Portfolio Manager Commentary

May 15, 2020

Trustmark Investment Advisors, Inc.

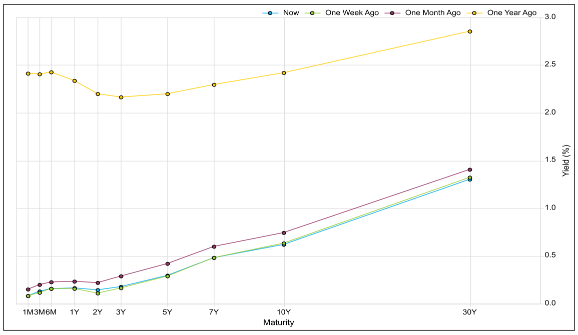
Economic Outlook

The Consumer Price Index fell -0.8% for April, approximately as expected, with Core CPI down 0.4%. The Producer Price Index was down 1.3% versus -0.2% in March. Retail Sales were down 16.4% for April, after having been down 8.3% for March. Finally, Industrial Production was down 11.2% for April, with Capacity Utlization at a low 64.9%.

Fixed Income

Foreign holdings of U.S. Treasury securities fell in March by the most in twenty years as pandemic-related global market turmoil sent U.S. debt yields on a volatile ride ending at record lows at the longer end of the curve. Total foreign ownership of Treasuries dropped by $256.6 billion to $6.81 trillion, according to a report from the U.S. government released last week. That's the largest drop in foreign holdings since early in the year 2000. The shift, which includes changes in the mark-to-market value of the securities, came as investors poured into the safest parts of the global markets in a bid to shelter from the pandemic's economic fallout. At the same time, liquidity stresses drove record swings in Treasury yields. "The countries which saw the biggest outflows in their holdings were Saudi Arabia, Brazil, India," according to BMO Capital Markets Strategist Jon Hill. "It makes sense that they would have to sell Treasuries to defend their currencies at a moment like that." The overall drop in foreign holdings runs counter to the increase in supply of U.S. government debt, though it pre-dates the latest surge in issuance to fund the CARES Act. Saudi holdings fell sharply, by $25.3 billion to $159.1 billion, a two-year low. The totals of Japan and China continue to be more than the combined totals of the next-largest holders, the United Kingdom, Brazil and Ireland. The value of Japan's holdings rose by $3.4 billion to $1.27 trillion, while those of China sank $10.7 billion in March to $1.08 trillion. During trading last week, Treasury yields were little changed across the curve while the Federal Reserve announced on Thursday that it had purchased $305 million in corporate bond exchange-traded funds. As of Thursday, the average extra yield investors demanded to hold investment-grade corporate bonds over Treasury securities was

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	0.10%	3 mo	0.04%	3 mo	0.47%	3 mo	0.61%
6 mo	0.13%	6 mo	0.06%	6 mo	0.53%	6 mo	0.62%
1 yr	0.14%	1 yr	-0.09%	1 yr	0.59%	1 yr	0.63%
2 yr	0.15%	2 yr	0.18%	2 yr	0.59%	2 yr	0.71%
5 yr	0.31%	5 yr	0.49%	5 yr	1.09%	5 yr	1.09%
10 yr	0.64%	10 yr	1.04%	10 yr	1.95%	10 yr	1.53%
30 yr	1.33%	30 yr		30 yr	2.93%	30 yr	2.39%

Equity

U.S. Equity ended the week lower with the S&P 500 finishing down -2.25%. Concerns of rising U.S.-China tensions, the extent of the disconnect between stocks and the U.S. economy, and continued skepticism about a V-shaped recovery all seem responsible for the negative return. All sectors besides Health Care (+0.17%) ended the week negative with Energy (-6.81%) and Industrials (-5.50%) leading the decline. Since the lows of March 23rd, Energy, Financials, and Industrials continue to perform the worst amongst sectors, while Technology and Health Care continue to lead.

CNBC released a report discussing how in the last couple of weeks, many company executives across a wide range of industries, including tech, autos, restaurants and airlines, have said they are seeing tentative signs that business is picking up again. This dynamic has been the widely discussed positive for a Q1 earnings season dominated by companies pulling full-year guidance due to the uncertainty surrounding the magnitude and duration of the coronavirus outbreak. However, overall tone of Q1 conference calls is still the weakest seen in years, according to BofA. The release noted that the ratio regarding mentions of "better" or "stronger" vs "worse" or "weaker" on earnings calls is the lowest since 2012 and mentions of optimism are at record lows.

There have been talks of more stimulus to come, though The Hill discussed how Senate Republicans were quick to pan a $3T coronavirus relief bill unveiled by House Democrats on Tuesday. Senate Majority Leader McConnell said that Republicans would insist that any new legislation to help contain the economic fallout from the coronavirus outbreak would need to be "narrowly targeted". He has also said that the Senate does not see any need to rush into additional legislation, while the White House has said it won't start formal talks until late this month or June. Senate Republicans continue to insist that new legislation include coronavirus liability protections for businesses. The White House has called for a wide range of tax cuts. Democrats remain focused on additional support for state and local governments.

Index Returns	Last Week	YTD
Dow Jones Industrials	-2.56%	-16.15%
S&P 500 (LCap)	-2.26%	-11.36%
S&P 400 (MCap)	-5.84%	-23.50%
Russell 2000 (SCap)	-5.46%	-24.66%
NASDAQ Composite	-1.17%	0.47%
MSCI EAFE (Int'l)	-2.96%	-20.56%
iShares Real Estate	-8.16%	-25.27%

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.

Sources of statistical information are Bloomberg and Ned Davis Research.