Portfolio Manager Commentary

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Trustmark
Investment Advisors, Inc.

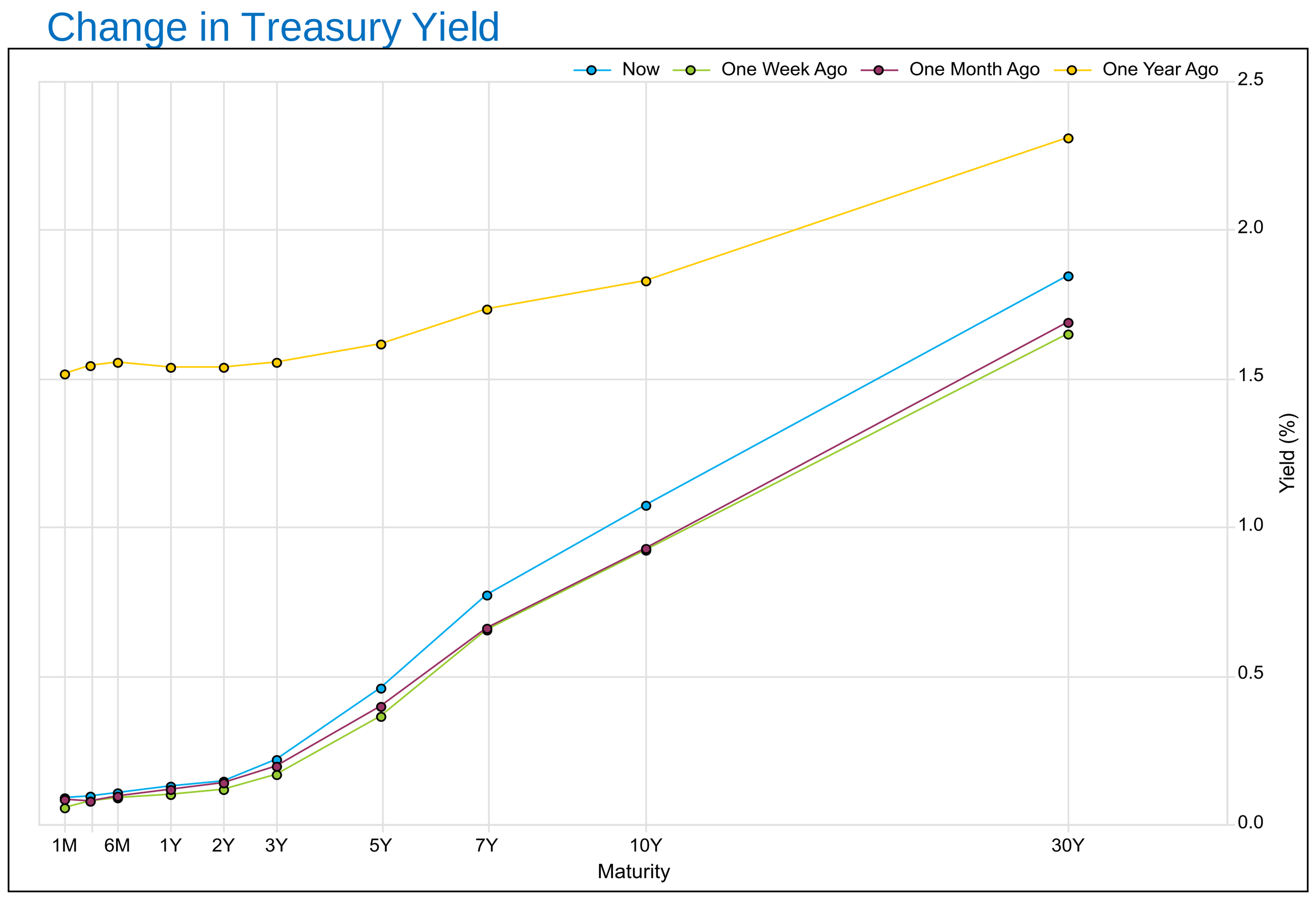
Economic Outlook

The U.S. Purchasing Managers Index came in nicely expansionary, at 57.1 in December versus 56.5 in November. The ISM Manufacturers Index was also nicely expansionary, at 60.7 versus 57.5 for November. The Services PMI was 54.8 in December versus 58.4 in November, and the ISM Services PMI was 57.2 versus 55.9 in November. The U.S. Unemployment Rate was 6.7% for December, a similar rate as November. Average hourly wages were up 0.8% versus +0.3% in November.

Fixed Income

Treasuries traders are piling into one of the market's favorite reflation wagers, driving the yield curve to the steepest in four years, in a move that still appears to have momentum even with a series of long-term auctions on the schedule for this week. The prospect of the Democratic party having the upper hand for at least the next two years unleashed an aggressive sell-off led by longer-maturity Treasuries this past week as investors repriced expectations for economic stimulus and debt issuance. While some of the move resulted from investors such as quant funds exiting bets on gains in Treasuries, that activity may have run its course, opening a path for the market to establish new short positions or steepener wagers. The benchmark ten-year yield closed trading last Friday at 1.12%, the highest since March. Pressure for higher long-term yields may persist in the week ahead, with the Treasury set to sell $38 billion of ten-year notes and $24 billion of thirty-year debt, matching records for issuance in these maturities. The department will also offer a record $58 billion of three-year notes. With the rollout of coronavirus vaccinations brightening the outlook even as infections soar, inflation expectations have been rising along with yields. That trend may lead traders to conclude that the Federal Reserve won't rush to halt or slow the push higher in yields. Fed Vice Chair Richard Clarida said last Friday that he's "not concerned with a ten-year yield a touch above one percent." If yields rise on optimism about the economy, "that is not something that troubles me." The ten-year U.S. breakeven inflation rate, a market proxy for annual inflation expectations, climbed above 2.10% last week for the first time since 2018. The two-year measure is even higher amid a recent surge in oil prices. A breakout of these gauges may push traders to bring forward bets on Fed rate hikes, and signs of that are already emerging in eurodollar futures. The direction of breakevens may depend in part on December consumer-price data set for release on Wednesday. The consensus forecast is for a year-over-year annualized increase of 1.3%, still well short of the Fed's 2% target.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.07%	3 mo	0.00%	3 mo	0.18%	3 mo	0.22%
6 mo	0.08%	6 mo	0.00%	6 mo	0.19%	6 mo	0.22%
1 yr	0.10%	1 yr	0.02%	1 yr	0.21%	1 yr	0.23%
2 yr	0.13%	2 yr	0.13%	2 yr	0.27%	2 yr	0.26%
5 yr	0.48%	5 yr	0.49%	5 yr	0.74%	5 yr	0.43%
10 yr	1.12%	10 yr	1.28%	10 yr	1.61%	10 yr	0.96%
30 yr	1.87%	30 yr		30 yr	2.70%	30 yr	1.72%

Equity

U.S. Equity started the new year on a high note as the S&P 500 finished the week up 1.83%, closing at a record high. There was a wide variance in sector leadership with Energy (+9.58%), Materials (+5.42%), and Financials (4.75%) leading as value outperformed growth by almost 200 basis points. Communication Services (-0.18%), Utilities (-0.73%), and Consumer Staples (-1.01%) were the only negative sectors.

There were many events in the headlines, with stimulus being one of the big drivers for gains. Press reports discussing President-elect Biden's plans for an early stimulus push which may feature $1,400 direct payments-adding onto the $600 distributed in the December stimulus round, although there has been slight push back by Senator Joe Manchin. President-elect Biden has said he would lay out a multi-trillion dollar economic package on Thursday, according to Bloomberg. The package is expected to include additional funding for state/local governments and vaccine distribution.

Index Returns	Last Week	YTD
Dow Jones Industrials	1.60%	1.60%
S&P 500 (LCap)	1.79%	1.79%
S&P 400 (MCap)	4.43%	4.43%
Russell 2000 (SCap)	5.56%	5.56%
NASDAQ Composite	2.34%	2.34%
MSCI EAFE (Int'l)	3.48%	3.48%
iShares Real Estate	-2.67%	-2.67%

Source: FactSet Research Systems

Asset Allocation

Current Sentiment

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

Summary below - Current stance on most asset classes:

Cash - Overweighting due to market volatility and uncertainty from Covid-19.

Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the oversold long-end of the curve.

Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain in certain sectors.

Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.

High Yield Bonds - Spreads are rising given the market turbulence and exposure to unnecessary credit risk when compared to Treasuries would not be advised.

International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.

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 continues to be a more favorable style and should continue to be overweighed versus Value.

Mid Cap Stocks - Mid cap exposure remains neutral - more attractive than small caps but not as attractive as large caps.

Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. Underweight until a clearer picture of recovery ensues.

International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight 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. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.

Real Estate - Pricing has begun to stabilize and long-term valuations appear attractive. Real Estate 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. Volatility will be higher, and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.