

ECONOMIC HIGHLIGHTS

Consumer Confidence as measured by the Conference Board was higher in May for both the present situation and future expectations. The second read on first quarter GDP was released last week and came in slightly lower at 3.1% versus the initial report of 3.2%. Inflation as measured by the core PCE, the Fed's preferred inflation metric, came in at 1.6% year over year for April. Still below their target rate of 2.0%.

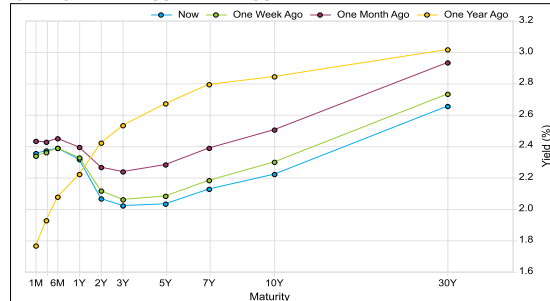
FIXED INCOME

Treasury bulls are about to get some critical U.S. economic data this week, after investors' quest for shelter drove yields to multiyear lows in a sign of growing conviction that a recession is on the horizon. Ten-year Treasury yields have tumbled to 2.13%, the lowest since 2017, after President Donald Trump said he'd impose tariffs on all Mexican goods over illegal immigration. This move comes on top of escalating trade friction between the U.S and China, which helped ten-year Treasuries post their largest monthly rally since 2015. The headline economic releases this week that market participants will be paying close attention to include the most recent employment numbers and manufacturing. Traders have gotten so gloomy on the growth outlook that they are betting the Federal Reserve will cut its target fed funds rate by a half-percentage point by year-end. That has further widened the divide between the market and policymakers, who have projected no move in 2019 and a possible quarter-point hike in 2020. Haven demand has also pushed the thirty-year yield below 2.60%, the lowest level since around the presidential election back in 2016. In Germany, ten-year bund yields fell to a record low of -0.213%. Currently ten-year yields are 21 basis points below the three-month bill yield, the most since 2007. An inversion of these rates has historically proven a strong signal of a looming recession. ISM manufacturing is forecast to come in at 53 for May, up from a prior reading of 52.8 in April which was the weakest since 2016, according to a survey of economists by Bloomberg. The June 7 report on the employment situation is expected to confirm that the labor market remains tight, with a 3.6% jobless rate that would still be the lowest since 1969. The ICE Bank of America Merrill Lynch all maturity U.S. government index had its best month since January of 2015 with a return for May of 2.157%. For the year the index is up by 3.908%.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.34%	3 mo	2.31%	3 mo	2.40%	3 mo	1.43%
6 mo	2.35%	6 mo	2.33%	6 mo	2.39%	6 mo	1.45%
1 yr	2.20%	1 yr	2.24%	1 yr	2.38%	1 yr	1.47%
2 yr	1.92%	2 yr	1.99%	2 yr	2.33%	2 yr	1.49%
5 yr	1.91%	5 yr	1.96%	5 yr	2.50%	5 yr	1.54%
10 yr	2.13%	10 yr	2.37%	10 yr	2.96%	10 yr	1.85%
30 yr	2.57%	30 yr		30 yr	3.67%	30 yr	2.61%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-2.93%	7.54%
S&P 500 (Large Cap)	-2.58%	10.73%
S&P 400 (Mid Cap)	-2.76%	9.59%
Russell 2000 (Small Cap)	-3.18%	9.25%
NASDAQ Composite	-2.39%	12.86%
MSCI EAFE (International)	-2.08%	7.91%
iShares Real Estate	-1.41%	16.77%

U.S. stocks have been hit hard the past week, as the S&P 500 index is on track for a fourth straight week of losses. The main verdict is still trade talks and the unexpected introduction of tariffs on Mexican imports. All sectors finished negative at the end of the week with Utilities (-3.05%) and Energy (-2.88%) being the main laggards and Information Technology (-.32%) and Consumer Discretionary (-.85%) being the "outperformers." Gold finished up 2.10% for the week and WTI Crude oil is down -9.16%.

President Trump tweeted Thursday night that the U.S. would impose a 5% tariff on all imports from Mexico effective June 10th. A White House statement noted that the tariff would increase 5pp on July 1st and every month thereafter until it reached 25%. These tariffs and rate escalations will supposedly remain in effect until Mexico "substantially stops the illegal inflow of aliens coming through its territory." There has been discussion regarding the deep linkage between the two economies, specifically sectors such as autos, agriculture, and other consumer goods. The suddenness of the news impacted the Market negatively near end of week.

Consumer prices increased in April with core PCE up .3% m/m ahead of the .2% estimate. April's personal income report is up .4pp m/m to .5%, which is positive towards the consensus of .3%. Personal spending is down .6pp m/m to .3%, but still outperformed the estimate of .2%.

There have been recent reports regarding the action the Fed could take regarding concerns from the bond market and cut rates. One of which is The New York Times who noted the heightened economic risks from the US-China trade war and tightening financial conditions could move the central banks to action. However, Reuters mentioned that the Fed is unlikely to respond to bond market concerns about softer U.S. growth and inflation anytime soon. The article noted that the Fed will need time to see new economic concerns before easing.

Reuters Cited sources who noted that Amazon is interested in buying prepaid cellphone wireless service Boost Mobile from T-Mobile and Sprint. The article mentioned that Amazon is interested in an attached wholesale deal that would allow the acquirer to use T-Mobile's wireless network for at least six years. It was also mentioned that Amazon would be interested in any wireless spectrum that could be divested.

Wall Street Journal reported that Trump administration officials are wrapping up a plan to return Fannie Mae and Freddie Mac to private shareholder ownership, though the officials would still prefer Congress acted on more sweeping overhaul of housing finance. The proposal is expected to include a version of "recap and release," which would shore up the firms' capital to absorb losses in a future housing downturn and avoid the need for another taxpayer bailout. The proposal noted this could entail raising \$125B, in part by selling new shares in an IPO.

The S&P 500 index has seen its fourth straight week of declines with it being down 2.60% for the week, in which the index broke the support of its 200-day moving average, which sat at 2768. The S&P will possibly retest the level of support, which is now resistance, in which it could struggle to break back above. The S&P 500 closed at 2752.

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

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

- Cash** - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
- 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 floating rate securities.
- Inflation-Adjusted Bonds** - Low inflation expected in near-term providing zero real return.
- High Yield Bonds** - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
- International Bonds** - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.
- 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 continues to be a more favorable style and should be overweighted versus Value.
- Mid Cap Stocks** - Mid cap exposure remains an attractive market capitalization. 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. However, trade uncertainty and dollar strength provides a headwind for EM in the near term.
- 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. Volatility will be higher and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.

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