%	6 mo	1.00%
1 yr	1.47%	1 yr	1.48%	1 yr	1.64%	1 yr	1.01%
2 yr	1.43%	2 yr	1.52%	2 yr	1.59%	2 yr	1.01%
5 yr	1.42%	5 yr	1.44%	5 yr	1.78%	5 yr	1.07%
10 yr	1.59%	10 yr	1.79%	10 yr	2.22%	10 yr	1.45%
30 yr	2.04%	30 yr		30 yr	2.96%	30 yr	2.18%

EQUITY: U.S. Equity finished the week positive as Mid Cap stocks (+1.73%) led the way for the major indexes. Real Estate (+3.66%) and Utilities (+2.26%) were the leading sectors while Health Care (+0.39%) struggled the most, though still finishing positive. Large Cap stocks continued to make new highs as the S&P 500 reached 3380. The Large cap index closed at 3380.

January's headline CPI of 0.1% m/m missed the consensus of 0.2% and the 2.5% y/y rate was higher than December's report of 2.3%. Gasoline fell 1.6% and food was up 0.2% for the month. Core CPI excluding food and energy of 0.24% m/m met expectations and the 2.3% y/y rate (estimate 2.2%) was unchanged from December's report. Shelter was up 0.4% on the month and 3.3% on the year. Elsewhere, weekly initial jobless claims came in at 205K for the week ending February 1st, beating the consensus of 211K but up slightly from a revised 203K prior week. The four-week average remained unchanged at 212K. Continuing claims for the preceding week were 1698K versus the expectations of 1744K; down 61K w/w. Headline January retail sales of 0.3% met their consensus and were up 4.4% y/y, while the prior month was revised down a tenth to 0.2%. Retail sales excluding autos and gasoline of 0.4% came in as expected, down from prior month 0.5% and up 3.3% y/y. Building materials are strong and clothing weak due to the warm weather. The core control group (further excludes building materials and food services to estimate GDP consumption) of 0.0% missed the expectations of 0.3% and the prior two months were revised lower by 0.4% on net. As a result, JPMorgan revised its Q1 real consumption forecast to 1.8% (from 2.2%). The Atlanta Fed GDPNow forecast for Q1 softened slightly to 2.4 % (down 0.3%) on the data.

In its monthly Oil Market Report, the International Energy Agency said oil demand is set to fall y/y in Q1 of 2020 for first time since the depths of GFC in 2009 hurt by the coronavirus outbreak in China, which will have a big impact on consumption. The IEA noted consequences of the virus for global oil demand will be significant and demand is now expected to contract by 435K bpd in Q1, the first quarterly decrease in more than a decade. The report mentioned for 2020, the global growth forecast was reduced by 365K bpd to 825k bpd - the lowest since 2011. The group assumed economic activity from Q2 2020 would return progressively to normal. The report also added in Q1 of 2020, the world would only require 27.2M bpd of oil to consume from OPEC countries.

The WSJ highlighted cautious tones from central bankers when discussing the coronavirus. In his Congressional testimony, Fed Chair Powell flagged risks to U.S. growth from the epidemic's impact on tourism, exports and markets, in which Philadelphia Fed President Harker echoed the message, flagging a monetary accommodation if situation gets significantly worse. RBNZ Governor Orr conceded central bank's projection of a short-term impact on GDP was partly based on a scenario where travel curbs are lifted in March. RBA Governor Lowe cited an impact on Australia from the reduced number of tourists and Chinese students and warned international spillovers could be larger during 2003 SARS outbreak. Meanwhile, Thai and Philippine central banks cut their benchmark rates last week.

The preliminary Michigan consumer sentiment for February came in up 100.9, an increase of 1.1 from January. Other notable indexes include the Current Conditions Index, 0.6 lower to 113.8, and the Expectations Index, 2.1 higher to 92.6. The report noted current personal finances and views on economy are strong while the desire to buy durables posted a large loss. One-year inflation expectations remain unchanged at 2.5% and the 5-10 year is down two tenths to 2.3%. January's industrial production of -0.3% m/m missed the consensus of -0.2% after December's -0.4% (revised down a tenth). In other news, Utilities showed weakness while Boeing shutdown slowed business equipment, mining, automotive products and construction rose, capacity utilization fell to 76.8% as expected, down 0.2 pp, and the NY Fed nowcast for Q1 GDP fell to 1.4%, down ~0.3%, due to the IP and capacity utilization numbers.

Source: FactSet Research Systems

Index Returns	Last Week	YTD
Dow Jones Industrials	0.55%	3.34%
S&P 500 (LCap	0.89%	4.86%
S&P 400 (MCap)	1.78%	1.80%
Russell 2000 (SCap)	1.23%	1.26%
NASDAQ Composite	1.08%	8.62%
MSCI EAFE (Int'l)	0.14%	-0.35%
iShares Real Estate	3.23%	7.74%

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.