Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The PMI Manufacturing Index came in strong in December, at 55.1 versus 53.9 for November. The ISM Manufacturing Index was stronger still, coming in at 59.7 versus 58.2 for November. In both indexes, production was up and inventories appear to have been drawn down. On the service side, the PMI and ISM indexes were at 53.7 and 55.9, both for December. Construction Spending was up 0.8% for November, and up 2.4% for the year ended November. Factory Orders were up 1.3% for November, which was better than the 0.1% decline in October. There were no new updates from the most recent FOMC minutes. Finally, the Unemployment Rate came in flat for December, at 4.1%. Average hourly earnings were up 2.5% for the year.

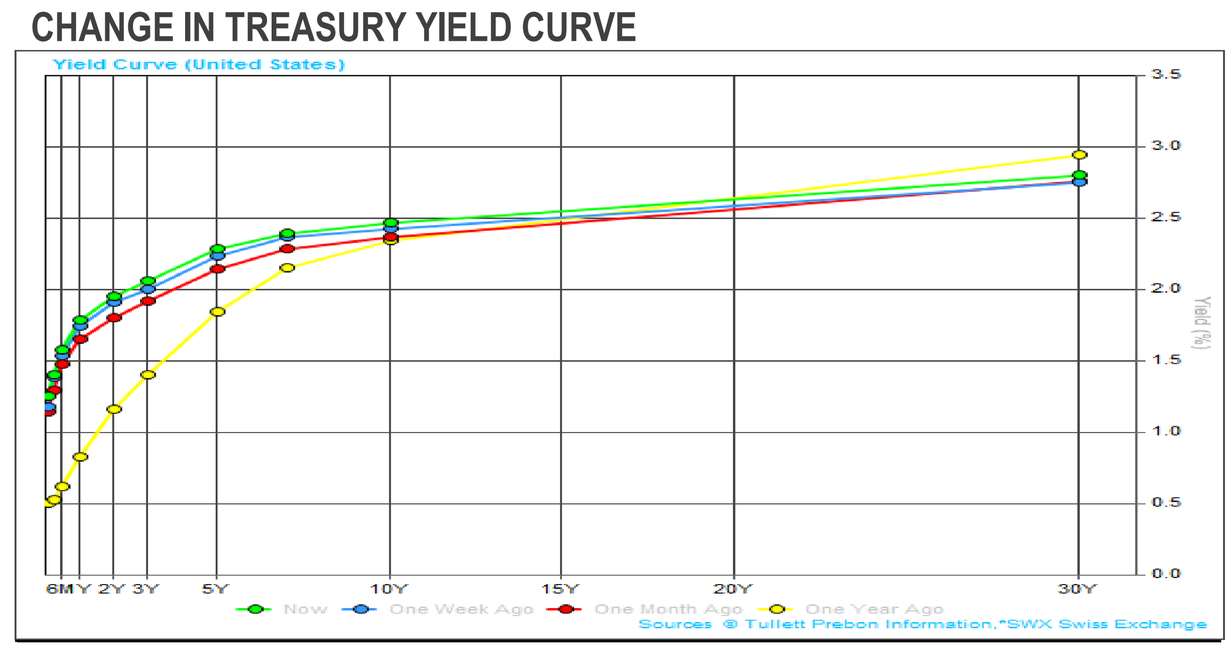
FIXED INCOME

The Federal Reserve is getting ready to welcome a new chairman amid doubts and divisions among policymakers about how many times to raise interest rates this year. Jerome Powell will take over from Janet Yellen in early February, if he is confirmed by the Senate as expected. He will lead a policy-making committee that, judged by a record of its last meeting released last Wednesday, still thinks the gradual pace of tightening it followed last year is correct. But the debate also highlighted a split between officials concerned about low inflation and others pointing to robust growth about to get a further boost from tax cuts. Most participants reiterated support for "continuing a gradual approach to raising the target range" for the benchmark policy rate, according to minutes of the Federal Open Market Committee's December 12-13 meeting, at which officials voted to raise rates by a quarter point. Still, the minutes lacked an explicit signal for a rate hike in the first quarter. There was a lengthy debate about reasons to speed up, or slow down, the pace of tightening depending on what happens to inflation, which remains below their 2% target. But the median of their quarterly forecasts remained for three hikes in 2018, unchanged from September. The FOMC meets at the end of January and March 20-21. Pricing in interest-rate futures imply investors see a more than 70% probability of a move by the March meeting. Among the 16 interest-rate forecasts submitted by policymakers, six wrote down a preference for policy rates below the 2018 median target range of 2% to 2¼%, which was maintained by six of their colleagues. A further four saw rates higher than the median by the end of the year.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.39%	3 mo	1.43%	3 mo	1.76%	3 mo	1.32%
6 mo	1.58%	6 mo	1.47%	6 mo	1.85%	6 mo	1.37%
1 yr	1.79%	1 yr	1.62%	1 yr	1.95%	1 yr	1.43%
2 yr	1.96%	2 yr	1.97%	2 yr	2.18%	2 yr	1.53%
5 yr	2.29%	5 yr	2.21%	5 yr	2.61%	5 yr	1.78%
10 yr	2.48%	10 yr	2.85%	10 yr	3.16%	10 yr	2.20%
30 yr	2.81%	30 yr		30 yr	3.68%	30 yr	3.11%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	2.37%	2.37%
S&P 500 (Large Cap)	2.63%	2.63%
S&P 400 (Mid Cap)	1.88%	1.88%
Russell 2000 (Small Cap)	1.61%	1.61%
NASDAQ Composite	3.40%	3.40%
MSCI EAFE (International)	2.90%	2.90%
iShares Real Estate	-2.12%	-2.12%

Stocks promptly picked up where they left off for the first week of 2018 – rallying across all market capitalizations. For the week, cyclical, growth stocks were the winning groups – Technology, Materials, Energy, and Consumer Discretionary all rose at least 3%. Income-oriented sectors suffered as bond yields continued to rise – Utilities and Real Estate both declined and were the only two losing sectors of the eleven main groups.

Jason Goepfert at Sentimentrader noted the record setting year for stocks in 2017. In a report released last Friday, he noted the S&P 500 has not been down more than 5% from a 52-week high since last June – a streak encompassing 384 days.

In the same note Goepfert pointed out that at the same time indexes are reaching record highs, individual investors are the most exposed to stocks since 2000. Over the past two months, the American Association of Individual Investor's survey of retail investors went from below 46% to now nearly 79% - the percentage measures the respondents who think stocks will be higher over the next 6 months. This survey is widely viewed as a contrarian indicator.

Bespoke wrote in a note last week that from a seasonality perspective, January is a mixed bag for returns. Over the past 100 and 50 years, the Dow Jones Industrials has averaged a gain, but over the past 20 years, January is actually the worst month. Looking back over the past 20 years, the Dow Industrials has averaged a loss of -1.26% with positive returns only 45% of the time. Longer term, things look better with the index averaging a gain of 0.98% and 0.73% over the past 100 and 50 year, respectively.

For the week ahead, quarterly earnings begin to pick up in the back half of the week with BlackRock, JPMorgan, PNC Financial, and Wells Fargo scheduled to release results. The only notable economic releases here in the U.S. are CPI and Retail Sales due out at the end of the week.

Last week's rally took the S&P 500 to another new all-time high. The index finished last week at 2743 – keeping the support levels we are watching largely unchanged at 2635, 2585, and 2495.

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	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

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

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
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 spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
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 has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. 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. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
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. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.