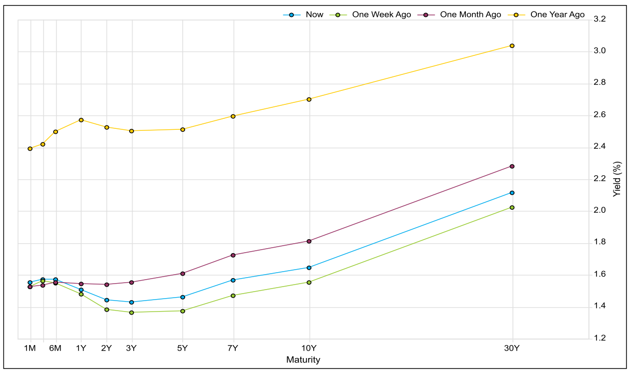
Trustmark Investment Advisors, Inc. *Weekly Portfolio Manager Commentary* *February 7, 2020*

ECONOMIC OUTLOOK: The U.S. Purchasing Managers' Index was 51.9 for January, while the ISM Manufacturing Index was 50.9. Both came in above the median forecast. Construction Spending was down 0.2% for December, while Factory Orders were up 1.8%. The U.S. Services PMI came in at 53.4 for January and the ISM Non-manufacturing Index came in at 55.5, both reasonably strong. Overall Productivity was +1.4% for the fourth quarter of 2019, while unit labor costs were up 1.4%. Finally, the U.S. Unemployment Rate came in at 3.6% for January, up from 3.5% in December.

FIXED INCOME: There has been a flood of cash moving into the more risky corner of the municipal market and it seems to be picking up steam. With yields on tax-exempt debt at the lowest levels in more than six decades, investors are steadily shifting into junk-rated securities, propelling that sector of the market to its biggest gain in ten months in January, according to Bloomberg Barclays Indexes. The stellar returns appear to have only increased demand, with investors pouring $713 million into high-yield municipal bond funds during the week ended February 5, the second biggest influx on record, according to Lipper Fund Flows data going back to 1992. The interest comes as investors continue to shift money into the municipal securities market, in part due to changes in the tax code capping some state and local deductions that has left some Americans looking for other ways to drive down their tax burden. Yet because interest rates are so low, many governments are selling taxable debt to avoid the federal restrictions tied to traditional municipal issuance. That has accentuated the mismatch between supply and demand, since only about 42% of the $39 billion of municipal securities sold this year were tax-exempt, according to data compiled by Bloomberg. Patrick Luby, municipal strategist at CreditSights noted, "the volume of flows and the growth of taxable borrowing is subtracting from tax-exempt issuance. At the top line total issuance is doing fine, but tax-exempt issuance is not keeping up with demand." Investors are moving into riskier parts of the market to compensate for the lower yields that are available in the municipal space.

Change in Treasury Yield Curve



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	1.54%	3 mo	1.56%	3 mo	1.71%	3 mo	0.95%
6 mo	1.55%	6 mo	1.56%	6 mo	1.69%	6 mo	0.97%
1 yr	1.47%	1 yr	1.58%	1 yr	1.66%	1 yr	0.97%
2 yr	1.40%	2 yr	1.51%	2 yr	1.61%	2 yr	0.98%
5 yr	1.40%	5 yr	1.43%	5 yr	1.81%	5 yr	1.03%
10 yr	1.58%	10 yr	1.78%	10 yr	2.26%	10 yr	1.41%
30 yr	2.05%	30 yr		30 yr	3.00%	30 yr	2.18%

EQUITY: U.S. Equity finished the week lower as it closed for its biggest weekly gain in the 2020 calendar year. For sectors, Information Technology (+4.14%) and Industrials (+3.87%) led the way while Utilities (-0.59%) closed the week out as the only negative sector.

FactSet Research Group noted that The Wall Street Journal released a report noting China would announce that it would cut tariffs on $75B of U.S. imports in half as part of efforts to implement the phase one trade deal. The cut will be effective on February 14, the same time the U.S. will implement reductions in tariffs on Chinese products. The Finance Ministry said the decision was intended to "alleviate economic and trade frictions and expand economic and trade cooperation" between the two countries. While the announcement was not necessarily surprising, Reuters noted it still could be a move by Beijing to boost confidence amid a coronavirus outbreak that has disrupted businesses and weighed on investor sentiment. However, state media has also reported Beijing is considering using a disaster-related clause in the trade deal due to the outbreak.

Weekly **initial jobless claims** come in at 202K in the week ending February 1, beating the consensus of 215K and down from the revised 217K in the prior week. **Continuing claims** for the preceding week were 1751K against the consensus of 1708K and up 48K w/w. On another note, **nonfarm productivity** increased 1.4% in Q4 versus the expectations of 1.3%. The volatile productivity measure rose 1.8% y/y, an improvement from readings around 1% the prior five years, and unit labor costs rose 1.4% q/q following a 2.5% rise in Q3.

Bloomberg released an article discussing how the concerns surrounding the coronavirus outbreak have somewhat overshadowed the positive takeaways from Q4 earnings season, particularly when it comes to expectations for a 2020 earnings rebound that has been a key component of the bullish narrative. The release noted that the 2020 consensus estimate for the S&P 500 EPS currently stands at $175.30, down just 0.1% from three weeks ago, and pointed out that the decline during earnings season is almost always much larger. The report also added that of the S&P 500 companies that have disclosed results, 22% have revised Q1 earnings estimates higher, the highest percentage since 2018 and third-highest since 2012.

January's nonfarm payrolls report came in at +225K, beating the expectation for only a 161.5K gain. Manufacturing payrolls are down 12K, while the unemployment rate is up 0.1pp to 3.6%, the average hourly earnings number is up 0.1pp, the average workweek is unchanged at 34.3, and the labor force participation rate is up 0.2pp to 63.4, matching the highest report since June 2013.

The S&P 500 Large Cap Index closed the week up 3.00%, while also making a new high at 3347. This week saw big gains following the small pullback the index suffered near the beginning of the month. The S&P 500 closed at 3327.

Index Returns	Last Week	YTD
Dow Jones Industrials	2.55%	2.15%
S&P 500 (LCap	2.54%	3.26%
S&P 400 (MCap)	1.15%	-0.45%
Russell 2000 (SCap)	1.60%	-0.56%
NASDAQ Composite	2.71%	6.25%
MSCI EAFE (Int'l)	2.04%	-0.60%
iShares Real Estate	1.44%	3.38%

Source: Factset Research Systems

ASSET ALLOCATION:

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

Summary below - Current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
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 floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
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 be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. 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. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.
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. 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.