Portfolio Manager Commentary

March 5, 2021

Trustmark Investment Advisors, Inc.

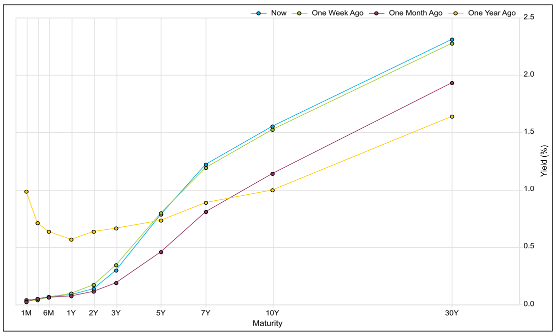
Economic Outlook

The U.S. Purchasing Managers' Index came in at a strong 58.6 for February 2021, while the ISM Manufacturers Index was also strong for February, at 60.8 (above 50 is expansionary). The PMI Services Index came in at 59.8 for February, while the ISM Non-Manufacturers Index was 55.3. U.S. Factory Orders were up 2.6% in January. The U.S. Unemployment Rate was 6.2% in February, down from 6.3% in January. Average hourly earnings were up 0.2% for February.

Fixed Income

Treasury Secretary Janet Yellen played down any concerns that the recent surge in U.S. government-bond yields reflects expectations that inflation will make a break to the upside above the 2% level the Fed is currently targeting. "I don't see that the markets are expecting inflation to rise above" the Federal Reserve's two percent objective, Yellen said on Friday in an interview with PBS Newshour. "Long-term interest rates have gone up some -- but mainly, I think, because market participants are seeing a stronger recovery." Yields on ten-year Treasuries stabilized Friday after spiking early in the day to the highest in more than a year in the wake of a stronger-than-expected February employment report. Labor Department data showed employers added 379,000 net jobs in February, more than forecast. That dropped the unemployment rate to 6.2%. "Although 379,000 sounds like a lot, at that pace it would take us more than two years to get to full employment," Yellen said. The "real" unemployment rate, after factoring in four million people who have dropped out of the labor force after losing their jobs, was more like ten percent, she said. Asked about critiques that the Biden administration's $1.9 trillion Covid-19 relief legislation was excessive given the economy's signs of recovery, Yellen pushed back. "I think we should want a rapid recovery," she said. "We have a large number of workers who are long-term unemployed, and we have to make sure they're not scarred to the point where this pandemic has a permanent impact on their lives." Meanwhile during trading last Friday, the benchmark ten-year yield reached 1.62% -- the highest since February 2020 -- before dip buying from foreign investors emerged. The surge in yields and growing confidence in the economic recovery prompted a slew of analysts to recalibrate expectations for ten-year rates this past week. For example, TD Securities and Societe Generale lifted their year-end forecasts to two percent from 1.45% and 1.50%, respectively. Asset managers, for their part, flipped to the most net short on ten-year notes since 2016, the latest Commodity Futures Trading Commission data show. A fresh dose of long-end supply this week may make short positions even more attractive, especially after record-low demand for last month's seven-year auction served as a trigger to push ten-year yields above 1.6%.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.03%	3 mo	-0.04%	3 mo	0.18%	3 mo	0.12%
6 mo	0.05%	6 mo	-0.03%	6 mo	0.20%	6 mo	0.13%
1 yr	0.07%	1 yr	0.00%	1 yr	0.24%	1 yr	0.14%
2 yr	0.14%	2 yr	0.16%	2 yr	0.33%	2 yr	0.19%
5 yr	0.80%	5 yr	0.75%	5 yr	1.09%	5 yr	0.58%
10 yr	1.57%	10 yr	1.68%	10 yr	2.17%	10 yr	1.18%
30 yr	2.30%	30 yr		30 yr	3.19%	30 yr	1.97%

Equity

U.S. equity finished the week higher as the S&P 500 Index closed up 0.86%. The Large Cap Index has a 2.61% year-to-date gain and is trailing the S&P Mid cap and Small cap by 6.34% and 8.40%, respectively. Energy (+9.97%) vastly outperformed other sectors with Financials (+4.33%) the second largest gaining sector. Technology (-1.33%) and Consumer Discretionary (-2.69%) were the sole negative sectors.

The higher-rate environment and seeming Fed comfort with the move remained a key theme for the positive equity return. This week's Fedspeak confirmed the Fed's stance that it will remain patient despite a rising backdrop.

Index Returns	Last Week	YTD
Dow Jones Industrials	1.87%	3.33%
S&P 500 (LCap)	0.86%	2.61%
S&P 400 (MCap)	0.67%	8.94%
Russell 2000 (SCap)	-0.40%	11.01%
NASDAQ Composite	-2.06%	0.25%
MSCI EAFE (Int'l)	0.84%	2.29%
iShares Real Estate	-1.17%	0.79%

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 as the short-term outlook is not favorable.