2017 Weekly Portfolio Manager Commentary

April 14 , 2017

Trustmark
Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Final Demand Producer Prices were down 0.1% for March, but still up 2.3% for the year. Consumer Prices followed in a similar fashion, down 0.3% for March, but still up 2.4% year-over-year. Drops in Energy Prices and Cell Phone plans were responsible for most of the decline. Retail sales for March were relatively flat, in line with consensus. Finally, Business Inventories to Sales were up 0.3% for February, with the Inventories to Sales ratio stuck at 1.35.

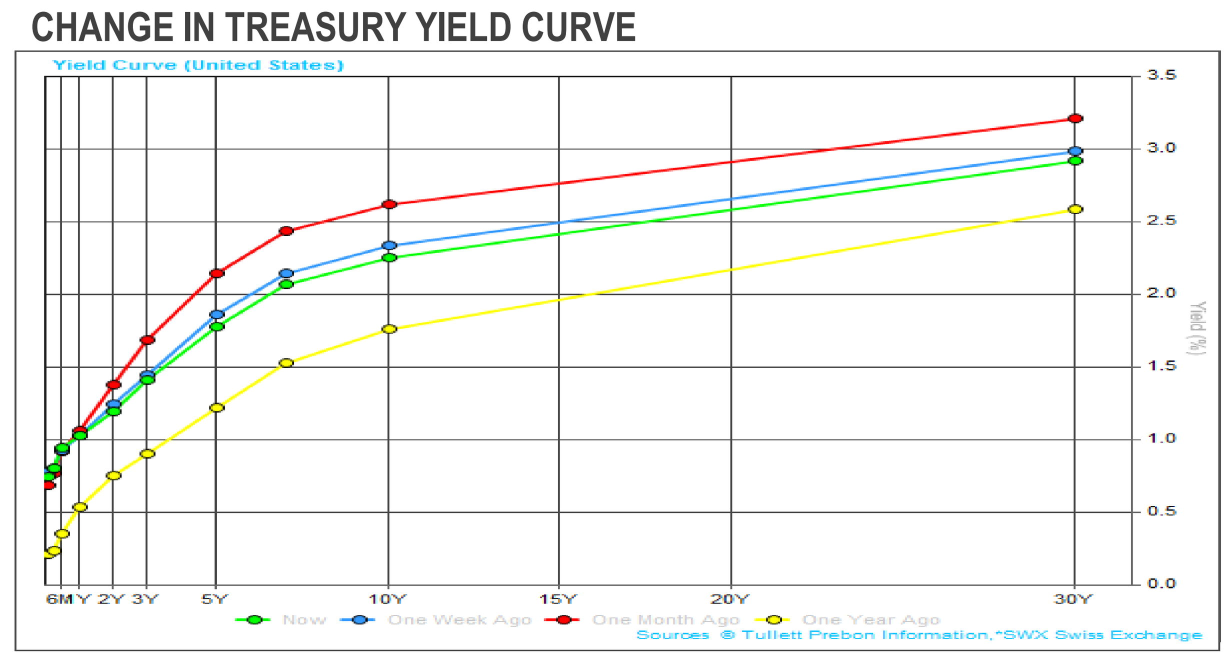
FIXED INCOME

Treasuries rallied at the end of last week after the U.S. dropped the largest non-nuclear bomb in its arsenal on an Islamic State target in Afghanistan. The ten-year yield fell about fourteen basis points on the week to close trading at 2.34% in New York, according to Bloomberg Bond Trader data. Treasuries rallied for the fifth straight week, the longest stretch since July, with yields within the sell-off zone created after the Election Day on November 8. The current bullish streak in bonds has the potential to continue as heightened geopolitical fears have returned to the market over the past few weeks. The ten-year has broken below the trading range established post-election which was between 2.60% and 2.30%. The government also recently launched 59 Tomahawk cruise missiles against the Syrian government, sparking the global tensions that have largely driven the gains in Treasuries. Also, the economic case for a Federal Reserve interest rate increase in June just became a little less solid. Inflation took a surprising step back in March at the same time retail sales dropped for a second month, according to a pair of government reports on Friday. Labor Department data showed the consumer price index fell a larger-than-forecast 0.3 %, while a measure excluding food and energy fell by the most since 1982. While the pullback at retailers underscores a weak first quarter for consumer spending that economists had already penciled in, the inflation data are what surprised them given recent signs that businesses had been able to regain some pricing power. A further cooling of price pressures and modest household demand would raise questions about whether the economy could withstand a mid-year move by the Fed in lifting borrowing costs.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.81%	3 mo	0.83%	3 mo	1.15%	3 mo	0.69%
6 mo	0.92%	6 mo	0.82%	6 mo	1.25%	6 mo	0.76%
1 yr	1.01%	1 yr	0.95%	1 yr	1.33%	1 yr	0.82%
2 yr	1.21%	2 yr	1.30%	2 yr	1.60%	2 yr	1.01%
5 yr	1.77%	5 yr	1.76%	5 yr	2.28%	5 yr	1.56%
10 yr	2.24%	10 yr	2.73%	10 yr	3.08%	10 yr	2.30%
30 yr	2.89%	30 yr		30 yr	4.02%	30 yr	3.56%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.98%	4.18%
S&P 500 (Large Cap)	-1.11%	4.64%
S&P 400 (Mid Cap)	-1.47%	1.64%
Russell 2000 (Small Cap)	-1.40%	-0.52%
NASDAQ Composite	-1.23%	8.18%
MSCI EAFE (International)	-0.37%	6.69%
iShares Real Estate	0.82%	4.70%

U.S. stocks fell for the second week in a row – with increasing geopolitical concerns adding anxiety to domestic markets. It was the first back-to-back weekly declines since January. Heavy rhetoric surrounding North Korea and increased military action in the Middle East helped add to higher levels of the Volatility Index – widely viewed as the "fear gauge" for stocks. Interestingly, the anxiety surrounding North Korea did more to impact U.S. stocks than it did for markets in the region. For example, the Hong Kong Hang Seng Index was essentially flat last week, falling -0.04%, while the South Korea Stock Index, the KOSPI 200 Index only fell -0.13%.

Safe haven asset classes such as U.S. government bonds and gold did particularly well last week. Gold prices rose nearly 3% last week— closing Thursday at $1,288 an ounce.

Defensive sectors continued to their recent relative outperformance – for the week Consumer Staples, Real Estate, and Utilities were the only three of the eleven major sector groups with positive returns. Financials was the worst performing sector – falling -3.50% last week moving the group into negative territory year-to-date. The continued rally in bonds and decline in interest rates has put pressure on banks as of late.

Shares of Whole Foods (WFM) rose 10% on Monday after activist investor group Jana Partners confirmed an 8.8% stake in the company. The private equity firm wants the grocer to speed up their turnaround and consider a possible sale.

Bespoke noted in a report last week that we are now 100 days into 2017 – and through that date the S&P 500 was up 5.3% - the index's best first 100 days since 2013. Going back to 1988, the S&P 500 has been up at least 5% through the first 100 days ten times – in those cases it averaged a gain of 9.8% for the rest of the year with positive returns in all but one case. Recent history suggests that in years when the S&P 500 starts off positively, it is more likely to finish strong too.

The back-to-back weekly declines for the S&P 500 broke the short-term support levels we have been mentioning in these comments for the past several weeks. For now, we will continue to watch the intermediate and longer-term levels at 2290 and 2175. The S&P 500 closed last week at 2328.

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.