Portfolio Manager Commentary

March 12, 2021

Trustmark Investment Advisors, Inc.

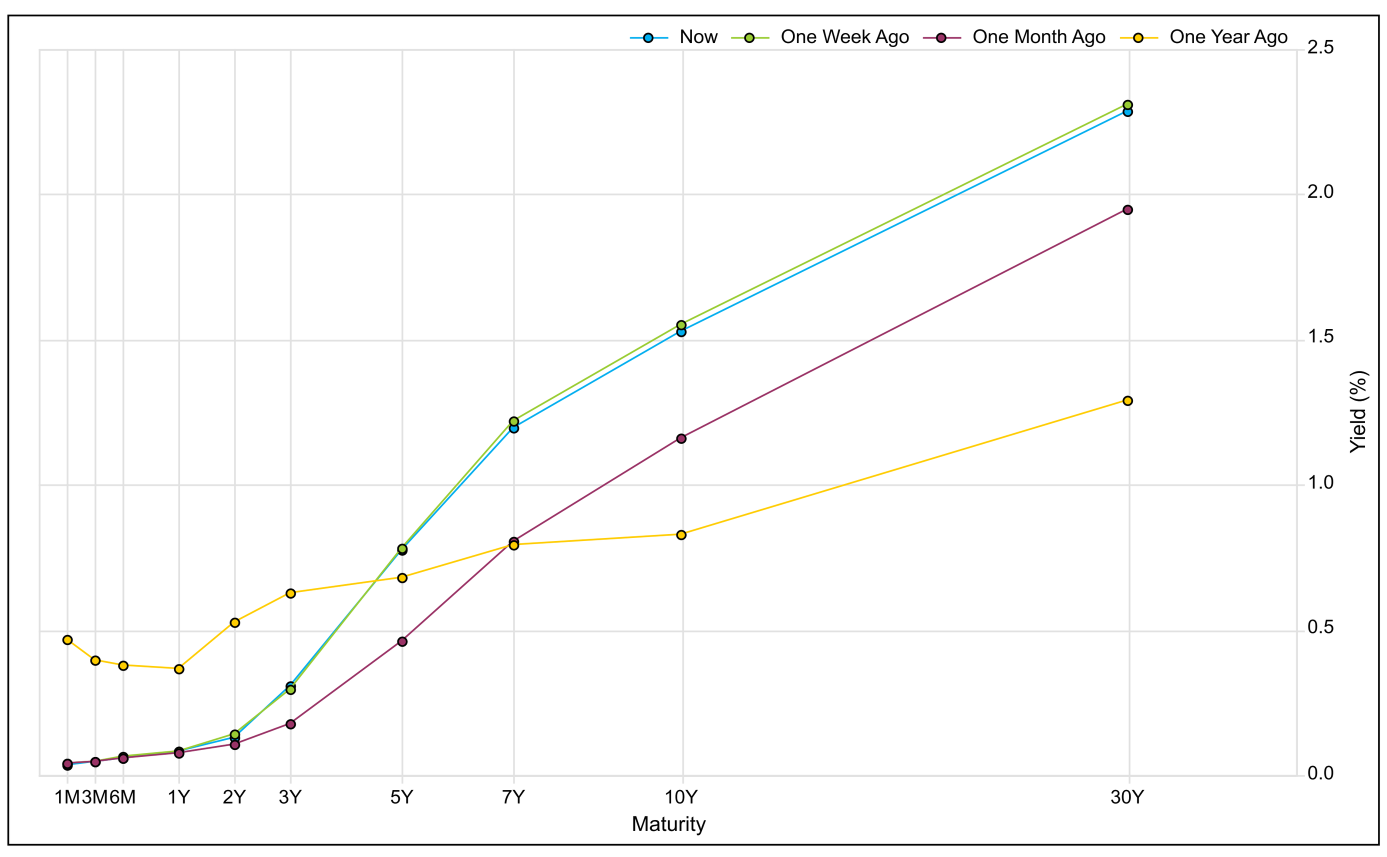
Economic Outlook

The U.S. Consumer Price Index was up 0.4% for February 2021, after having been up 0.3% in January. Producer Prices were up 0.5% in February after having been up 1.3% in January. Otherwise, it was a relatively slow week for economic releases.

