Portfolio Manager Commentary

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Trustmark
Investment Advisors, Inc.

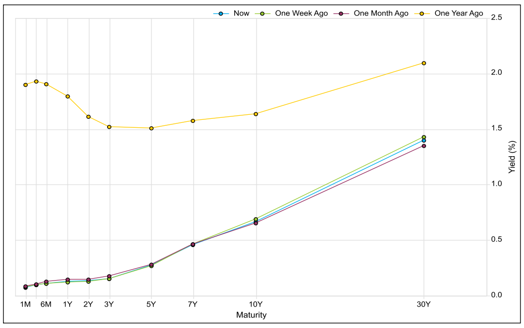
Economic Outlook

The U.S. Purchasing Managers Index came in at 53.5 for September versus 53.1 for August. The Services Index was 54.6 for September versus 55.0 for August. Durable goods orders were 0.4% higher for August. Finally, U.S. New Single Family Home Sales came in at a 1.01mm rate for August versus 0.97mm rate for July.

Fixed Income

Bond traders see Treasury yields ending the year slightly higher than their current levels, but even a modest uptick faces stiff headwinds in a market that has basically ground to a halt. As far as volatility is concerned, yields have been very range bound since the high volatility experienced earlier in the year. The median forecast is for the ten-year Treasury note yield to climb around ten basis points from its current 0.65% level, with the highest projection barely going above the one percent level. The move higher in yields going forward depends upon the continued recovery in the economic landscape along with the Federal Reserve's unlimited monetary support of the credit markets. Some traders are also betting on the result of the election this November to clear the way for further fiscal stimulus. The stretch run to the election begins in earnest this week with the first debate between President Donald Trump and challenger Joe Biden. One scenario that would almost certainly lead to higher yields is one-party control of the White House and Congress by the Democratic party, leading to unchecked spending and further debt issuance to fund new spending programs. "There really seems only two paths for Treasury yields now, sideways or higher," said Subadra Rajappa, head of U.S. rates strategy at Sociate Generale. "Given the amount of fiscal and monetary stimulus and supply the market is getting, we would expect modestly higher Treasury yields." Even so, Rajappa and her team just lowered their outlook for ten-year Treasury yields by 20 basis points per quarter through mid-2021. This comes after the Federal Reserve has made it very clear that it will keep short-term rates near zero for the foreseeable future. The analysts also point to a mix of disinflationary forces -- including consumers' caution amid the pandemic -- and the likelihood that the Fed would act to avert a significant move higher in yields. SocGen now predicts the ten-year yield will end this year at 0.80% and will approach one percent by June of 2021. The ten-year yield has traded between 0.50% and 0.79% during the second half of this year. Even recent volatility in the equity markets only sparked a mild haven-bid for government debt. Even historically large Treasury auctions have failed to bring any substantial volatility to debt markets.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.09%	3 mo	0.07%	3 mo	0.21%	3 mo	0.24%
6 mo	0.10%	6 mo	0.08%	6 mo	0.25%	6 mo	0.24%
1 yr	0.11%	1 yr	0.07%	1 yr	0.27%	1 yr	0.26%
2 yr	0.13%	2 yr	0.14%	2 yr	0.34%	2 yr	0.28%
5 yr	0.27%	5 yr	0.52%	5 yr	0.70%	5 yr	0.47%
10 yr	0.65%	10 yr	0.76%	10 yr	1.51%	10 yr	1.03%
30 yr	1.40%	30 yr		30 yr	2.59%	30 yr	1.83%

Equity

U.S. equity finished the week negative as the S&P 500 logs its first four-week losing streak for the year. The biggest tailwinds seem to revolve around monetary stimulus, resilient corporate earnings, near-term vaccine potential, and broader economic reopening traction, while the biggest headwinds revolve around dampened recovery momentum, waning fiscal stimulus, peak Fed concerns, and election uncertainty. There seems to be slight hope that Democrats and Republicans can reach an agreement regarding another Fiscal Stimulus deal, however, there is still a lot of road to be covered before that can happen.

Tech (+2.17%), Utilities (+1.19%), and Consumer Discretionary (+0.23%) were the only sector to finish the week positive, while Energy (- 8.59%), Financials (-4.27%), and Materials (-4.49%) led the Market in declines.

Index Returns	Last Week	YTD
Dow Jones Industrials	-1.74%	-3.17%
S&P 500 (LCap)	-0.63%	2.09%
S&P 400 (MCap)	-2.60%	-11.91%
Russell 2000 (SCap)	-4.03%	-11.60%
NASDAQ Composite	1.11%	21.63%
MSCI EAFE (Int'l)	-3.15%	-7.92%
iShares Real Estate	-2.10%	-13.82%

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.