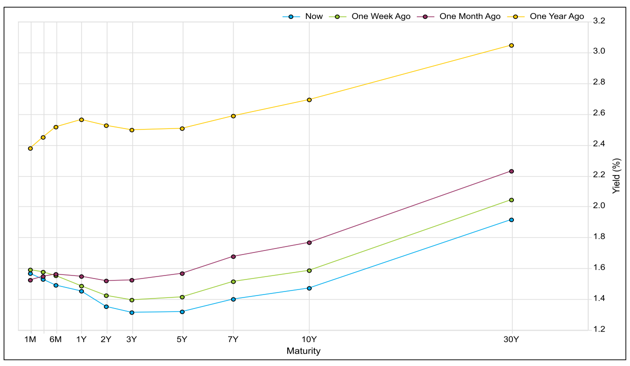
Trustmark Investment Advisors, Inc. *Weekly Portfolio Manager Commentary* *February 21, 2020*

ECONOMIC OUTLOOK: U.S. Producer Prices rose 0.5% in January, versus 0.2% expected. The Index of Leading Indicators was up 0.8% for January, while the Flash Services PMI came in right around 50.

FIXED INCOME: U.S. Treasury yields continued to move lower last Friday as investors worried that the economic impact of the coronavirus may not be contained to China and is spreading into neighboring countries. During trading last Friday, the ten-year Treasury note yield fell over five basis points to close the week at a more than five-month low of 1.47%, bringing the yield down for the week around 12 basis points. Two-year Treasury notes fell over four basis points for the day ending the week at a three-week low of 1.35%, and lower for the week by about eight basis points. Thirty-year bonds yields ended the week down over 12 basis points to close at a yield of 1.92%, an all-time low for the end of a trading day for the thirty-year bond and traded at an all-time low yield of 1.89% during the day last Friday. Worries about a Chinese and Asian economic slowdown spilling over into the U.S. have also raised traders' expectations for the Federal Reserve to act in the form of interest rate cuts later in the year. There were several Fed officials giving speeches last Friday and agreed that the coronavirus would be a temporary shock and that no easing of interest rates was imminent. There was also some disappointing economic data released last Friday that helped spur bond prices higher. The IHS Markit Purchasing Manager Survey's Composite Index for the U.S. dropped to 49.6 to start February, a more than six-year low. Any number below 50 represents a contraction in economic activity. Ward McCarthy, Chief Financial Economist for Jefferies, wrote in a note to clients last Friday "fitful spurts of Corona virus anxieties made for erratic trading in risk markets, but the bid for treasuries remained firm, especially out the curve where the long bond set a record low yield."

Change in Treasury Yield Curve



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	1.55%	3 mo	1.55%	3 mo	1.65%	3 mo	0.95%
6 mo	1.52%	6 mo	1.53%	6 mo	1.63%	6 mo	0.95%
1 yr	1.42%	1 yr	1.44%	1 yr	1.60%	1 yr	0.95%
2 yr	1.35%	2 yr	1.40%	2 yr	1.55%	2 yr	0.96%
5 yr	1.32%	5 yr	1.40%	5 yr	1.73%	5 yr	1.01%
10 yr	1.47%	10 yr	1.67%	10 yr	2.16%	10 yr	1.31%
30 yr	1.92%	30 yr		30 yr	2.89%	30 yr	2.02%

EQUITY: U.S. Equity ended the week down on all fronts as the major equity indices finished with negative returns, in which the NASDAQ (-1.58%) suffered the most. The only sector to remain above water for the week was Real Estate (+0.05%) while Information Technology (-2.46%) was hit the hardest. It's difficult to say the exact narrative as to why equity fell, but most chalk it up to the Coronavirus being spread outside of China, a potentially overheated market, and the current political landscape in the Democratic debate.

As stated by the New York Times, China's National Health Commission reported 1,749 new confirmed cases of coronavirus infections on Wednesday, the lowest daily increase since the 29th of January. The number of new cases in mainland China excluding Hubei has now fallen for 15 straight days. Amid concerns about the difficulties in getting China back to work, Reuters reported big manufacturing hubs on the coast are starting to loosen curbs on the movement of people and traffic, while local governments are prodding factories to restart production. There also seems to be more talk of support measures as Bloomberg noted China is considering measures such as direct cash infusions and mergers to bail out airline industry. Reuters highlighted widespread expectations for China to cut its benchmark lending rate on Thursday.

January's headline PPI is up 0.3pp m/m to +0.5%, ahead of the +0.1% estimate and is annualized +2.1% - up 0.8% m/m, ahead of the +1.6% estimate. Core PPI, which excludes food and energy, came in at +0.5%, beating the +0.2% estimate. The annualized core number is up 0.6pp to +1.7%, ahead of the +1.3% consensus. This report was the biggest headline gain since October 2018, with healthcare and hotels among biggest drivers. Housing starts for January are down 3.6% m/m to a 1.567M SAAR, though still ahead of the 1.405M estimate. Building permits are up 9.2% m/m to a 1.551M SAAR, the highest level since March 2007. Single-family starts and permits are both at their highest level since June 2007.

The S&P 500 finished the week down -1.25% as the large cap index remains above its 50-day and 200-day moving average. The next support level seems to be the 50-day moving average at 3258, with the 200-day moving average being a stronger form of support at

Index Returns	Last Week	YTD
Dow Jones Industrials	-1.36%	1.94%
S&P 500 (LCap	-1.22%	3.58%
S&P 400 (MCap)	-0.57%	1.22%
Russell 2000 (SCap)	-0.52%	0.73%
NASDAQ Composite	-1.55%	6.94%
MSCI EAFE (Int'l)	-1.36%	-1.70%
iShares Real Estate	-0.07%	7.66%

Source: FactSet Research Systems

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.