Portfolio Manager Commentary

September 18, 2020

Trustmark Investment Advisors, Inc.

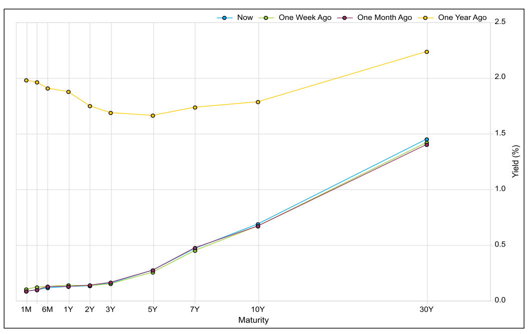
Economic Outlook

U.S. Industrial Production was up 0.4% in August versus up 3.5% in July. Capacity Utilization stood at 71.4% at the end of August. Retail Sales were up 0.6% in August, versus 0.9% in July. Business Inventories were flat on the month, after having been down 1.1% in July. The NAHB Homebuilder Index stood at 83 for September versus an already strong 78 for August (above 50 is expansionary). Finally, the Index of Leading Economic Indicators was up 1.2% in August, a bit slower than the 2.0% rise in July.

Fixed Income

Surging deposits and a noticeable drop in lending are driving banks to dramatically increase their holdings of U.S. Treasuries, which is providing significant support to the bond market at a time when the government is adding massive amounts of supply in order to fund various stimulus measures. Holdings at U.S. commercial banks of Treasury and agency securities other than mortgage bonds have grown by more than $250 billion since the beginning of March as their total deposits have jumped by more than $2 trillion, according to Federal Reserve data. Commercial and industrial loans initially spiked during the first half of the year as companies drew on their credit facilities when the economy shut down in response to the Covid-19 pandemic, but many have repaid bank debt resulting in a plunge in loan demand. Analysts have speculated that the surge in bank deposits has been driven by several factors, including government stimulus programs and the cautious behavior of many individuals and smaller companies in the aftermath of the pandemic. Meanwhile, banks have been less willing to lend because they are nervous about the economic outlook going forward, giving them more cash to invest in assets like Treasuries. Demand from banks and other sources like money-market funds has played a critical role in allowing the government to issue over $3 trillion in debt since February without pushing yields significantly higher. The yield on the benchmark ten-year Treasury note ended trading last Friday at 0.69%, down from 1.91% at the end of 2019. The continued appetite for Treasuries will be further tested this week at the Treasury will issue another $155 billion in new debt. Traders will also be paying close attention to comments from Federal Reserve Chairman Jerome Powell as he gives testimony in front of Congress mid-week. Banks and money-market funds have been so important in helping keep interest-rates in check that some traders are concerned how the market would react if they reduced their buying going forward. For example, bank lending is expected to pick up if the economy continues to improve and investors tend to pull money from money-market funds once they move on from major market shocks and re-allocated funds into riskier asset classes.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.08%	3 mo	0.08%	3 mo	0.19%	3 mo	0.23%
6 mo	0.11%	6 mo	0.11%	6 mo	0.23%	6 mo	0.23%
1 yr	0.12%	1 yr	0.12%	1 yr	0.24%	1 yr	0.24%
2 yr	0.14%	2 yr	0.16%	2 yr	0.29%	2 yr	0.27%
5 yr	0.28%	5 yr	0.54%	5 yr	0.63%	5 yr	0.46%
10 yr	0.69%	10 yr	0.81%	10 yr	1.44%	10 yr	1.03%
30 yr	1.45%	30 yr		30 yr	2.53%	30 yr	1.82%

Equity

U.S. Equity finished the week slightly down as the S&P 500 closed -0.62% to continue back-to-back weekly declines from the prior two weeks. There does not seem to be a specific catalyst for the market's direction with some talk of slight oversold conditions after two weeks of declines and the NASDAQ posting the worst week since March. Continued better U.S. data, vaccine optimism, and Fed stimulus are still considered to be tailwinds; however, many were disappointed to hear the Fed's strategy released this week. Headwinds include stimulus stalemate, U.S. and China tensions, and a flattening of the recovery among tailwinds.

Energy (+3.03%) and Industrials (1.51%) outperformed the broader sector indices with Communication Services (-1.74%) underperforming. On a year-to-date basis, Technology (+22.63%) continues to lead the sectors, though the sector has given up some gains within the past month as the sector starts to cool off. The gap between growth and value remains wide as the Growth Index SGX has a 16.17% year-to-date gain while the Value Index SVXK has a decline of -12.38%.

Index Returns	Last Week	YTD
Dow Jones Industrials	0.03%	-1.48%
S&P 500 (LCap)	-0.64%	2.75%
S&P 400 (MCap)	0.59%	-9.56%
Russell 2000 (SCap)	2.64%	-7.89%
NASDAQ Composite	-0.56%	20.29%
MSCI EAFE (Int'l)	0.51%	-4.97%
iShares Real Estate	0.26%	-11.99%

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.