2018 Weekly Portfolio Manager Commentary

May 4, 2018

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The ISM Manufacturing Index and U.S. PMI Index came in at 57.3 and 56.5 for April, respectively. The services side of each index came in at 56.8 and 54.5 for April, overall, still nicely expansionary. The minutes from the latest FOMC meeting did not reveal much, with exception to the committee's view that any first quarter weakness will likely be an anomaly. Non-farm productivity came in at a 0.7% annual rate for the 1st Quarter 2018. Unit Labor Costs were up 2.7%, also on an annualized basis. Finally, the U.S. Unemployment Rate dipped down to 3.9% for April versus 4.1% in March.

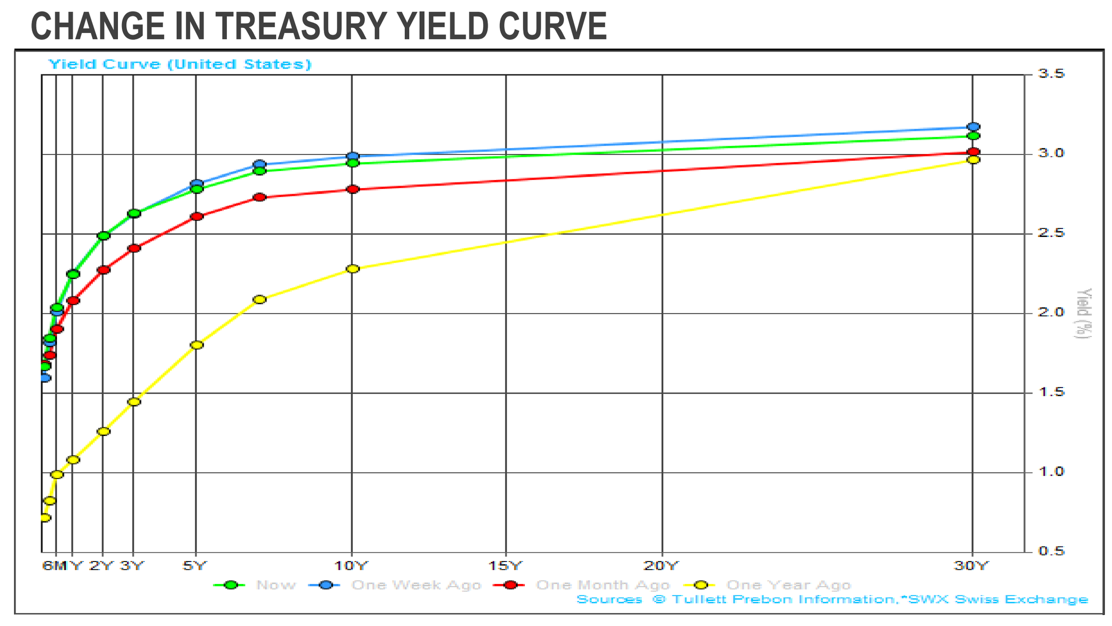
FIXED INCOME

Treasury officials say they have no concern about demand for the ever-increasing slate of U.S. government debt. Bond investors are about to render their verdict. The U.S. will issue a combined $73 billion of three-, ten-, and thirty-year securities this week, $7 billion more than the equivalent round last quarter, as issuance swells to plug growing budget deficits. The auctions are the first since the Treasury's May 2 announcement that it would boost sales of coupon-bearing and floating-rate debt again, after doing so last quarter for the first time since 2009. The bond market's reception of the next wave of supply will do more than just dictate the government's borrowing costs. Yields are near multi-year highs and how investors digest the offerings will help determine whether the selloff resumes. Recent auctions aren't necessarily cause for optimism, according to BlackRock Inc.'s Rick Rieder. Last month, demand was lackluster at some sales even with elevated yields. "What's going to happen at these auctions -- how many auctions fail because we cannot absorb this much debt that they have put into the market?" Rieder, the firm's global Chief Investment Officer of fixed-income, said in a Bloomberg TV interview last Friday. "It's a question of how you define failing, but you've had some sloppy auctions." After eclipsing 3% for the first time since 2014 in April, benchmark ten-year yields have plateaued. They ended last week at 2.95% after April employment data showed tepid growth in wages and jobs. The extent of foreign demand will be a focus amid worries that some of the biggest U.S. creditors may be stepping aside, just as the Treasury is ramping up sales and as the Federal Reserve trims its balance sheet. At last month's ten-year auction, foreign and international investors purchased just 12.8%, the lowest share since September, Treasury data show. It also marked their smallest takedown at an April offering of the maturity in four years. Overseas buyers took a similar slice of the thirty-year sale, the least since January.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.83%	3 mo	1.80%	3 mo	2.28%	3 mo	1.61%
6 mo	2.02%	6 mo	1.91%	6 mo	2.37%	6 mo	1.67%
1 yr	2.23%	1 yr	2.00%	1 yr	2.49%	1 yr	1.74%
2 yr	2.50%	2 yr	2.37%	2 yr	2.77%	2 yr	1.88%
5 yr	2.78%	5 yr	2.72%	5 yr	3.25%	5 yr	2.22%
10 yr	2.95%	10 yr	3.28%	10 yr	3.76%	10 yr	2.69%
30 yr	3.12%	30 yr		30 yr	4.17%	30 yr	3.61%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.19%	-1.22%
S&P 500 (Large Cap)	-0.21%	0.23%
S&P 400 (Mid Cap)	0.29%	0.30%
Russell 2000 (Small Cap)	0.62%	2.35%
NASDAQ Composite	1.29%	4.78%
MSCI EAFE (International)	-0.06%	0.88%
iShares Real Estate	1.15%	-4.48%

