2018 Weekly Portfolio Manager Commentary — *February 9, 2018*

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The PMI Services Index and ISM Non-Manufacturing Index were at 53.3 and 59.9, respectively, for January 2018. Particularly on the ISM Index, a small survey conducted noted that strong growth may continue to be in store for 2018. Otherwise, it was a fairly slow week for economic releases.

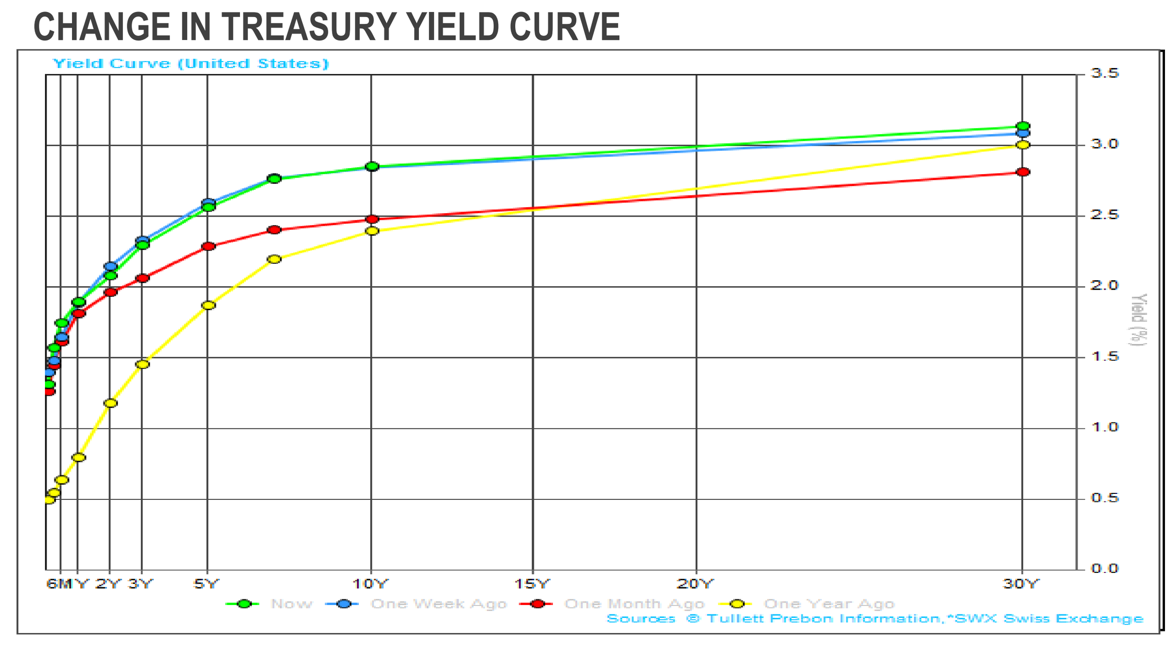
FIXED INCOME

For bond traders, the days of begging for more volatility may be over. Now they are fretting about just how grisly the selloff can get. Benchmark ten-year Treasury yields were basically unchanged in yield for the week, remaining close to the highest level since 2014, even as stocks continued to see wide intraday trading. While the Cboe Volatility Index, known as the VIX, is below its recent peak, its bond-market cousin, the ten-year U.S. Treasury Note Volatility Index, is soaring. It's now the highest since April on a closing basis after the steepest one-day increase in two years. One key worry for bond investors that's contributing to volatility is the unknown: new Federal Reserve Chairman Jerome Powell. For years after the financial crisis, they could count on Ben Bernanke and Janet Yellen to essentially limit how far prices can fall in financial markets -- colloquially referred to as a "put", after the option. In other words, the bet was that central bankers would add stimulus or, in recent years, halt their tightening path on signs of unusual turbulence. Judging by remarks last week from policy makers, who were unmoved by rising yields and the losses in stocks, the Powell Fed isn't rushing to signal that tendency. New York President William Dudley last Thursday called the stock selloff "small potatoes" and said it has no economic implications. "The market has been kind of having a panic attack -- we really haven't heard from Powell and it would help if he made some soothing comments," said Ed Yardeni, president of Yardeni Research. "I don't think he wants to establish right away that he wants a 'Powell put' the way we had a 'Greenspan put' and a 'Bernanke put.' For now, the market is moving toward higher yields, and strategists are hesitant to call an end to the rout. Momentum seems skewed toward further price declines, they say, even as relative-strength index analysis suggestsTreasuries are on the verge of being oversold. Whether you want to call it a "bear market" in bonds or not, the climb in yields -- and volatility -- may persist as long as the Fed is unwavering in the face of equity jitters.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.55%	3 mo	1.57%	3 mo	1.90%	3 mo	1.18%
6 mo	1.73%	6 mo	1.72%	6 mo	1.99%	6 mo	1.25%
1 yr	1.88%	1 yr	1.84%	1 yr	2.10%	1 yr	1.32%
2 yr	2.07%	2 yr	2.06%	2 yr	2.37%	2 yr	1.50%
5 yr	2.54%	5 yr	2.40%	5 yr	2.90%	5 yr	1.98%
