2017 Weekly Portfolio Manager Commentary   *July 7 , 2017*

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The ISM Manufacturing index showed strength in June as it reported better than expected at 57.8 versus 54.9 for May. A reading above 50 means the sector is expanding. Factory orders came in worse than expected for May at -0.8% versus an expected -0.5% according to a Bloomberg survey. Nonfarm payroll came in higher than expected at 222,000 jobs added in the month of June. The unemployment rate ticked higher to 4.4% due to more people actively looking for work.

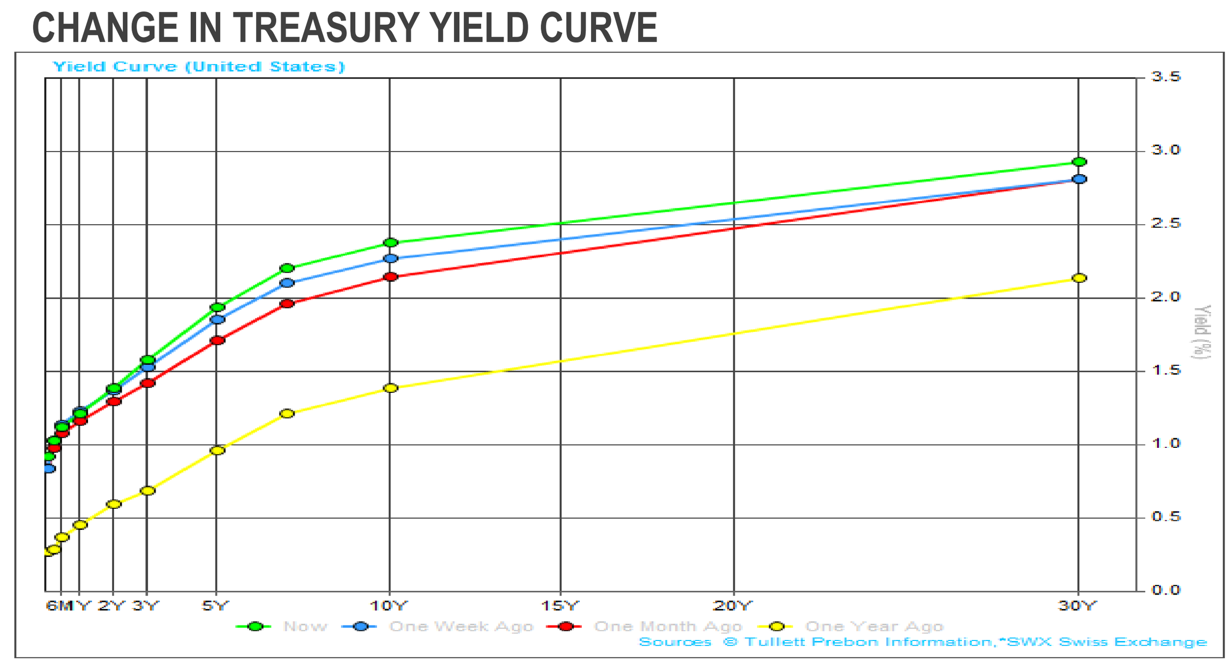
FIXED INCOME

Hedge funds that built up bullish long-end Treasury bets to the highest outright level since 2008 are rushing for the exit as a government bond rout that started in Europe following a weak French debt auction is spreading to the U.S. market. Thirty-year yields surged as much as seven basis points last Thursday to 2.92 %, breaching both 50- and 200-day moving averages. Open interest in September long-bond futures has dropped by around $3.7 million since June 28 in dollar-value per basis point move terms, a sign bulls are starting to liquidate positions in the sector. Speculators in recent weeks were the most bullish on 30-year Treasury futures on a net basis this year, according to Commodity Futures Trading Commission data. The recent selloff is a sign of more pain to come for Treasury bulls, according to DoubleLine Capital Chief Executive Officer Jeffrey Gundlach, whose firm oversees $109 billion and said a year ago that yields had hit bottom. With a Federal Reserve seemingly committed to raising interest rates a third time this year and speculation the European Central Bank could announce a tapering of bond purchases by the end of the year, the fundamentals aren't encouraging. As yields are now approaching key technical marks that could trigger a fresh flush out of long-end bulls, the risk is building that Treasury yields go even higher. Ten-year Treasury yields are on course to move "toward 3%" this year, Gundlach said in an email to clients. There has "been no justification for the divergent policies in the U.S. versus Europe given economic fundamentals," he said. The ten-year Treasury traded as high as 2.39% last week, just ahead of a key retracement level at 2.42, which coincides with the high made in May.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.03%	3 mo	1.06%	3 mo	1.28%	3 mo	0.80%
6 mo	1.13%	6 mo	1.16%	6 mo	1.36%	6 mo	0.86%
1 yr	1.21%	1 yr	1.21%	1 yr	1.45%	1 yr	0.93%
2 yr	1.40%	2 yr	1.41%	2 yr	1.72%	2 yr	1.09%
5 yr	1.95%	5 yr	1.85%	5 yr	2.38%	5 yr	1.53%
10 yr	2.39%	10 yr	2.79%	10 yr	3.15%	10 yr	2.27%
30 yr	2.93%	30 yr		30 yr	3.94%	30 yr	3.50%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.38%	9.77%
S&P 500 (Large Cap)	0.14%	9.49%
S&P 400 (Mid Cap)	0.05%	6.04%
Russell 2000 (Small Cap)	0.05%	5.04%
NASDAQ Composite	0.23%	15.02%
MSCI EAFE (International)	-0.55%	14.15%
iShares Real Estate	-1.34%	4.19%

Stocks rallied on Friday following a positive jobs report – pushing the major indexes into positive territory for the week. The Financial sector was the best performing group, moving higher along with interest rates. Energy stocks fell nearly -1.5% as oil prices tumbled – crude oil fell nearly -4% last week. Other commodities were weak – gold lost -2% while silver dropped over -6%.

Now that the first half of 2017 is in the books, Bespoke wrote in a report last week that going back to 1961, the S&P 500 has averaged a gain of 5.41% in the second half of years when it had been up in the first half. Through June 30 the S&P 500 rose 9.3% this year.

Through the first half of 2017 – Technology, Health Care, and Industrials are the best performing sectors, all three having risen by at least 10%. Energy is the only sector to post a first half loss – declining -15%.

Shares of Tesla fell over -7% on Wednesday after the company announced second quarter deliveries of just over 22,000 short of the 24,000 consensus estimate. Goldman Sachs cut their price target on the stock and said demand is likely plateauing. On Friday Reuters reported that Tesla registrations in California fell 24% in California – adding to the downward pressure on the stock.

On Thursday it was announced that the parent company of the shopping network giant, QVC, is acquiring the 62% of Home Shopping Network it does not already own. The deal is valued at $2.1 billion – HSN stock rose by 35% on the news reaching $42 a share.

The S&P 500 closed last week at 2425 – only two points higher than the prior week. The S&P 500 has essentially been moving sideways since moving to new all-time highs in late-May – the narrow range has measured about 2% high to low. Given the rangebound nature of the index, continue to keep an eye on the following support levels – 2400 which marks the top of the March to May consolidation range and below that at

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.