A sharp rally on Friday moved the S&P 500 off the weekly lows, but was not enough to move the index into the green – the index closed the week with a modest decline. Sector performance was mixed – seven of the major sector groups declined while four rose. Health Care stocks fell as a group over -3%, while on the positive side the Technology group rose a little over +2%.

Bespoke noted in a report last week that this month's Consumer Confidence Report saw a notable shift in the public's view towards the stock market. Expectations for higher stock prices dropped from 36% down to 32% - however, only three months ago U.S. consumers were rather bullish on the stock market. This report also marks the first time since the presidential election that consumers expect stocks to go down than up. This three month period is also the quickest that bullish sentiment has dropped since 1987.

According to FactSet, 78% of S&P 500 companies have reported a positive EPS surprise and 77% have reported a positive sales surprise. If 78% is the final number for the quarter, it will mark the highest percentage since FactSet began tracking this metric in 2008. Also of note, is that earnings have grown 24.2% - which would mark the highest earnings growth since 2010.

In a report, Bespoke noted that Monday marked the 107th month of the current economic expansion. At the current length, this expansion is now tied with the 8+ year stretch in the 1960s for the second longest in U.S. history, but still behind the ten year record from March 1991 through March 2001. In order to top that mark, this expansion would have to last through the first half of 2019.

On Thursday, shares of Tesla fell over -5% after the company reiterated its near-term path to 5,000 Model 3's per week and 2018 profitability. The results were overshadowed by CEO Elon Musk's criticizing analysts for asking "boring, boneheaded" questions during the company's quarterly earnings call.

Shares of Apple rose nearly +4% on Friday after reports showed Berkshire Hathaway added another 75 million shares to its existing 165.3 million share stake.

For the week ahead earnings season slows down slightly – notable releases this week include: Tyson Foods, Walt Disney, Nvidia, Sysco, and Fox. On the economic front the only domestic release of note is the latest inflation reading with Thursday's CPI report.

The S&P 500 closed last week at 2663, marking the third week of a narrow trading range – closing at 2669 and 2670 in the previous two weeks. We are watching 2620 and 2580 as levels of support, and 2680, 2705, and 2800 as areas of resistance.

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.

Non-deposit investment products are not insured or guaranteed by any government agency or government sponsored agency of the federal government or any state; are not deposits, obligations, or guaranteed by Trustmark National Bank or its affiliates; and are subject to investment risks, including the possible loss of principal. *The opinions and analysis in this report are accurate to the best of our knowledge and are based on information and sources that we consider to be reliable and appropriate for due consideration. The volatility of market conditions and any change from the basic set of assumptions used herein could lead to substantial differences in the projected results and conclusions in this report. All projections, prices and assumptions herein are subject to change without notice. We do not guarantee the results, performance or liquidity of the securities discussed and any strategy or investment selection remains your responsibility. This report is strictly for information purposes and is not intended as an offer or solicitation for any transaction. Trustmark Investment Advisors, Inc. is a registered investment adviser under the Securities and Exchange Commission, a wholly owned subsidiary of Trustmark National Bank, and a division of Trustmark Wealth Management.*