December 2, 2011

Portfolio Manager Commentary

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

New home sales rose a solid 1.3% in October, though the 307,000 level reported was slightly below the estimates. Downward revisions in the prior two months totaled 13,000. Pending home sales, a measure of sales of existing homes, jumped 10.4% in October to 93.3.

Productivity in the third quarter registered a 2.3% rise, compared to the initial estimate of 3.1% and a 0.1% dip in the second quarter. Year-over-year productivity was up 0.9% in the third quarter, matching the rate in the second quarter.

Consumer confidence surged in November as the Conference Board's measure jumped more than 15 points to 56.0 from an upward revised 40.9 in October. November was the best reading since the debt-ceiling debacle and cut of the U.S. credit rating in August.

The manufacturing sector received good news with the ISM Manufacturing Index reaching the best level since June of this year. The ISM Composite Index rose 1.2 points to a better than expected level of 52.7. The New Orders Index was also up with a solid gain of 4.3 points to 56.7.

The November jobs report overall came in with improvement. Payroll jobs in November advanced a relatively strong 120,000 after gaining a revised 100,000 in October (originally 80,000) and increased a revised 210,000 in September (previously 158,000). The unemployment rate unexpectedly dropped to 8.6% from 9.0% in October, though the fall was largely due to a decline in the participation rate.

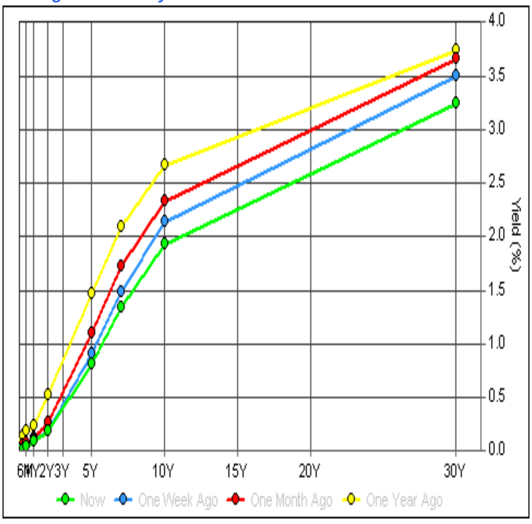
This week look for ISM Non-Manufacturing, Factory Orders, Consumer Credit, Wholesale Inventories, and the Trade Balance.

FIXED INCOME

Current Generic Bond Yields

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	0.00%	3 mo	0.06%	3 mo	0.37%	3 mo	0.09%
6 mo	0.04%	6 mo	0.10%	6 mo	0.48%	6 mo	0.14%
1 yr	0.10%	1 yr	0.25%	1 yr	0.59%	1 yr	0.23%
2 yr	0.26%	2 yr	0.43%	2 yr	0.71%	2 yr	0.47%
5 yr	0.98%	5 yr	1.38%	5 yr	1.56%	5 yr	1.17%
10 yr	2.15%	10 yr	2.76%	10 yr	2.96%	10 yr	2.45%
30 yr	3.16%	30 yr		30 yr	4.09%	30 yr	3.99%

Change in Treasury Yield Curve



Comments

U.S. Treasuries gained in price last week amid concern about the resolve of European officials in their efforts to contain the region's sovereign debt crisis. German Chancellor Angela Merkel rejected a plan for joint euro-area bonds or making the European Central Bank the lender of last resort as quick fixes of the two-year old crisis. A European proposal to channel central-bank loans through the International Monetary Fund may deliver as much as 200 billion Euros ($270 billion) to fight the debt crisis, people familiar with the negotiations said. The Federal Reserve purchased $2.5 billion of securities due from 2036 to 2041 last Friday as part of a plan announced in September to replace $400 billion of shorter maturities in its holdings with longer-term debt in an effort to keep borrowing costs low. The central bank also sold $8.63 billion of Treasuries due in 2013. Treasuries have returned 8.5% in 2011, set for the best annual return since a 14% gain in 2008, Bank of America Merrill Lynch Index data show.

EQUITY

Index Returns	*Last Week*	*Ytd*
Dow Jones Industrials	7.12%	6.47%
S&P 500 (Large Cap)	7.46%	0.87%
S&P 400 (Mid Cap)	8.51%	-1.65%
Russell 2000 (Small Cap)	10.38%	-5.11%
NASDAQ Composite	7.61%	-0.03%
MSCI EAFE (International)	9.34%	-11.05%
iShares Real Estate	5.95%	0.51%

Comments

Stocks spiked last week across all asset classes in a broad rally. The S&P 500 had its best weekly gain since March 2009 as European concerns were at least temporarily alleviated and domestic economic reports pointed to a decent Black Friday shopping season.

On Monday, AMR tumbled 84% to $0.26. The parent company of American Airlines announced they would be filing for bankruptcy and became the last of the so-called legacy airlines to seek court protection from creditors. The company traces its root back to a 1920s air mail operations based in the Midwest.

Stocks advanced sharply on Wednesday, which accounted for the majority of last week's gains. Overnight, six central banks took action on Europe's debt crisis by making it cheaper for lenders to borrow in dollars. This action should help ease a surge in borrowing rates fueled by concern about a possible breakup of the euro area.

The Energy and Financials sectors had the best performance among the ten main sectors last week. Energy stocks rallied along with a rise in crude prices which finished last week just over $101 a barrel. While still down the most so far this year, Financial shares rallied last week after the coordinated Central Bank move helped ease some of the concerns surrounding Europe.

Last week also kicked off the beginning of December trading. Historically, December has been a good month for stocks according to a research report from Bespoke. Over the last 100 years, the Dow Jones Industrials has averaged a gain of 1.39% and been positive 73% of the time. That marks the most consistently positive month of the year over the past 100 years.

Despite last week's rally, the S&P 500 still seems to be constrained by its 200-day moving average line which currently stands near 1265. A confirmed move up through that level would bode well on a technical basis for stocks and lend validity to a bullish posture. The S&P 500 fell through its 200-day moving average back in August.

ASSET ALLOCATION

Current Sentiment	
Cash	Unfavorable
Short Fixed Income	Unfavorable
Intermediate Fixed Income	Unfavorable
Inflation-Adjusted Fixed Income	Neutral
High Yield Fixed Income	Neutral
International Fixed Income	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Neutral
Small Cap Equity	Neutral
International Equity	Unfavorable
Emerging Markets Equity	Neutral
Real Estate	Favorable
Commodities	Favorable

Comments

Below is a summary 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 - Used mainly to pick up some yield over Cash but otherwise unattractive.
Intermediate Term Bonds - Appear overbought and limited upside potential in the near-term and long-term; inflation presents a potential problem. Some opportunities still remain present in spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term with risks increasing long-term should provide good hedge.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - European debt remains a concern, while emerging market debt remains attractive.
Equity Income - Fund flows continue to support high quality, higher-dividend-paying companies.
Large Cap Stocks - A favorable weighting is now recommended. Growth remains favored to value.
Mid Cap Stocks - A reduction in mid cap exposure with a shift to large cap stocks is recommended. Relative strength momentum has been weak lately given the market correction possibly signaling a shift in leadership.
Small Cap Stocks - In broad market corrections, small cap stocks will be hurt the most with further volatility expected. A cautious outlook is warranted in the short-term, but long-term investors should benefit from depressed prices.
International Stocks - Given most foreign investment is in developed markets and European countries, an underweight is recommended until sovereign debt concerns are alleviated.
Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more attractive than developed countries.
Real Estate - Pricing is stabilizing and long-term valuations appear attractive.
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, used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio.