2018 Weekly Portfolio Manager Commentary *June 15, 2018*

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Consumer Prices increased 0.2% in May, and 2.8% in the year ended May. Core CPI was up 2.2% year-over-year. Producer Prices were up 0.5% in May and up 3.1% in the year ended May. Core PPI was up 2.4% year-over-year. Industrial Production was relatively flat for May, with Capacity Utilization at 77.9%. Retail Sales were up 0.8% for May, further underscoring the strength in the U.S. economy. The most recent FOMC meeting resulted in increases in future inflation expectations and an increase in the Fed Funds rate range to 1.75% - 2.00%.

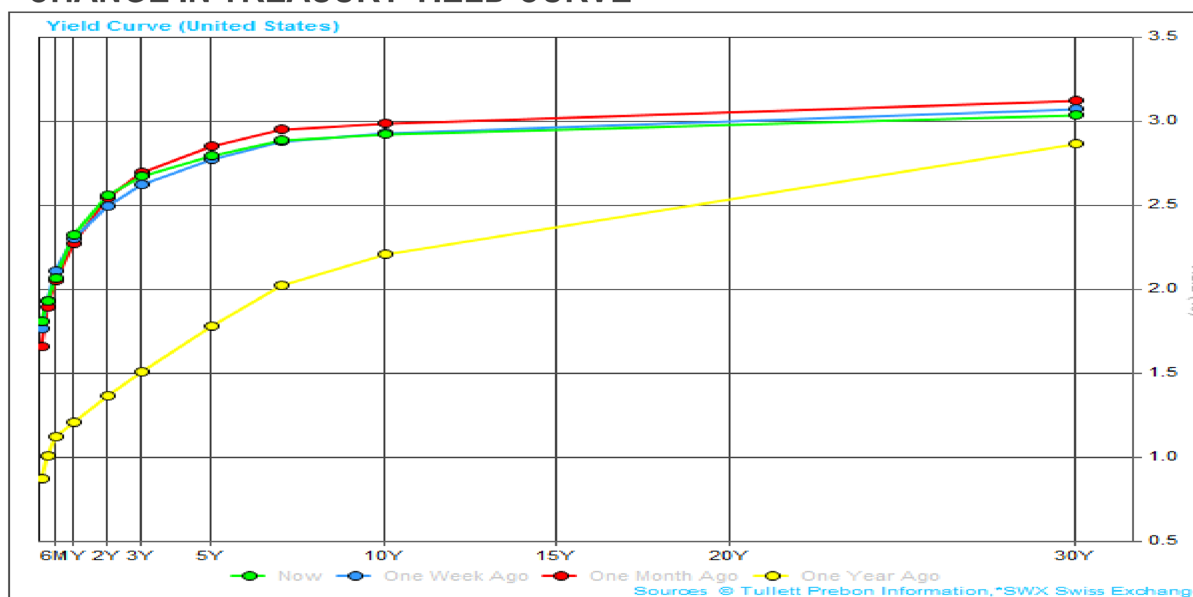
FIXED INCOME

As the march toward yield-curve inversion picks up speed in the Treasuries market, Federal Reserve officials are about to get a fresh chance to sound off on the phenomenon. With little top-tier U.S. economic data or supply to digest this week, traders will be on the lookout for any signals from policymakers, who have speeches lined up domestically and at a European Central Bank conference in Sintra, Portugal. The main event is an appearance by Fed Chair Jerome Powell, but the days ahead also bring comments from officials who expressed concern last month about the potential for inversion. The shape of the curve has the market and policymakers on edge, given that inversion has historically preceded recessions, and some investors have speculated the Fed could alter policy to keep it from happening. For now, the momentum is clear, with more rate hikes in the cards and key technical support levels crumbling last week as measures of the curve reached their flattest since 2007. The gap between two- and ten-year yields has shrunk to about 37 basis points, after it narrowed last week by the most since March. It's shriveled to 25 basis points for the five- to thirty-year spread. The market's sensitivity to Fed utterings on the topic was evident last month. When the release of the minutes from the May policy meeting showed officials were monitoring the shape of the curve, a bout of steepening followed. The ECB also added to the potential for a steepening pullback with its announcement last week that it will stop bond buying in December. That will bolster term premium and reduce the incentive for investors to buy U.S. debt, said CIBC's Ian Pollick. Last Friday, Dallas Fed President Robert Kaplan gave investors a taste of what may be ahead, saying he won't "knowingly" back rate hikes that invert the curve. This week, the St. Louis Fed's James Bullard and the Atlanta Fed's Raphael Bostic, both of whom have expressed concern about the risk of inversion, are speaking at events this week. At the end of last week at least, trade friction boosted Treasuries. Bonds drew some haven buying after tariffs were announced on Chinese imports.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.92%	3 mo	1.91%	3 mo	2.37%	3 mo	1.31%
6 mo	2.09%	6 mo	2.05%	6 mo	2.47%	6 mo	1.38%
1 yr	2.30%	1 yr	2.15%	1 yr	2.57%	1 yr	1.45%
2 yr	2.55%	2 yr	2.56%	2 yr	2.85%	2 yr	1.62%
5 yr	2.80%	5 yr	2.87%	5 yr	3.29%	5 yr	2.05%
10 yr	2.92%	10 yr	3.23%	10 yr	3.74%	10 yr	2.68%
30 yr	3.05%	30 yr		30 yr	4.12%	30 yr	3.71%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.84%	2.62%
S&P 500 (Large Cap)	0.06%	4.91%
S&P 400 (Mid Cap)	-0.36%	5.58%
Russell 2000 (Small Cap)	0.72%	10.26%
NASDAQ Composite	1.34%	12.79%
MSCI EAFE (International)	-0.58%	-0.44%
iShares Real Estate	-0.42%	-1.56%

The equity markets fell last week and erased the gains for the week as President Trump announced a fresh round of tariffs on Chinese goods to the tune of $50 billion. China responded that it would respond by putting tariffs on American goods starting next month. The industrial and information technology sectors dropped the most on the news.

Trade tensions continue to dominate the headlines this year as investors fear that the remarkable run in the equity markets will be derailed. Despite investor concern, the indices have ticked higher for the month of June gaining between 2.5% to nearly 4.13% for the NASDAQ. Both the Dow and the S&P 500 are a mere percentage points from hitting all-time highs.

The Dow Jones Industrial Average fell 0.84% to end the week at 25,090. The S&P 500 was flat to end the session at 2,779. The Nasdaq Composite Index ended the session at 7,746 for a gain of 1.34% for the week.

Crude –oil prices dropped on news that the Organization of the Petroleum Exporting Countries (OPEC) would boost crude oil output in the near future. The Energy Select Sector ETF (XLE) dropped 2.88% on the news. Energy stocks such as Exxon Mobil (XOM) fell 3.52% and ConocoPhillips sank 5.86%.

Adobe Systems (ADBE) declined 2.43% despite beating analyst expectations.

Defensive sectors ticked higher despite the negative talk about tariffs. Consumer Staples rose 1.27% while Real Estate rose 0.5%. Investors tend to gravitate to defensive sectors during time of economic doubt.

Historical research performed by Bespoke Investment Group has seen the Dow average a gain of 0.38% over 100 years during the month of June. On the other hand, the Dow has declined over the last 50 and 20 years with the large cap index averaging a decline of 0.93%. Over the past 20 years, June has only been up 40% of the time, which is the lowest “win” rate of any month.

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.

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