2018 Weekly Portfolio Manager Commentary

March 30, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Fourth quarter 2017 U.S. Real GDP was revised higher, to 2.9% from 2.5%. The GDP Price Index came in unchanged at 2.3% (annualized) for the quarter. For February 2018, Personal Income was up 0.4%, with the PCE Price Index up 0.2%. Year-over-year, the PCE Price Index was up 1.8%. For March 2018, the Chicago Purchasing Manager's Index came in nicely expansionary, at 57.4.

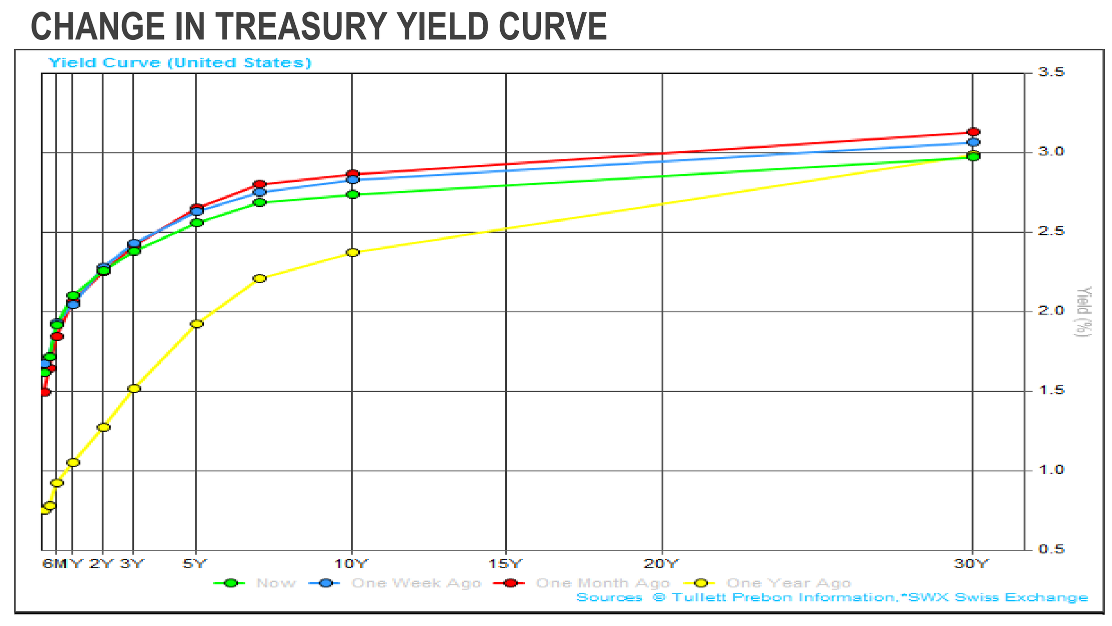
FIXED INCOME

The U.S. Federal Reserve's experience of halting quantitative easing, raising interest rates and starting to shrink its balance sheet provides both a blueprint and a cautionary tale for the European Central Bank. "It's no secret," Governing Council member Ewald Nowotny said last week. "We're monitoring closely what the Fed did, and is doing." The ECB has largely followed the footsteps of its U.S. counterpart, committing to keep rates unchanged until well after asset purchases stop and to reinvest maturing debt. The Fed's experience carries another warning: robust growth is no guarantee of inflation. Here are some Fed exit lessons for the ECB, as seen by some economists. When then-Chairman Ben Bernanke said in May 2013 that Fed asset purchases could be tapered, investors took fright and the market rout was felt globally, The ECB took note, assuring investors in the summer of that year that if ECB interest rates changed at all, they'd be cut. Such forward guidance would become a key strategy. When the Fed began reducing bond purchases, it promised to keep interest rates unchanged until "well past" a fall in unemployment below 6.5%. Yet as joblessness rapidly headed for the figure without any sign of inflation, policy makers were forced to stress that rates probably wouldn't rise until a "considerable time after" quantitative easing stopped. David Powell of Bloomberg Economics has said "While the ECB is likely to base the timing and details of its exit from quantitative easing on the economic conditions of the euro area, it will probably take comfort from the Federal Reserve's broad experience and emulate its sequencing. In addition, the centrist and dovish members of the Governing Council will probably look at the case of the U.S. and emphasize a need to avoid normalizing policy too quickly." The third-longest economic upturn on record hasn't raised U.S. inflation to the Fed's 2% target. The ECB doesn't foresee reaching its goal of just under two percent until at least late 2020, despite fast-falling unemployment.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.70%	3 mo	1.76%	3 mo	2.27%	3 mo	1.40%
6 mo	1.91%	6 mo	1.82%	6 mo	2.34%	6 mo	1.46%
1 yr	2.08%	1 yr	1.94%	1 yr	2.43%	1 yr	1.52%
2 yr	2.27%	2 yr	2.23%	2 yr	2.66%	2 yr	1.67%
5 yr	2.56%	5 yr	2.50%	5 yr	3.08%	5 yr	2.07%
10 yr	2.74%	10 yr	3.03%	10 yr	3.58%	10 yr	2.63%
