Portfolio Manager Commentary

May 28, 2021

Trustmark Investment Advisors, Inc.

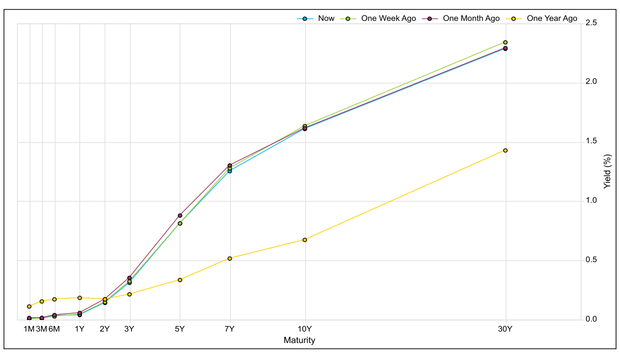
Economic Outlook

U.S. Personal Income declined by 13.0% in April, after having been up 20.9% in March. Consumer Spending was up 0.5% for the month. New Single-Family Home Sales came in at an annualized rate of 863,000 units for April versus a 917,000 rate for March. U.S. Durable Goods Orders were down 1.3% in April after having been up 1.3% in March. The Chicago Purchasing Manager's Index was a strong 75.2 for May versus 72.1 for April.

Fixed Income

The glut of spare cash in dollar funding markets is combining with inflation concerns to stoke debate among investors about just how soon the Federal Reserve might have to take its foot off the accelerator. Bond traders are keenly attuned to the buildup of dollars in short-term interest-rate markets, an overabundance reflected in the amount of money sitting and earning nothing at the Fed's reverse repo facility. For some, that is yet another sign that the so-called quantitative easing program ought to be dialed back from its current pace of $120 billion a month, although others say that the central bank facility is acting as it should, as a safety valve, and point to the other factors causing the oversupply. Either way, the cash pile -- and whether the usage of the Fed's facility resumes its upward trajectory after slipping at the end of last week -- is set to be a key focus for traders this week along with crucial U.S. jobs data, which may give clues on just how strong growth and inflation really are. The drumbeat of policymakers making noises about when the Fed should debate tempering its asset purchases has been gaining momentum, although officials have been careful to say that their views are based on the economy continuing to power forward and the prospects of sustained inflation. The strength of the upcoming labor market report is therefore set to be a major catalyst for bets about when both tapering and rate hikes might begin to take place, as will the evolution of funding markets. The next central bank policy meeting will take place June 15-16, while there is talk of possible tapering signals coming out of the Kansas City Fed's annual gathering at Jackson Hole in August. Money-market traders are currently pricing in about 18 basis points worth of Fed rate hikes by the end of next year, which is down about 3 basis points from the end of April. That equates to around a 72% chance of a standard 25 basis point increase in 2022. Before they even get to that point though, officials need to get through tapering, and most analysts expect there to be a lag before they begin to raise interest rates. The yield on ten-year notes has drifted slightly lower over the past couple of weeks, although it received some support from reports about government budget proposals and at around 1.59% is firmly entrenched in the range that it has been in for a few months. Bond-market inflation expectations, as measured by so-called breakeven rates, have also eased back slightly, although they remain within sight of the decade highs they reached earlier in May. Some traders are wary that the upcoming report on May job creation could reignite the move higher in long-term yields. The median forecast of economists surveyed by Bloomberg is for an increase in payrolls of around 671,000 people and a figure of that magnitude or higher could make the prior month's unexpectedly weak reading seem like a one off.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.00%	3 mo	-0.07%	3 mo	0.12%	3 mo	0.14%
6 mo	0.02%	6 mo	-0.06%	6 mo	0.13%	6 mo	0.14%
1 yr	0.03%	1 yr	-0.02%	1 yr	0.17%	1 yr	0.17%
2 yr	0.14%	2 yr	0.15%	2 yr	0.22%	2 yr	0.22%
5 yr	0.80%	5 yr	0.64%	5 yr	1.02%	5 yr	0.64%
10 yr	1.59%	10 yr	1.63%	10 yr	2.09%	10 yr	1.19%
30 yr	2.28%	30 yr		30 yr	3.06%	30 yr	1.74%

Equity

U.S. equity finishes the week higher as the S&P 500 breaks two straight weekly declines. Headlines are fairly quiet with U.S. infrastructure negotiations continuing to be a focus. Communication Services (+2.81%) and Consumer Discretionary (+2.76%) led sectors for the week while Utilities (-1.53%) and Health Care (-0.62%) were the sole negative sectors.

The S&P 500 hovers slightly under all-time highs of ~4232, finishing at 4210. The next major support level seems to be at the ~4000 mark with the 50-day moving average (around 4100) providing minor support.

Index Returns	Last Week	YTD
Dow Jones Industrials	1.13%	13.84%
S&P 500 (LCap)	1.38%	12.86%
S&P 400 (MCap)	1.41%	18.26%
Russell 2000 (SCap)	2.58%	15.07%
NASDAQ Composite	2.38%	7.01%
MSCI EAFE (Int'l)	1.30%	11.12%
iShares Real Estate	2.00%	17.60%

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.