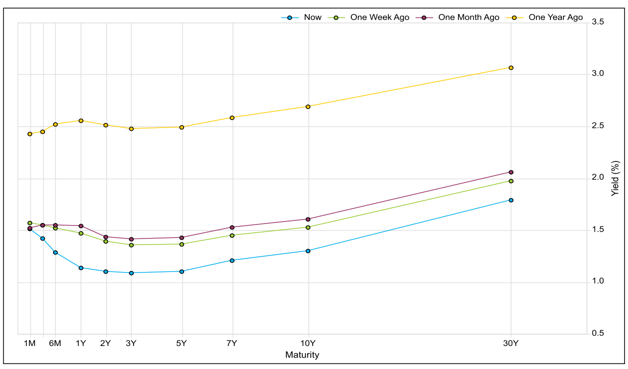
Trustmark Investment Advisors, Inc. *Weekly Portfolio Manager Commentary* *February 28, 2020*

ECONOMIC OUTLOOK: U.S. New Single-Family Home Sales came in at 764,000 units in January, much better than expected. U.S. Real GDP was +2.1% for the fourth quarter of 2019. Durable Goods Orders were down 0.2% in January. The Chicago Purchasing Managers' Index was 49.0 for January, slightly contractionary.

FIXED INCOME: Federal Reserve Chairman Jerome Powell stated last Friday that the Fed will "use our tools" to support the economy, an effort to ease fears over the coronavirus outbreak and a strong signal of a likely rate cut in the near future, perhaps at its next meeting which will be held March 17-18. Powell reiterated that the Fed will "act as appropriate to support the economy." He also mentioned the fundamentals of the U.S. economy "remain strong" but noted that "the coronavirus poses evolving risks to economic activity." He also stated, "the Federal Reserve is closely monitoring developments and their implications for the economic outlook." These type of statements from the Fed are unusual and tend to come during crisis events that cause widespread fear in the financial markets. The Fed gave similar comments after the October 1987 market crash and after the September 11, 2001, terrorist attacks. Investors are increasingly envisioning that the Fed will take action soon. Late Friday afternoon, traders priced in a 96% chance that the central bank would cut rates by a half-point in March, according to the CME's FedWatch tool. Before Powell's statement, that probability only stood at 47%. These are dramatic changes in sentiment from just a week earlier, when the chances of just a quarter-point move stood at just 11%. It is unclear what economic benefit a Fed rate cut, even a sizable one, might provide. The main economic consequence of the viral outbreak so far is the disruption of global manufacturing supply chains in China, South Korea and Japan, all of which have been hit by the outbreak. Lower interest rates won't be able to repair those breakdowns, especially considering global borrowing costs are already historically low.

Change in Treasury Yield Curve



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	1.27%	3 mo	1.36%	3 mo	1.55%	3 mo	0.85%
6 mo	1.15%	6 mo	1.27%	6 mo	1.50%	6 mo	0.85%
1 yr	1.01%	1 yr	1.07%	1 yr	1.44%	1 yr	0.86%
2 yr	0.91%	2 yr	0.99%	2 yr	1.36%	2 yr	0.86%
5 yr	1.06%	5 yr	1.07%	5 yr	1.56%	5 yr	0.90%
10 yr	1.15%	10 yr	1.38%	10 yr	2.05%	10 yr	1.18%
30 yr	1.68%	30 yr		30 yr	2.83%	30 yr	1.88%

EQUITY: U.S. Equity continues to fall, as the S&P 500 is set to close for the fourth worst one-week drop since 1927, with Coronavirus dominating the headlines. All sectors are in the oversold range, as the % of issues oversold in the S&P 500 is now the fourth highest since 1957. Situations like these can be good buying opportunities for investors, however, it is wise to remember that the absolute bottom cannot be predicted, and it is sometimes best to not attempt to catch a falling knife. Of the sectors, none were positive with Energy (-12.25%) being hit the hardest. Consumer Staples (-6.19%) was the least impacted.

WHO's Director-General said his group has increased its risk assessment for Covid-19 (coronavirus) outbreak to "very high" from "high." He cited linked epidemics in several countries, though he added WHO does not yet see evidence the virus is spreading freely in communities. In the U.S., CDC Director Redfield said in a closed-door briefing to lawmakers that the current risk to the U.S. is lower, but NIH's Anthony Fauci added there will be many more cases in the U.S. given sustained transition in many countries.

WSJ and Reuters both discussed the meaningful market reset in monetary policy expectations. FedWatch says futures show market expectations of a 58% chance of a 50bp cut at the March 18th meeting, with now more than 60% chance of four cuts by year's end. However, several Fed officials have recently said it is too early to gauge the impact of the coronavirus outbreak, suggesting the Fed is unlikely to move off the sidelines any time soon. There seems to be a lot of discussion in the press about whether rate cuts could do much to counter a supply shock.

January's monthly personal consumption expenditures of 0.2% m/m missed the consensus of 0.3% and the prior month reading of 0.4% (revised up a tenth), while personal income came in higher at 0.6% m/m versus the expected 0.3% and a 0.1% in prior month (revised lower a tenth). The core PCE deflator of 0.1% (0.13% unrounded) came in weaker than the consensus of 0.2%. On a y/y basis, the inflation measure printed 1.6% versus the expected 1.7%, but rose from December's 1.5% print. February Chicago PMI of 49.0 beat the 45.7 estimate, the highest since August 19th. The final Michigan consumer sentiment for February of 101 is up 0.1 from the preliminary number and 1.2 higher than January's. In other news, the current Conditions Index is 1.0 higher to 114.8, the Expectations Index is 0.5 lower to 92.1, and the one-year inflation expectations are down a tenth to 2.4% while the 5-10 year remained at 2.3%.

Since hitting highs on February 20th, the S&P 500 Index has fallen ~13.92%, the biggest decline since 2008. The index is currently below its

Index Returns	Last Week	YTD
Dow Jones Industrials	-7.84%	-9.71%
S&P 500 (LCap	-8.42%	-8.56%
S&P 400 (MCap)	-10.31%	-12.06%
Russell 2000 (SCap)	-9.31%	-11.50%
NASDAQ Composite	-7.09%	-4.51%
MSCI EAFE (Int'l)	-5.02%	-10.37%
iShares Real Estate	-11.60%	-6.10%

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.

Sources of statistical information are Bloomberg and Ned Davis Research.
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