2017 Weekly Portfolio Manager Commentary

November 10, 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

It was a slow week in terms of economic updates, so there is not much to report. MBA Mortgage Applications were flat for the week. Also, the Bloomberg Consumer Comfort Index was at 51.5 for the week.

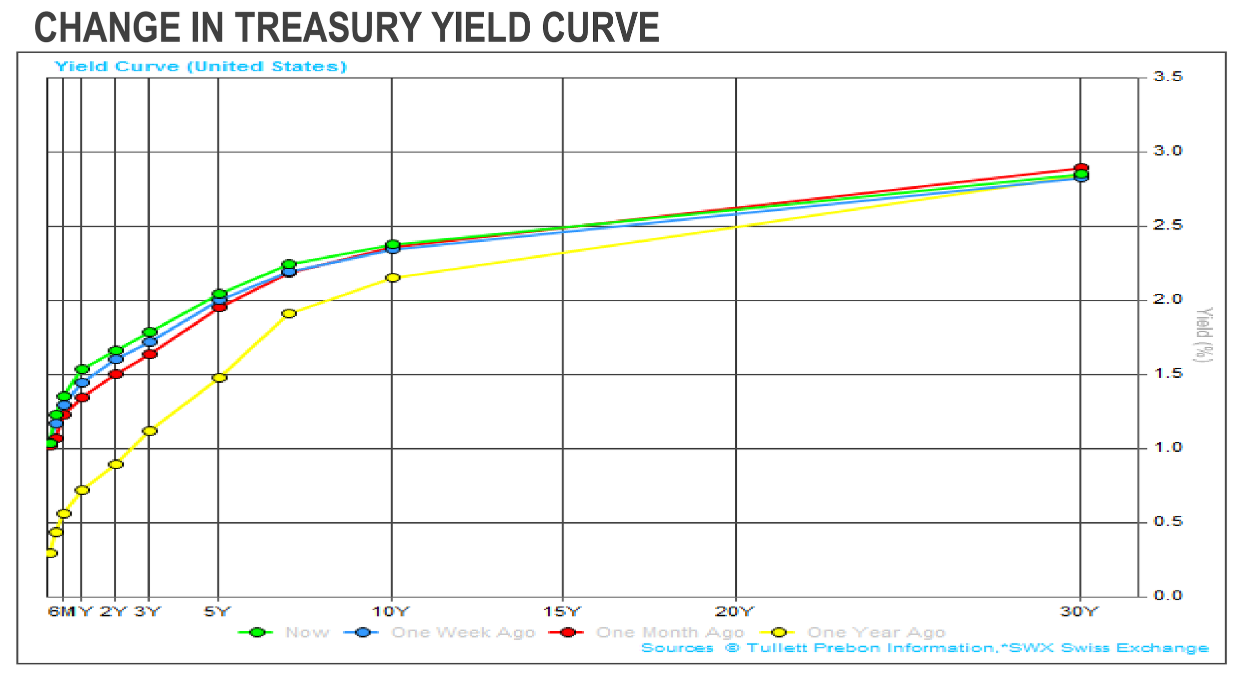
FIXED INCOME

For the time being, slow inflation still restrains the central bank to a gradual pace of interest-rate hikes. But if the inflation landscape changes, policymakers will start thinking about a more aggressive policy stance. Joblessness is below the 4.4% cycle low of the previous expansion, though not as low as the 3.8% low of the 1990s expansion. Hitting that level seems possible within the next few months. The current pace of jobs expansion exceeds the growth of the labor force, which will translate into lower unemployment rates. Plus jobs growth does not appear likely to slow in the near future. Initial unemployment claims and temporary help employment, both good leading indicators, signal a bright future for jobs. The Fed's most recent Summary of Economic projections revealed an unemployment forecast of 4.3% for year-end, and 4.1% for the end of 2018. As has been the case in the past with the Fed's economic projections, these forecasts may prove to be pessimistic. While the unexpected decline of unemployment argues for faster rate hikes, the shortfall of inflation relative to target argues for the opposite. The Fed to date has used these conflicting signals to justify maintaining a gradual pace of rate hikes. Policymakers have a strong preference for this policy. They fear that a more rapid pace of rate hikes could lead to a recession. The problem now facing the Fed is that if you look back on the last few cycles in which the end stage was one of low inflation and low unemployment, you might conclude that the Phillips curve is dead. You might further conclude that the relationship between unemployment and inflation is so weak that the Fed should resist raising rates in response to lower unemployment. The central bank should instead keep its eye on the current state of low inflation when making its calls on future interest-rate hikes.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.22%	3 mo	1.25%	3 mo	1.48%	3 mo	0.98%
6 mo	1.36%	6 mo	1.29%	6 mo	1.57%	6 mo	1.03%
1 yr	1.53%	1 yr	1.46%	1 yr	1.65%	1 yr	1.08%
2 yr	1.65%	2 yr	1.69%	2 yr	1.90%	2 yr	1.20%
5 yr	2.05%	5 yr	1.94%	5 yr	2.43%	5 yr	1.56%
10 yr	2.40%	10 yr	2.77%	10 yr	3.10%	10 yr	2.15%
30 yr	2.88%	30 yr		30 yr	3.80%	30 yr	3.10%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.35%	20.99%
S&P 500 (Large Cap)	-0.14%	17.33%
S&P 400 (Mid Cap)	-0.52%	11.35%
Russell 2000 (Small Cap)	-1.29%	9.87%
NASDAQ Composite	-0.14%	26.65%
MSCI EAFE (International)	-0.74%	21.97%
iShares Real Estate	2.59%	10.17%

All major equity markets declined last week – with the S&P 500 putting an end to its streak of eight consecutive weekly gains. The U.S. dollar continued to fall giving a boost to crude oil and other commodities.

There was a decisively defensive theme to last week's sector performance. Real Estate, Consumer Staples, and Energy were the best three of the eleven major sector groups. Cyclical sectors led decliners with Financials, Materials, and Industrials posting the biggest declines.

The S&P 500 this week crossed the one-year mark since its last 3% correction. The index last had a 3% correction in November 2016 – this streak passed the previous longest streak from December 1994 to 1995.

Bespoke noted that so far this earnings season more than 1,600 companies have reported their third quarter numbers. The percentage of companies that have beaten consensus analyst EPS estimates currently stands at 63.7% - the revenue beat rate stands at 61%, which is in line with last quarter.

Shares of Fox and Disney both rose on Monday after CNBC reported that Fox has been in talks to sell most of itself to Disney to leave behind a tightly focused news/sports company. Talks are not ongoing but could be revisited.

Another note last week from Bespoke pointed out that when the S&P 500 is up 10% year-to-date going into November after gaining 1% in September and October, the rest of year returns are stronger than normal. In prior cases the S&P 500 has averaged a gain of 5.6% for the remainder of the year, with positive returns 85% of the time.

Ongoing discussion surrounding tax reform will remain dominant in the news for the week ahead. The big theme from last week revolved around difficulties the House and Senate will likely face in reconciling the differences in their respective bills.

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.