2017 Weekly Portfolio Manager Commentary

December 29, 2017

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

The last week in 2017 was a slow one in terms of economic releases. The Chicago Purchasing Manager's Index ended the year at 67.6, which was a 6-1/2 year high. Production was at a 34-year high, while new orders were at a 3-1/2 year high.

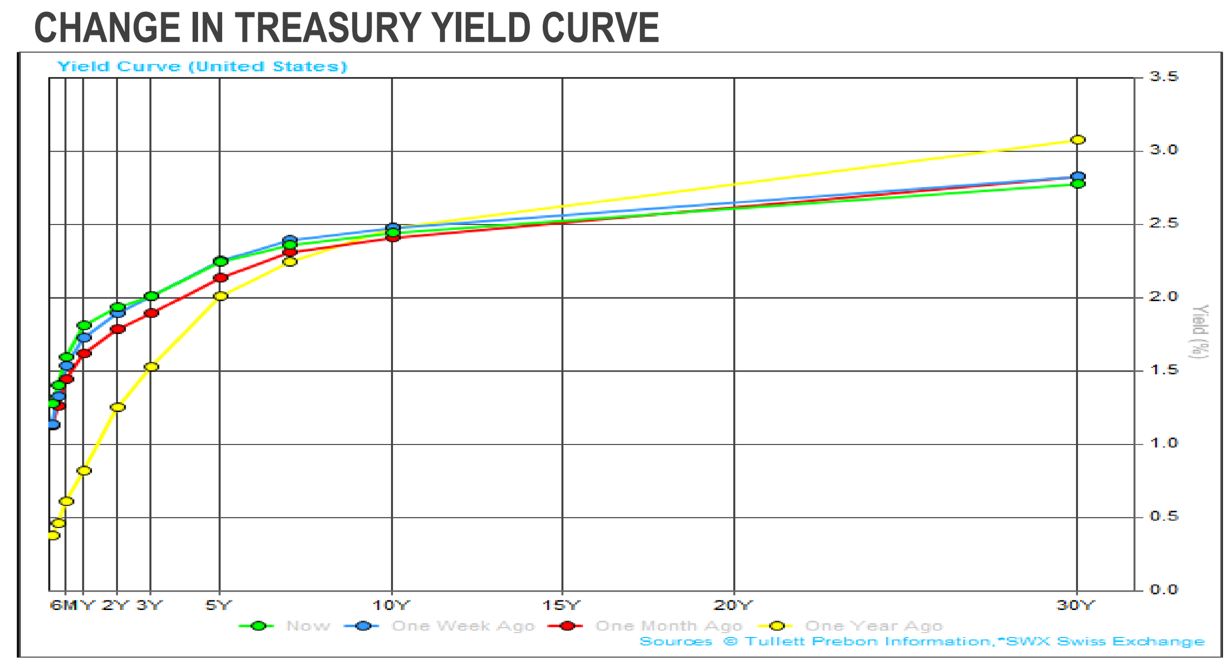
FIXED INCOME

Few bond traders around the world will raise a glass to toast U.S. Treasuries and the dollar on New Year's Eve. Among the countries represented in the Bloomberg Barclays global sovereign-debt index, U.S. obligations had the worst 2017 total return on an unhedged basis, just 2.2% for dollar-based investors. By contrast, bonds from Poland gained 25%, those from Thailand climbed 16% and securities from Italy and Spain earned more than 14%. Even in Japan, where yields are locked near zero, U.S. investors squeezed out more than 3%. At least it wasn't a loss, right? Think again. Unhedged Treasuries lost 1.1% in yen terms and tumbled 9.7% when measured in euros, based on the index. When viewed that way, it's clear that the blame for paltry returns lies both with rising short- and intermediate-term Treasury yields and the greenback's worst year in more than a decade. Among major developed-market peers, the dollar weakened most against the euro, meaning that investors in Europe's shared currency zone received fixed payments worth less and less at home if they opted not to hedge. "You end up with higher volatility because the currency effect tends to dominate the bond market effect," said Robert Sinche, global strategist at Amherst Pierpont Securities. "That has certainly been the case in the last four or five years, where bond markets have been relatively stable and currencies have been the things that move around." It might not get any better in 2018. A majority of analysts surveyed by Bloomberg expect the pain will continue for the greenback, with the U.S. Dollar Index forecast to slide 1.4% from its current level by the end of the year. And a poll of bond yield estimates reveals expectations for the ten-year Treasury yield to climb 51 basis points over the next 12 months, and the 30-year yield to jump 56 basis points. Some managers say it's time to be defensive, while others are more bullish. Time will tell who's right.

CURRENT GENERIC BONDS YIELDS

TREAURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.38%	3 mo	1.35%	3 mo	1.75%	3 mo	1.37%
6 mo	1.55%	6 mo	1.45%	6 mo	1.83%	6 mo	1.40%
1 yr	1.74%	1 yr	1.60%	1 yr	1.91%	1 yr	1.48%
2 yr	1.89%	2 yr	1.90%	2 yr	2.12%	2 yr	1.58%
5 yr	2.21%	5 yr	2.12%	5 yr	2.54%	5 yr	1.83%
10 yr	2.41%	10 yr	2.77%	10 yr	3.09%	10 yr	2.22%
30 yr	2.74%	30 yr		30 yr	3.61%	30 yr	3.10%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	-0.14%	28.11%
S&P 500 (Large Cap)	-0.33%	21.82%
S&P 400 (Mid Cap)	-0.16%	16.23%
Russell 2000 (Small Cap)	-0.42%	14.63%
NASDAQ Composite	-0.79%	29.73%
MSCI EAFE (International)	0.29%	25.10%
iShares Real Estate	1.47%	9.34%

2017 will go down in the record books as one of the least volatile years in the history of the modern stock market. Technology stocks were the decisive leaders for the year, while Energy and Real Estate ended the year in the red.

Ned Davis Research released a note putting the historical performance of 2017 into perspective. Some of the notable statistics from 2017 include:

-The S&P 500 rose every month for the first time on record
-The S&P 500 has gone 282 trading days without a 3% correction, the longest run on record
-The Dow Jones Industrials hit 71 record highs, eclipsing the old record of 69 in 1995
-Bitcoin rose 1,403% in 2017 a move with no historical comparisons
-The U.S. Dollar posted its worst year since 2003 (-9.9%)

For the week ahead, it is another relatively quiet holiday-shortened week. Monsanto and Constellation Brands are the only two notable corporate earnings scheduled for release. The economic calendar will be the main focus as December data begins to come in starting with manufacturing and service PMI early in the week and unemployment report, trade balance and ISM reports due to be released in the second half.

As we enter 2018, we are watching the following support levels – 2625, 2580, and 2490. The index closed last week at 2673.

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.