

**ECONOMIC HIGHLIGHTS**

U.S. Consumer Spending was up 0.9% for March, consistent with consensus. Core Inflation was flat for the month. For the first quarter 2019, the Employment Cost Index was up 0.7%, while Average Hourly Earnings for April were up 0.2%. The Chicago PMI came in at 52.7 for April, down from 58.7 in March. The ISM Manufacturing Index came in at 52.8 for April, and the ISM Non-Manufacturing Index came in at 55.5, both down from March yet still expansionary. Productivity for the first quarter of 2019 was a high 3.6%, which should have been expected with little to no inflation. Finally, Factory Orders for March were up 1.9%.

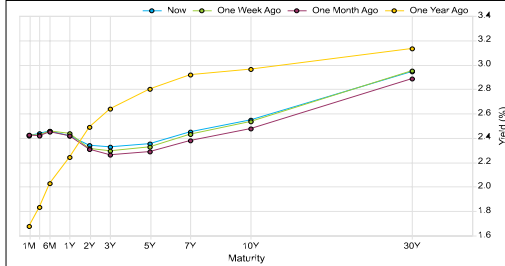
**FIXED INCOME**

Bond traders will have one word on their minds as they gear up for the most recent reports on inflation: "transitory." That is how Federal Reserve Chairman Jerome Powell described the factors behind muted price pressures after last week's Federal Open Market Committee meeting, where members kept interest rates unchanged. Markets traded with more volatility after the announcement, with benchmark ten-year yields touching their lowest levels in a month before ending the session mostly unchanged. This week, traders will see the first evidence on whether Powell is correct in his description of inflation with both producer and consumer inflation numbers for April coming this week on Thursday and Friday respectively. The CPI report is expected to show that inflation picked up during April based on a survey by Bloomberg. Still, the bar will be high when it comes to altering market expectations for the Fed's path on interest rates. Powell said officials don't "see a strong case" for moving rates in either direction, and futures traders seem to agree. The next move the market is expecting based on traders' opinions will be a quarter-point cut, but it's not fully priced in until mid-2020. Despite a robust U.S. labor report for April, traders barely changed expectations for when a cut would be fully priced in, as they chose to focus on tame earnings growth. Yields on ten-year Treasuries ended last week at 2.53%, after trading in a 12-basis point weekly range -- the largest span in over a month. Lisa Hornby of Schroder Investment Management is of a similar mind when it comes to the resilience of rate-cut wagers. Though inflation is "the most important data we have to look at," she believes it will take more than one negative report to sway the market. Consumer prices, excluding food and energy, probably rose 0.2% in April from the prior month, and 2.1% on a yearly basis, slightly quicker than the pace in March, according to the median forecast in a Bloomberg survey. Other than the inflation numbers being released this week, there isn't much economic news of note that may move interest rates significantly. But, more than a half-dozen policy makers are scheduled to speak at various events during the week, including Chairman Powell. The market will be paying attention to whether their speak is consistent in regard to inflation expectations.

**CURRENT GENERIC BONDS YIELDS**

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.42%	3 mo	2.33%	3 mo	2.56%	3 mo	1.56%
6 mo	2.45%	6 mo	2.38%	6 mo	2.57%	6 mo	1.59%
1 yr	2.39%	1 yr	2.32%	1 yr	2.60%	1 yr	1.62%
2 yr	2.33%	2 yr	2.40%	2 yr	2.60%	2 yr	1.65%
5 yr	2.32%	5 yr	2.35%	5 yr	2.79%	5 yr	1.75%
10 yr	2.53%	10 yr	2.75%	10 yr	3.23%	10 yr	2.03%
30 yr	2.92%	30 yr		30 yr	3.88%	30 yr	2.80%

**CHANGE IN TREASURY YIELD CURVE**



**EQUITY**

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.19%	14.41%
S&P 500 (Large Cap)	0.11%	18.26%
S&P 400 (Mid Cap)	0.37%	19.71%
Russell 2000 (Small Cap)	1.00%	20.18%
NASDAQ Composite	0.04%	23.43%
MSCI EAFE (International)	0.40%	13.97%
iShares Real Estate	1.80%	17.80%

U.S. equities seem to finish out a somewhat neutral week strong as the S&P500 index closes up .96% on Friday. Consumer Discretionary and Energy were the leaders near end week with REITs being the only sector lower. Gold finished up 0.7%, while WTI Crude is up 0.6% following its -3% selloff in the prior period.

It was a busy macro week for April, which began with April nonfarm payrolls report being released at 263K, beating their 181K estimate, and ended with the unemployment rate being down to its lowest point since December of 1969 at 3.6% (although it should be noted the labor force participation rate is also down to 62.8%). Consumer confidence seems to be holding fast as April's Consumer Confidence levels are up 5.1% to 129.2, beating the estimate of 126.1. A Sentiment index regarding those who believe jobs are "plentiful" vs. "hard to get," increased 4.8% points to 33.5. March's pending home sales are up 3.8% m/m versus their estimate of 1.8%. This report noted increasing mortgage applications on positive sentiment, favorable mortgage rates, and also mentioned sales activity is underperforming despite contract growth which signals pent-up demand.

One of the bigger market movers of the week was Alphabet (GOOGL-US). Alphabet missed consensus revenue expectations by -\$1B with Sites revenue growth on a constant currency basis falling below 20% for the first time in four years. The company blamed a bigger FX headwind, tough comps, and ad product changes, which offset benefits from mobile search, YouTube, and Cloud. Some concerns in sell-side takeaways about lack of disclosure/transparency from management on the earnings call. A number of firms seemed to endorse the company's position that the bulk of the slowdown was self-inflicted, though press reports (WSJ, Reuters) tended to focus on a more difficult competitive backdrop.

Reuters reported that Saudi Energy Minister Khalid al-Falih said that the OPEC+ production-cut agreement could be extended beyond June to cover all of 2019. However, he did not specify whether or how much output levels could change. There were noted statements that were expressed despite pressure by President Trump to get major producers to boost output to offset the supply shortfall expected from tightening US sanctions against Iran.

According to FactSet, there were some encouraging macro updates from the euro area, with Eurozone preliminary Q1 GDP growth at 0.4% versus consensus of 0.3% and the prior 0.2%. This report came after French growth held steady at 0.3%, Italy beat at 0.2% and Spanish economy exceeded expectations at 0.7%. Bloomberg highlighted that the numbers will help alleviate the pressure on the ECB to ease further. Elsewhere, German unemployment fell by 12k, larger than the 6k forecast and compared with the prior 7k drop. German May GfK consumer confidence held steady at 10.4%, largely in line with expectations. The Eurozone flash inflation reading for April increased to 1.7% y/y against the consensus of 1.6% and the prior 1.4%, which is one of the concerns in the Eurozone.

The S&P 500 index broke its all-time high this past trading week by hitting -2950, although the index hasn't seen to make this level an area of support to build on further gains yet. The equity index continues to trade around this same range. The S&P 500 closed at 2945.

**ASSET ALLOCATION**

**CURRENT SENTIMENT**

Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	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

Below is a summary of our 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 overweighted 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 provides 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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