30 yr	2.97%	30 yr		30 yr	3.97%	30 yr	3.58%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	2.42%	-1.96%
S&P 500 (Large Cap)	2.06%	-0.76%
S&P 400 (Mid Cap)	2.20%	-0.77%
Russell 2000 (Small Cap)	1.35%	-0.08%
NASDAQ Composite	1.03%	2.59%
MSCI EAFE (International)	2.56%	-0.90%
iShares Real Estate	3.53%	-6.06%

U.S. stocks rebounded slightly after the prior week's sharp declines. Breadth was broad as 10 of the 11 major sector groups rose – led by Consumer Staples, Real Estate, and Utilities, all of which rose at least 3%. The sector performance gave a decisively defensive tilt to the week's performance. The S&P 500 also closed the first quarter of 2018 with a slight negative total return – the first down quarter for the index since the third quarter of 2015.

Monday's advance for the S&P 500 was the largest single day gain since August 2015. The Technology sector led advancers despite continued scrutiny surrounding Facebook and its privacy practices. The FTC confirmed that it had opened a non-public investigation into the company and its privacy policies.

In the week prior, the S&P 500 experienced its second 5%+ weekly drop so far this year, the first occurring the week of February 9. Prior to that February drop, the index had not fallen 5%+ in a week since January 2016, according to data from Bespoke. The weekly decline also marked the seventh 5%+ weekly decline since the current bull market began in March 2009.

Bespoke noted too in a report that in the 40 trading days since the S&P 500 peaked on January 26, there have been 17 daily moves of at least 1%. In the 60 trading days leading up to the peak there was not a single daily 1% move. The past few weeks have definitely been a return to a more normal market environment and normal volatility levels relative to historical standards.

Shares of General Electric rose over 4% on Tuesday after rumors surfaced that Warren Buffett's Berkshire Hathaway may be building a position. GE shares ended the week higher, but are still down -22% this year.

Tesla fell last week after the NTSB launched a field investigation into a fatal Tesla crash and fire in Mountain View, CA on March 23, with the agency saying it was unclear if the automated control system was active at the time of the crash. Shares of Nvidia also fell after the company announced it was suspending self-driving tests in the wake of the recent Uber fatality in Arizona.

For the week ahead the earnings calendar is very light, but one notable corporate event is Monday's report by Tesla on its Q1 deliveries. The back half of the week will be highlighted by the latest Jobs report for March.

Last week saw a successful retest by the S&P 500 of the 2580 support level marked by the lows from early-February. That level continues to grow in importance. Rallies will encounter resistance at 2725 and then at 2830. The S&P 500 closed last week at 2640.

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.