Portfolio Manager Commentary

October 29, 2021

Trustmark Investment Advisors, Inc.

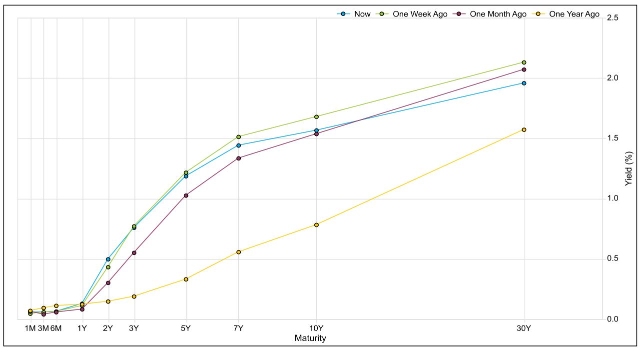
Economic Outlook

U.S. Real GDP grew at a 2.0% annualized rate in the third quarter of 2021, versus growth of 6.7% in the second quarter. The Chicago Purchasing Managers' Index came in at 68.4 for the third quarter versus 64.7 for the second quarter. U.S. Durable Goods Orders were down 0.4% in September versus up 1.3% in August. Personal Incom e was down 1.2% in September versus being up 0.2% in August. The Employment Cost Index was up 1.3% on an absolute-basis in the third quarter versus having been up 0.7% on an absolute basis in the second quarter. The University of Michigan Consumer Sentiment Survey came in at 71.7 for October, similar to September's reading. Finally, U.S. New Single-Family Home Sales were at an 800,000-unit annualized rate for September.

Fixed Income

Bond traders are looking to the Federal Reserve to support the hawkish shift that just drove parts of the global bond market to one of its wildest weeks in decades. In a span of a few days, the view that some major central banks will be slow to raise rates is being tested. Short-term yields from Canada to Australia jumped the most since the 1990s, catching even some of the most seasoned money managers flat footed, as policymakers shifted gears to move more firmly against inflation that has been called transitory for most of this year. At the same time, longer dated securities have seen their yields fall which can be seen as a sign that an aggressive policy shift to control inflation could stunt future economic growth. The capitulation of some central banks has emboldened U.S. traders, who are betting the Fed will start backing away from its mantra that the acceleration in consumer-price gains would be a short-lived side effect of the Covid pandemic. And as traders shift their attention away from officials in Ottawa and Sydney and more acutely back toward those in Washington D.C., they are now pricing in an almost 90% chance that the Fed will make its first quarter-point rate hike in June. The Fed is widely expected to announce this week that they will start scaling back their $120 billion per month bond buying program, which has helped to hold down rates since the early days of the pandemic. While Chairman Jerome Powell has emphasized that the paring down of its buying program is not necessarily linked to the timing of rate hikes, traders could look to draw conclusions about when benchmark rate increases might begin, especially given that the central bank might not want the two processes to overlap. Powell has talked about wrapping up tapering by mid-2022, but a faster-than-expected pace could bring forward the timing for rate hikes. It would also likely signal the Fed has greater concerns about inflation than previously thought.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.05%	3 mo	-0.40%	3 mo	0.28%	3 mo	0.24%
6 mo	0.06%	6 mo	-0.04%	6 mo	0.30%	6 mo	0.25%
1 yr	0.12%	1 yr	0.10%	1 yr	0.37%	1 yr	0.27%
2 yr	0.50%	2 yr	0.48%	2 yr	0.59%	2 yr	0.34%
5 yr	1.18%	5 yr	0.99%	5 yr	1.41%	5 yr	0.81%
10 yr	1.55%	10 yr	1.63%	10 yr	2.12%	10 yr	1.41%
30 yr	1.93%	30 yr		30 yr	2.76%	30 yr	1.93%

Equity

U.S. Equity finished the week higher as the S&P 500 Index closed +1.35%. Headlines revolving around an upbeat third quarter earnings season, though labor shortages and wage inflation causing concerns that these will create more persistent headwinds for companies. In other news, equities continue to see large inflows. As stated in an article released by Reuters, according to Lipper, global equity funds saw another $24.5B+ in inflows in week-ended 27-Oct, the most since mid-March, in which more than half of inflows went to equity funds. Regarding sectors, Healthcare and Consumer Discretionary were among the biggest beneficiaries.

Consumer Discretionary (+4.36%) vastly outperformed other sectors as Technology (+1.97%) and Health Care (+1.63%) also led. Financials were the biggest laggard (-0.89%).

Index Returns	Last Week	YTD
Dow Jones Industrials	0.42%	18.58%
S&P 500 (LCap)	1.35%	23.93%
S&P 400 (MCap)	-0.10%	21.13%
Russell 2000 (SCap)	0.26%	16.32%
NASDAQ Composite	2.70%	20.25%
MSCI EAFE (Int'l)	-0.01%	11.83%
iShares Real Estate	-0.16%	29.71%

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