

Portfolio Manager Commentary

October 1, 2021



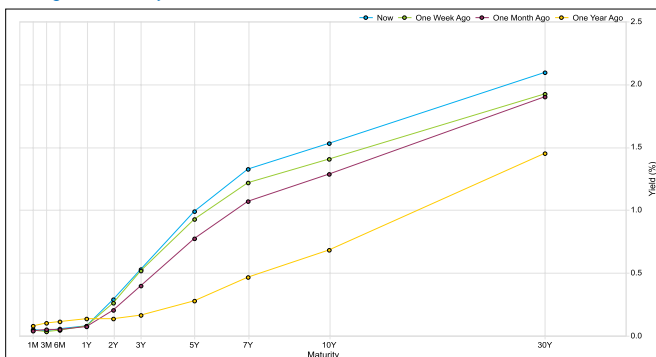
Economic Outlook

U.S. Durable Goods orders for August were up 1.8% versus having been up 0.5% for July. The Chicago Purchase Manager's Index was an expansionary 64.7 for September versus 66.8 for August. The overall U.S. Purchasing Manager's Index came in also expansionary 60.7 for September versus 60.5 in August. The ISM Manufacturing Index came in at 61.1 for September. Nominal consumer spending for August was up 0.8% versus being down 0.1% in July. Construction spending for August was flat.

Fixed Income

The Federal Reserve is doing its best to avoid the taper tantrum of 2013 as it moves toward curbing its bond buying. Ironically for those who invest in Treasury securities, 2021 could turn out to be even worse than eight years ago. The latest bond selloff has left the Bloomberg U.S. Treasury Index down 2.2% this year, on track for the first annual loss since 2013, when it declined 2.8%. With key measures of inflation surging and coronavirus cases starting to ebb, investors and strategists are bracing for more losses as the year winds down. Confidence in that view may only grow after the release of the monthly jobs report for September this Friday, which is poised to show hiring accelerated last month. After several months of yields trading in very narrow ranges, global bond markets started to slump last month after several central banks including the U.S. and U.K. signaled a move to reduce pandemic-era stimulus to head off inflation. Traders have boosted bets that the Fed will start raising rates late next year and lift them almost three times by the end of 2023. There are plenty of other forces that could limit a further selloff in the near-term. Congress is locked in a standoff over raising the U.S. debt ceiling, with the government weeks away from a possible default, in the estimate of the Treasury. And in China, growth is cooling amid a property-market slowdown and a power shortage. But so far, international investors don't seem to be swooping in with significant purchases of U.S. debt, a dynamic that has capped Treasury declines in the past. The market as a whole is hardly anticipating a repeat of the yield rout of eight years ago, when then-Fed Chairman Ben Bernanke triggered a surge in yields after he suggested the central bank could begin to reduce its asset purchases. In that episode, ten-year yields jumped more than 100 basis points in four months.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries	Agencies	Corporates	Municipals
3 mo. 0.03%	3 mo -0.07%	3 mo 0.16%	3 mo 0.21%
6 mo 0.04%	6 mo -0.05%	6 mo 0.17%	6 mo 0.21%
1 yr 0.07%	1 yr 0.03%	1 yr 0.20%	1 yr 0.24%
2 yr 0.26%	2 yr 0.25%	2 yr 0.35%	2 yr 0.27%
5 yr 0.93%	5 yr 0.74%	5 yr 1.15%	5 yr 0.69%
10 yr 1.46%	10 yr 1.55%	10 yr 1.99%	10 yr 1.29%
30 yr 2.03%	30 yr 2.83%	30 yr 1.89%	

Equity

U.S. Equity finished the week lower as the S&P 500 Large Cap Index fell -1.87%, though the Market bounced on Friday showing some momentum going into the weekend.

Energy (+5.74%) had a strong week as this was by far the strongest sector with the only other positive sector being Financials (+0.34%). Health Care (-3.18%) and Tech (-3.21%) took the hardest hit. The S&P 500 closed around 4357.

Index Returns	Last Week	YTD
Dow Jones Industrials	-1.35%	13.62%
S&P 500 (LCap)	-2.18%	17.24%
S&P 400 (MCap)	-0.51%	16.43%
Russell 2000 (SCap)	-0.29%	13.50%
NASDAQ Composite	-3.20%	13.02%
MSCI EAFE (Int'l)	-2.54%	8.77%
iShares Real Estate	-1.58%	22.58%

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 longend 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 overweighted 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

Sources of statistical information are Bloomberg and Ned Davis Research.

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