Portfolio Manager Commentary

July 9, 2021

Trustmark Investment Advisors, Inc.

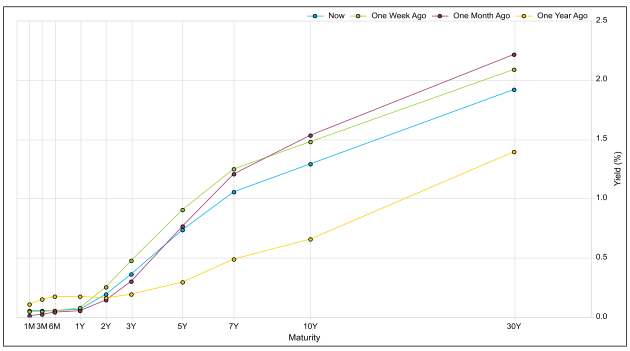
Economic Outlook

The U.S. Services PMI came in at 64.6 for June versus 64.8 for May, and the ISM Services Index came in at 60.1 for June versus 64.0 for May. Both Indexes are still nicely expansionary. Otherwise, it was a relatively slow week for economic releases.

Fixed Income

To judge by the price action in the bond market over the past month, the Federal Reserve is far too optimistic about where the economy will wind up long after the pandemic-recovery boom is over. Even before Treasury yields slid last week on speculation that the surge in inflation will be temporary, a closely watched market proxy f or where rates will stand at the end of the Fed's tightening cycle was already showing that traders were boosting bets that the economy is at little risk of overheating. At the end of trading last Thursday, forwards showing where one-month rates will stand in five years had tumbled to reflect expectations for a so-called terminal rate around 1.40%. That would mean the Fed will end the tightening cycle with its key benchmark well below the 2.50% it says would neither slow nor stoke the pace of economic growth. As recently as late March, the forward market was predicting the Fed would finish near that neutral rate. The downward move surprised many investors and strategists who expected that rate to move higher as consumer prices surged at the fastest pace in thirteen years, affecting everything from used cars to food to apartment rents. Usually, in the face of steep growth and rising inflation, policy makers would be expected to push rates well above the neutral rate to slow the economy down. What the market is signaling instead is that the supply-chain bottlenecks and pent-up demand behind the growth and price surges will ultimately give way to an aging population and mounting corporate and government debt -- two powerful forces of potential economic stagnation. The slide in the forward market's expectation for the terminal rate accelerated after the Fed meeting on June 16, when the central bank surprised markets by indicating that it may raise rates twice by 2023. It had previously projected rates would be on hold until the end of that year. The market responded by pulling forward the rate liftoff to as soon as late next year, while lowering expectations of where the Fed will end the cycle. That decline was unusual. Normally, with the Fed signaling that it may raise rates or take a hawkish turn, expectations for the total amount of tightening would increase and drive long-term bond yields higher. That is what happened in 2013, when then-Fed Chairman Ben Bernanke indicated that the central bank might slow its bond purchases. Long -term yields shot up along with expected terminal rates. The different reaction this time suggests traders think the Fed is less committed than it says to allowing inflation to temporarily run ahead of its target to make up for the shortfall in previous years. Over the past twenty plus years, the peak of the fed funds rate during previous monetary-tightening cycles went from 6.50% in 2000, to 5.25% in 2006, and 2.50% in 2018, reflecting the drift lower in potential growth and the broad economic shifts that have restrained inflation.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.04%	3 mo	-0.04%	3 mo	0.15%	3 mo	0.15%
6 mo	0.05%	6 mo	-0.03%	6 mo	0.17%	6 mo	0.16%
1 yr	0.06%	1 yr	0.02%	1 yr	0.21%	1 yr	0.19%
2 yr	0.21%	2 yr	0.21%	2 yr	0.29%	2 yr	0.22%
5 yr	0.79%	5 yr	0.66%	5 yr	1.00%	5 yr	0.59%
10 yr	1.36%	10 yr	1.42%	10 yr	1.84%	10 yr	1.06%
30 yr	1.99%	30 yr		30 yr	2.73%	30 yr	1.60%

Equity

U.S. Equity finished the week higher as the S&P 500 logged its sixth gain in seven weeks closing +0.42%. Yield collapse dominates headlines as ten-year yields spent time below 1.25% on Thursday, though if yield decline is over, may provide an attractive opportunity fo r the Financial space.

Growth (+0.97%) outperforms Value (-0.25%) for the week with Value being dragged down by Energy (-3.36%), the worst performing sector. Utilities (+0.91%) led the sectors for the week with Technology (+0.89%) and Consumer Discretionary (+0.75%) followed close behind.

Index Returns	Last Week	YTD
Dow Jones Industrials	0.23%	14.93%
S&P 500 (LCap)	0.42%	17.20%
S&P 400 (MCap)	-0.12%	17.33%
Russell 2000 (SCap)	-1.12%	15.45%
NASDAQ Composite	0.43%	14.07%
MSCI EAFE (Int'l)	0.28%	10.56%
iShares Real Estate	2.65%	24.19%

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.