Portfolio Manager Commentary

August 7, 2020

Trustmark Investment Advisors, Inc.

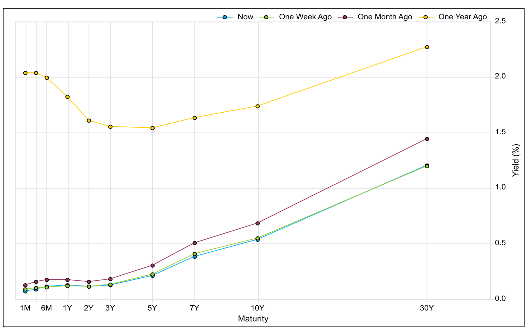
Economic Outlook

The U.S. Purchasing Manager's Index came in at 50.9 for July, or slightly expansionary. The ISM Manufacturing Index came in at 54.2 for the same period. The PMI Services Index was right at 50.0 for July, while the ISM Services Index came in at 58.1, or much more expansionary. Finally, the Unemployment Rate for the month came in at 10.2% versus 11.1% last month.

Fixed Income

In ordinary times, this could be a dangerous week for buyers of longer-dated securities, but these are far from ordinary times. A stronger-than-expected unemployment report last Friday opened the door for longer-dated yields to climb and the Treasury curve to steepen. This week's historically large Treasury auctions could help, along with the prospect of another stimulus package and a possible pickup in inflation data. Rates probably won't get far, though. It hasn't paid to bet against investor appetite for Treasuries in the midst of a global health crisis. The pandemic's resurgence has reshaped the Treasury curve, crushing the steepener trades that flourished between April and June on hopes that the American economy would open smoothly. The two- to ten-year curve has slumped to just 43 basis points from 72 on June 5. Last week, it barely moved when the Treasury's estimates of its borrowing needs for the rest of the year blew through even the highest of Wall Street estimates, to more than $2 trillion. Several forces are weighing on the curve, not the least of which are heavy misgivings about the U.S. recovery. Even the surprising addition of 1.76 million jobs last month, according to the latest payroll figures, pushed the benchmark ten-year yield only a couple of basis points higher last Friday, to 0.56%. Many on Wall Street are saying that upward pressure on long-end yields is being kept in check because positioning in the steepener trade is still a little crowded. Some speculative investors have not been swept out of the trade yet due to the fact they are not convinced that the U.S. economic rebound is losing steam. And then there's the Federal Reserve, which is still buying $80 billion a month of Treasury securities. That may not seem like much, as the Treasury prepares to sell a combined $112 billion of three-, ten- and thirty-year securities this week alone. But investors widely expect the central bank to ratchet up its purchases of longer-dated Treasuries, and a consensus is building that policymakers will confirm this as soon as their September meeting. As for the inflation picture, this week's data are expected to show consumer prices rising a touch faster, by 0.8% year-over-year. That would be a turnaround from the steep deceleration seen in March and April. It also would line-up with many who are expecting inflation to rise in the near-term due to the low interest rate environment.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.09%	3 mo	0.07%	3 mo	0.14%	3 mo	0.18%
6 mo	0.10%	6 mo	0.08%	6 mo	0.21%	6 mo	0.18%
1 yr	0.12%	1 yr	0.04%	1 yr	0.22%	1 yr	0.19%
2 yr	0.13%	2 yr	0.18%	2 yr	0.26%	2 yr	0.20%
5 yr	0.23%	5 yr	0.39%	5 yr	0.54%	5 yr	0.35%
10 yr	0.56%	10 yr	0.87%	10 yr	1.24%	10 yr	0.76%
30 yr	1.23%	30 yr		30 yr	2.25%	30 yr	1.54%

Equity

U.S. Equity ends the week higher as the S&P 500 Index finishes up +2.47%. Highlights for the week include July's employment r eport and the progress of another Coronavirus relief bill. Industrials (+4.74%), Communication Services (+3.10%), and Technology (+3.02%) lead as all sectors finish positive with Health Care (+0.83%) gaining the least.

Both the White House and Democratic leaders were unable to reach an agreement for the coronavirus relief bill after Friday's two rounds of meetings. The big differences seem to remain over enhanced unemployment benefits and state and local government aid. President Trump has threatened to provide relief via an executive order.

In an article released by Bloomberg, Goldman Sachs noted that the market is underpricing the increased probability of an approved coronavirus vaccine by the end of November with widespread distribution by the middle of 2021. Under the company's upside case scenario from an "early vaccine" Goldman Sachs said the S&P 500 could hit ~3700. The firm also highlighted the potential for a shift out of big tech and into traditional cycles.

The highlight of the week finished with July's unemployment rate falling more-than-expected and payroll beating expectations. July's nonfarm payroll came in at 1763K, above the consensus of 1578K, and the prior two months were revised up 17K. The unemployment rate reported a beat of 10.2%, below-the-expected 10.5%, in which a household survey revealed an added 1350K jobs.

Index Returns	Last Week	YTD
Dow Jones Industrials	3.88%	-2.59%
S&P 500 (LCap)	2.45%	3.73%
S&P 400 (MCap)	4.00%	-6.03%
Russell 2000 (SCap)	6.00%	-5.95%
NASDAQ Composite	2.47%	22.72%
MSCI EAFE (Int'l)	2.53%	-7.15%
iShares Real Estate	0.93%	-9.81%

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 ve rsus 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.

Sources of statistical information are Bloomberg and Ned Davis Research.