2017 Weekly Portfolio Manager Commentary

August 4 , 2017

Trustmark
Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The Chicago Purchasing Managers Index came in at 58.9 for July, still expansionary, however below consensus of 61.0. Consumer spending was flat for June, with the PCE Price Index up1.4% year-over-year. The PMI Manufacturing Index came in at 53.3 for July, and the ISM Manufacturing Index was 56.3 for the same time period. The services side of both Agencies' Indexes came in at 53.9-54.7, also for July. Finally, the U.S. Unemployment rate was 4.3% for July versus 4.4% for June.

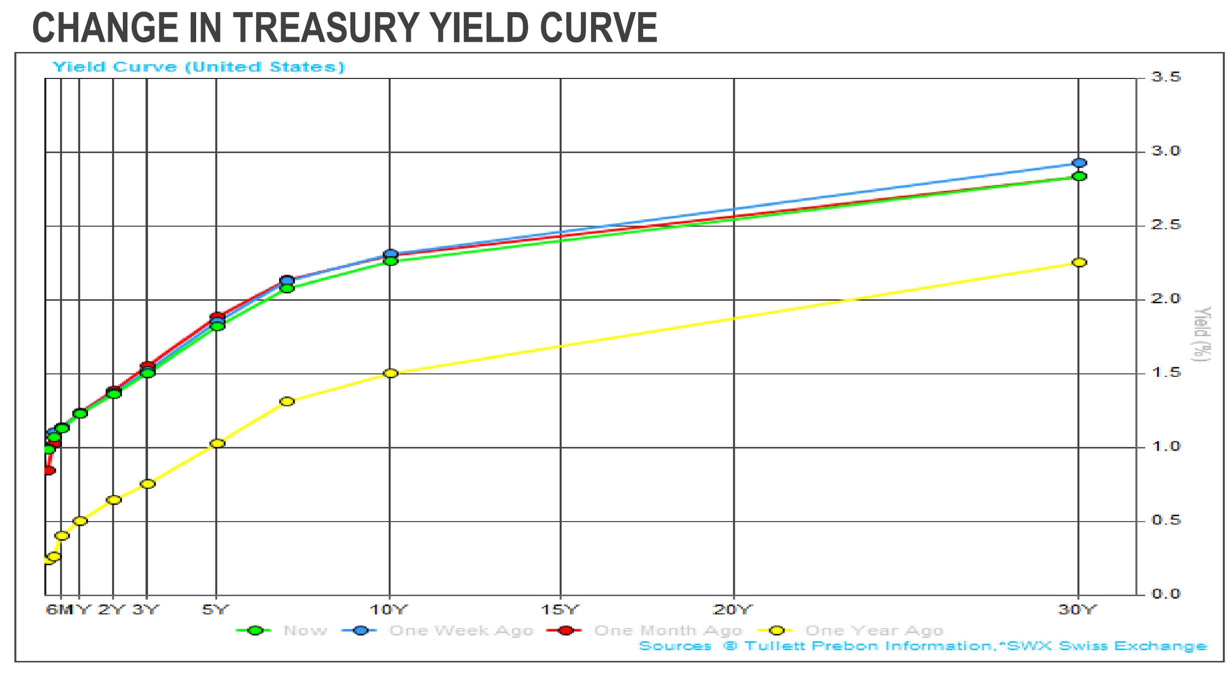
FIXED INCOME

U.S. Treasuries fell in trading Friday after the July employment report exceeded economists' median forecasts for nonfarm payroll growth and average hourly earnings, though the data alone wasn't strong enough to significantly alter skepticism that the Federal Reserve will hike rates again this year. Benchmark yields were higher at the end of trading across the curve with two-year notes up around two basis points and thirty-year debt around five basis points higher. Long-end yields led the move higher as dealers look ahead to this week's quarterly refunding auctions. Treasury will be offering $24 billion three-year notes on Tuesday, $23 billion ten-year notes on Wednesday, and $15 billion thirty-year bonds on Thursday. Market-implied odds of an interest rate increase by the Federal Reserve by year-end moved slightly higher to above 40%. A bond trader at SocGen said Friday's data wasn't strong enough "to really pull forward the Fed's rate hiking plan...supply is a more immediate concern." The average hourly earnings data eased concerns about slowing inflation that Federal Reserve Chair Janet Yellen mentioned in her remarks before Congress back in mid-July. The sell-off in bonds last Friday eroded a move earlier in the week that had pushed yields to their lowest levels in a month. After the July nonfarm payroll data was released last Friday, Goldman Sachs raised their estimate for third quarter GDP by one-tenth to 2.6%. Goldman also noted their "subjective" odds for the timing of the next rate hike by the Fed would be 5% for September, 5% for November and 50% for the last meeting of the year in December.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.07%	3 mo	1.06%	3 mo	1.27%	3 mo	0.65%
6 mo	1.13%	6 mo	1.11%	6 mo	1.36%	6 mo	0.71%
1 yr	1.22%	1 yr	1.18%	1 yr	1.42%	1 yr	0.76%
2 yr	1.35%	2 yr	1.43%	2 yr	1.65%	2 yr	0.92%
5 yr	1.82%	5 yr	1.72%	5 yr	2.24%	5 yr	1.34%
10 yr	2.26%	10 yr	2.66%	10 yr	3.00%	10 yr	2.10%
30 yr	2.85%	30 yr		30 yr	3.84%	30 yr	3.27%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.22%	13.33%
S&P 500 (Large Cap)	0.23%	11.93%
S&P 400 (Mid Cap)	-0.60%	6.37%
Russell 2000 (Small Cap)	-1.17%	4.83%
NASDAQ Composite	-0.34%	18.78%
MSCI EAFE (International)	1.00%	18.76%
iShares Real Estate	-0.21%	6.58%

Equity markets were mixed last week with U.S. large cap stocks outpacing mid and small cap indexes for the week. International stocks rose, with developed markets posting stronger returns than emerging market equities. Hard metals had a rough go last week with both gold and silver posting modest losses. Financial stocks were the clear winners of the eleven major sector groups rising nearly 2%. Energy and Telecom booked the largest declines, falling 1.25% and 2.05%, respectively.

The Dow Industrials made a new all-time high on Friday, closing at 22,092. On Wednesday, Jason Goepfert of SentimenTrader noted that the Dow Industrials marked the seventh straight daily gain. Interestingly, this was the fourth time in the past 200 days that the Dow has managed a winning streak like this, the most in its history. The last time it managed even three such streaks was in the summer of 1987.

Bespoke wrote in a report last week that the equity market is now entering one of its historically weakest months. Over the last 100 years, the Dow Industrials has average a return of 0.75% for August, with positive returns only 59% of the time. Over the last 50 and 20 years, the Dow Industrials has averaged a decline of -0.14% for the past 50 years and -1.39% for the past 20 years. The month of September is the only month with weaker returns.

Shares of Apple rose nearly 5% on Wednesday after the company reported quarterly results that came in better-than-expected. The company noted that iPhone units were ahead of estimates despite the company again highlighting a larger than usual pause ahead of all the new product cycle speculation.

For the week ahead, earnings season depreciably slows with some notable reporters being: CBS Corp, Walt Disney, Discover Financial, Nordstrom, Nvidia, and J.C. Penny. There are also a host of Federal Speakers as well as the latest look at U.S. inflation numbers on Thursday and Friday.

Levels to watch for the S&P 500 have not materially changed. We are watching 2445, 2400, 2340, and 2325 – the S&P closed last week at 2476.

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.