10 yr	2.85%	10 yr	3.18%	10 yr	3.52%	10 yr	2.63%
30 yr	3.16%	30 yr		30 yr	3.97%	30 yr	3.63%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-5.08%	-1.90%
S&P 500 (Large Cap)	-5.10%	-1.84%
S&P 400 (Mid Cap)	-5.03%	-4.10%
Russell 2000 (Small Cap)	-4.47%	-3.67%
NASDAQ Composite	-5.01%	-0.32%
MSCI EAFE (International)	-5.46%	-2.45%
iShares Real Estate	-4.16%	-9.54%

It was a volatile week for stocks – with the Dow trading in a weekly high/low range of 2,160 points. All major equity markets finished the week lower booking the first back-to-back weekly decline this year. All eleven of the major sector groups fell on the week with Energy leading decliners with a nearly -8% loss. The declines of the past two weeks have wiped out all the positive year-to-date returns for ten of the eleven sectors – Consumer Discretionary is the only remaining sector in the green for 2018.

Bespoke wrote in a note the S&P 500 has now broken below its 50-day moving average last week ending its streak of 108 trading days above the mark. The longest streak of closes since the 130 day stretch that ended on March 10, 2011. Incidentally, that period was also the last time the S&P 500 had a single day -4% decline, a mark reached on Monday.

This past week also marked the first at least -3% decline for the S&P 500 in 448 calendar days. Bespoke provided some historical context to that record noting that since 1928 there have been 628 3% or more pullbacks, which works out to about seven per year. This most recent streak was only the 8th time the index went over 200 days without experiencing a 3% decline.

Shares of Wells Fargo fell on Monday after the Fed announced that the firm did not meet supervisory expectations and said it would restrict growth of the bank until it improves. The stock received multiple downgrades on the news.

This past week's move has now moved the equity market firmly into oversold territory – showing levels that have not been registered for quite some time. Only two weeks ago all but two sectors had more than 80% of their stocks trading above their 50-day moving averages. Bespoke noted that now none of the sectors have more than 50% of its stocks above their 50-day averages. For the S&P 500 as a whole, just 27% of the member stocks are above their 50-day averages.

For the week ahead, earnings season begins to slow down a bit with results expected from Campbell's Soup, Cisco, Under Armour, and Newell Rubbermaid. On Wednesday, we get the latest release of Consumer Price Index and on Friday U.S. housing and Michigan Consumer Sentiment readings.

The declines of last week took the S&P 500 down through most of the support levels we have been noting in these comments ending the week at 2619. Moving forward we are watching 2600 and the index's 200-day moving average which stands at 2545.

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.