Portfolio Manager Commentary

October 30, 2020

Trustmark Investment Advisors, Inc.

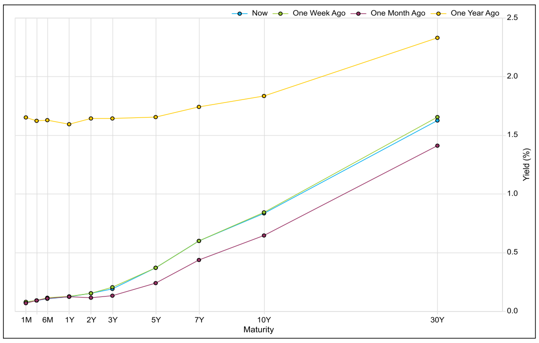
Economic Outlook

U.S. New Single-Family Home Sales for September came in at 959,000 units, down from 994,000 units in August, and still below the long-term trend line from the 1960's. The Home Ownership Rate for the third quarter was 67.3%. Interestingly, a few years ago, many Wall St. Analysts said that the Home Ownership Rate would never get back up to this level (home buying was not achievable by young people they said - probably the same analysts who said Blockbuster Video would bankrupt Netflix back in 2004). Durable Goods Orders were up 1.9% for September versus having been up 0.4% in August. U.S. Gross Domestic Product was up 33.1% in the third quarter, after having been down 31.4% the prior quarter (this is not a typo). The Chicago Purchasing Manager's Index came in at an expansionary 61.1 in October. Finally, the Employment Cost Index was up 0.5% in the third quarter, the same as the second quarter.

Fixed Income

The world's biggest bond market may have an interesting ride this week that goes well beyond the battle for the White House. The election this Tuesday looms large, with no guarantee that investors will know the winner that night, or which party will have control of Congress. But bond traders have more to worry about, starting Wednesday morning. That is the day the Treasury will announce its plan for issuance for the next three months, and there's a risk of substantial yield swings given Wall Street dealers are split over whether debt sales will set another record high or remain at current levels. The Federal Open Market Committee is also meeting this week but their announcement on Thursday is expected to be a non-event since rates are currently pegged at basically zero and there is zero chance of a rate increase being implemented. The week will end Friday with the release of October's report on job creation. The Treasury market is on pace for its best year since 2011, but this week is crucial as far as whether this will be the case come year end. Adding to the potential for volatility, hedge funds and other speculators that use leverage to boost returns have a record wager on losses in the bond market between now and the end of the year. They could be forced to exit those bets, which would cause a rally in Treasuries, if the election result leaves investors slashing expectations for a major virus-relief package from Congress. "This is shaping up to be the most important week for markets in years given how divisive the election has been amid a global pandemic and with the government already issuing astounding amounts of debt," said Zachary Griffiths, a Rate Strategist at Wells Fargo. "There's potentially a lot of things coming together at once." The ten-year Treasury ended last week at a yield of 0.87%, a four month high, as investors push yields higher on the notion that Democrats will take control of both the White House and Congress which will lead to even more Treasury issuance as spending could explode under that scenario. A sustained climb in long-term yields would upend one of the market's best years of the past decade. U.S. Treasuries have earned 7.9% in 2020, according to Bloomberg Barclays Index Data. "The polls suggest Biden has a better chance of winning the presidency, but at the same time they are less convincing on what will happen with the Senate," said Matthew Hornbach, Global Head of Macro Strategy at Morgan Stanley.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.09%	3 mo	0.08%	3 mo	0.21%	3 mo	0.32%
6 mo	0.10%	6 mo	0.10%	6 mo	0.24%	6 mo	0.32%
1 yr	0.12%	1 yr	0.12%	1 yr	0.26%	1 yr	0.34%
2 yr	0.15%	2 yr	0.15%	2 yr	0.33%	2 yr	0.37%
5 yr	0.38%	5 yr	0.51%	5 yr	0.75%	5 yr	0.57%
10 yr	0.87%	10 yr	0.96%	10 yr	1.59%	10 yr	1.25%
30 yr	1.66%	30 yr		30 yr	2.74%	30 yr	2.04%

Equity

U.S. Equity finishes lower as the S&P 500 (-5.52%) and NASDAQ (-5.51%) indices turn in their worst performance since March. The equity weakness is largely due to record U.S. coronavirus case growth, election uncertainty, and lack of fiscal stimulus. All sectors finished lower with Utilities (-3.66%) declining the least and Industrials (-6.53%) and Tech (-6.31%) being hit the hardest. Tech seems to get the bulk of the blame for the decline despite fairly decent earnings results, and with political uncertainty a factor, the VIX and options markets continue to signal potentially elevated risk beyond elections. There are still expectations for a fiscal stimulus package to be passed, however, it is believed the size and scope of this package will be dependent upon who controls the Senate in January.

Index Returns	Last Week	YTD
Dow Jones Industrials	-6.40%	-5.50%
S&P 500 (LCap)	-5.64%	1.21%
S&P 400 (MCap)	-5.73%	-7.89%
Russell 2000 (SCap)	-6.22%	-7.79%
NASDAQ Composite	-5.51%	21.61%
MSCI EAFE (Int'l)	-5.52%	-10.36%
iShares Real Estate	-4.32%	-15.00%

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.

Sources of statistical information are Bloomberg and Ned Davis Research.