Fixed Income

Treasuries tumbled again last Friday, sending ten- and thirty-year yields to their highest since early 2020, amid growing concern stimulus will fuel an explosion in economic growth that ignites price pressures. Expectations for inflation over the next decade soared to a seven-year high. Yields on the ten-year benchmark rose as much as ten basis points to reach 1.64% during trading Friday morning, a level not seen since February 2020, and closed the day at 1.63%, the highest closing yield in over a year. The thirty-year yield moved higher by double digits as well to trade as high as 2.40% before closing the day at 2.38%, the highest closing yield since January 2020. "We're talking about a fair amount of stimulus -- both fiscal and monetary -- going forward," said John Fath of BTG Factual Management, referring to the $1.9 trillion pandemic-relief bill and prospects for more, along with the Federal Reserve's commitment to keeping short-term interest rates low. "We could potentially grow a lot faster and inflation could come onto the horizon a lot quicker," which implies higher interest rates. The breakeven rate on ten-year notes, a measure of market expectations for annual consumer-price gains based on the yield gap to inflation-linked debt, topped 2.30% during trading last Friday, a level it hasn't breached since early 2014. An equivalent measure for the five-year note touched its highest level since 2008. Treasuries came under additional pressure last Friday after data showed U.S. consumer sentiment improved in early March by more than forecast as the vaccine rollout and fiscal relief boosted optimism. Given the high level of stimulus and savings rates, the country could see "monster retail sales," as the economy opens up, Fath said. The market's worry is that such a move could lead to a very steep yield curve as the Fed looks past short-term spikes in inflation and growth, he added. With Friday's sudden spike, Treasury yields across the long end exceeded levels seen after the disastrous seven-year U.S. bond auction from February 25. Markets had been looking for a period of calm after the relatively uneventful bond auctions on the long end of the curve from earlier in the week.
Now the market will shift its focus to the FOMC meeting this week and any unexpected announcement that may come on Wednesday when that meeting ends.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.02%	3 mo	-0.02%	3 mo	0.18%	3 mo	0.11%
6 mo	0.03%	6 mo	-0.04%	6 mo	0.20%	6 mo	0.11%
1 yr	0.06%	1 yr	-0.01%	1 yr	0.25%	1 yr	0.12%
2 yr	0.15%	2 yr	0.18%	2 yr	0.34%	2 yr	0.16%
5 yr	0.84%	5 yr	0.78%	5 yr	1.09%	5 yr	0.52%
10 yr	1.63%	10 yr	1.73%	10 yr	2.15%	10 yr	1.10%
30 yr	2.38%	30 yr		30 yr	3.16%	30 yr	1.83%

Equity

U.S. equity finished the week higher as the S&P 500 Index closed +2.57% to all-time highs of 3938. Though the Large Cap Index has a 5.24% year-to-date gain, it cannot keep up with the mid-cap and small-cap space. Year-to-date, the S&P 400 Mid-Cap fund has a return of 14.35% and the Russell 2000 Small-Cap fund a return of 18.78%. All sectors finished the week positive as Utilities (+4.56%) and Consumer Discretionary (+6.13%) gained the most, while Energy (+1.04%) seemed to cool off a bit, even though the sector is up 41.16% year-to-date.

As noted by FactSet Research Systems, "the main market narrative continues with attention still fixed on higher Treasury yields and possible implications for a continuation of the recent pro-cyclical rotation." General economic optimism remains due to an accelerating vaccine rollout (President Biden set a May 1st target date to have broad COVID vaccine eligibility), improving COVID data, recently passed fiscal stimulus, the potential for an infrastructure bill, resilient corporate earnings, central bank support, and pent-up consumer demand.

Index Returns	Last Week	YTD
Dow Jones Industrials	4.02%	7.47%
S&P 500 (LCap)	2.57%	5.24%
S&P 400 (MCap)	4.96%	14.35%
Russell 2000 (SCap)	7.00%	18.78%
NASDAQ Composite	3.09%	3.34%
MSCI EAFE (Int'l)	2.07%	4.41%
iShares Real Estate	4.48%	5.31%

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.