2019 Weekly Portfolio Manager Commentary   November 1, 2019

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Real GDP Growth came in at an annual rate of 1.9% for the third quarter of 2019, versus 2.0% for the prior quarter. Personal Income was up 0.3% for September and Consumer Spending was up 0.2%. Chicago PMI was at a low of 43.2 in October versus 47.1 in September. The U.S. Unemployment Rate was 3.6% for October, up from 3.5% in September. Average Hourly Earnings were up 0.2% for October versus flat for September. Finally, the Markit Manufacturing PMI was 51.3 for October and the ISM Manufacturing Index was 48.3 for October, so on average neither expanding nor contracting as far as that portion of the U.S. economy is concerned.

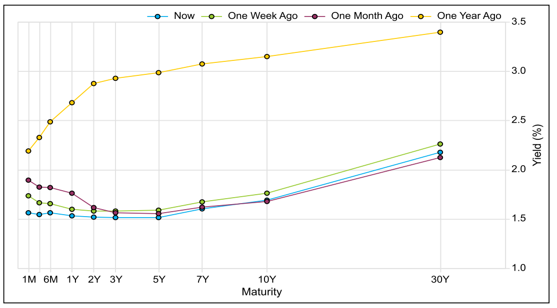
FIXED INCOME

Traders who are bullish on the bond market suffered a slight setback last Friday as yields moved higher on the day, but they see little risk in a scenario where yields are about to scream higher. Treasuries ended the week on a down note after a stronger-than-expected jobs report and signs of progress in trade negotiations between the U.S. and China. But the bond market's losses on Friday merely served to trim a weekly gain after the Federal Reserve's third consecutive interest-rate cut. U.S. government debt is still headed for the best annual performance since 2011, and some market strategists believe that the bullish case for bonds is holding up just fine due to the following: Growth is cooling overseas, the European Central Bank is embarking on a fresh round of quantitative easing and inflation is muted. Any climb in ten-year yields toward 2% will be capped, according to SocGen's Subadra Rajappa." It's definitely a positive, both jobs and better outcomes on trade, but I still struggle to see a sustained rise in yields," said Rajappa, SocGen's head of U.S. rates strategy. "The broader macro concerns still exist: slower global growth, ECB QE and lower inflation." Yields on ten-year Treasury notes rose about 2 basis points on Friday to 1.71%, but they were still about 8 basis points lower for the week. Traders have pushed wagers on more Fed easing deeper into 2020, with a full quarter-point cut not priced in until next summer. Gennady Goldberg, market strategist at TD Ameritrade, believes Friday did little to derail his expectations for a gradual grind lower in yields. He sees scant evidence of an improvement in growth overseas and is still waiting for a material breakthrough on trade, so he is predicting that ten-year yields will head toward 1.50% by year-end. "We're still looking for any signs of real progress" on trade, even after China and the U.S. signaled they're getting closer to agreeing on the first phase of a deal, in Goldberg's opinion. "We've been hearing about 'agreement in principle' for the past 12 months, but have only seen increases in tariffs materialize." In economic news coming out this week, many traders will be keeping an eye on Germany's industrial production release for signs that the trade fallout may be spreading. Also being released this week is the Institute for Supply Management report on services in the U.S. which has been fluctuating between expansion and contraction over the past few months.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.51%	3 mo	1.57%	3 mo	1.86%	3 mo	1.19%
6 mo	1.53%	6 mo	1.84%	6 mo	1.83%	6 mo	1.21%
1 yr	1.52%	1 yr	1.84%	1 yr	1.79%	1 yr	1.22%
2 yr	1.55%	2 yr	1.61%	2 yr	1.74%	2 yr	1.24%
5 yr	1.54%	5 yr	1.58%	5 yr	1.92%	5 yr	1.36%
10 yr	1.71%	10 yr	1.93%	10 yr	2.35%	10 yr	1.75%
30 yr	2.19%	30 yr		30 yr	3.13%	30 yr	2.46%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.95%	19.51%
S&P 500 (Large Cap)	0.76%	24.17%
S&P 400 (Mid Cap)	0.50%	20.68%
Russell 2000 (Small Cap)	0.93%	18.98%
NASDAQ Composite	0.74%	27.50%
MSCI EAFE (International)	0.93%	18.11%
iShares Real Estate	0.45%	28.20%

U.S. Equity finished strong to complete its fourth week of gains. Economic data was a big focus of the week, along with the Fed cutting rates, more news on China, and companies continuing to report earnings. Health Care (+1.81%) and Utilities (1.48%) led the sectors while Energy (-2.13%) fell the most. Gold finished 1.28%, and oil ticked up 0.47%.

The U.S. Q3 GDP logged a 1.9% SAAR versus the consensus of 1.7% and Q2's 2.0% pace. Personal consumption expenditures are up 2.9%. Nonresidential fixed investment weight is down 3.0%; investment in structures and equipment saw sharpest decrease in three years. Elsewhere, October's ADP employment report posted a 125K gain, in line with the consensus and below September's downwardly revised 93K (was +135K). The report noted weakness in goods-producing sectors (13K in job losses), while healthcare and trade/transportation posted solid gains.

Just over 55% of S&P 500 companies have reported Q3 results. According to FactSet's Earnings Scorecard, the blended growth rate now stands at (3.3%), better than the (4.0%) at the end of the quarter. Just over 74% have beat consensus EPS expectations, largely in line with the 74% one-year average. In aggregate, companies reporting earnings 3.9% above expectations, below the 5.2% one-year average positive surprise rate. The 2020 consensus now stands at $179.48, down over 1% since the start of the quarter (and implying less than 10% growth). Earnings themes have revolved around difficult macro/trade uncertainty, more resilient U.S. economy, solid consumer and benign credit, softer industrial (short cycle), and continued cost control/tariff-mitigating measures.

As stated by the data provider FactSet, The Federal Open Market Committee (FOMC) cut the benchmark rate by 25 bps, as expected, to a 1.50-1.75% range. The statement released by the Fed dropped its' pledge to act as appropriate, instead saying it will monitor data to assess the appropriate path of the target range. The release noted that economic activity is continuing to rise at moderate rate. The release also noted that business fixed investment and exports remain weak, though it reiterated household spending is rising at strong pace. Some early reads noted statement adjustments could hint to a pause in order to give the Fed more time to assess data and the impact of past cuts. Powell said adjustments will continue to provide significant support, and risks to outlook seem to have moved in positive direction.

This week reported big economic data as October's nonfarm payrolls came in at 128K, ahead of the consensus of 89.5K, even with the expectation of headwinds from the GM strike. The unemployment rate fell in line at 3.6% and ticked up 0.1 m/m, while the average hourly earnings came in at +0.2%, missing estimates of +0.3%. The labor force participation rate is up 0.1pp to 63.3%, and the manufacturing payrolls is down 36K, which is better-than-expected 50K contraction. The ISM Manufacturing Index for October came in at 48.3 which misses estimates of 49; however, the underlying components, such as the New Orders Index, Employment Index, and Exports Index came in better-than-expected.

The S&P 500 index made new highs this week as it broke through resistance of ~2997 and was able to move past recent highs. The large cap index is continuing strong as it is currently in unmarked territory. The S&P 500 closed at 3066.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

Below is a summary of our current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.

Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.

Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in floating rate securities.

Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.

High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.

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 be overweighed versus Value.

Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.

Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.

International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight 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 stabilized and long-term valuations appear attractive. Real Estate has performed well of late and 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.