Portfolio Manager Commentary

May 1, 2020

Trustmark Investment Advisors, Inc.

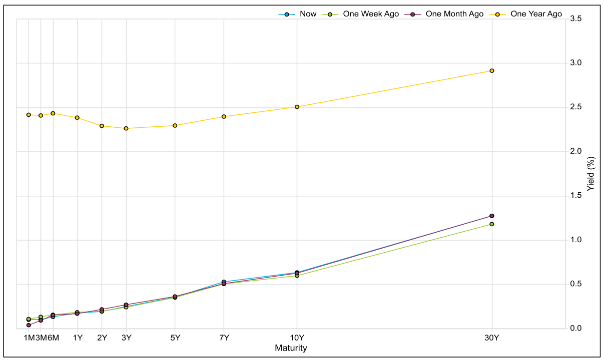
Economic Outlook

U.S. Real GDP Growth came in at -4.8% for the first quarter of 2020 versus +2.1% for the fourth quarter of 2019. Consumer Spending declined 7.5% for the month of March. The ISM Manufacturer's Index came in at 41.5, and the primary U.S. Purchasing Manager's Index came in at 36.1, both for March. Finally, the Employment Cost Index was up 0.8% for the first quarter of 2020 versus +0.7% for the prior quarter.

Fixed Income

The month of May could bring up to $250 billion more of supply in the U.S. investment-grade bond market according to a report from Bank of America. Treasury yields moved slightly higher during trading last Friday, as the record pace of U.S. investment-grade corporate bond supply took center stage in the debt markets, even as big -tech earnings pointed to the coronavirus pandemic's damage to business. Corporate bonds offer higher yields than their risk-free Treasury counterparts, and as of two months ago, can also count on the Federal Reserve as its main backstop. With the Fed committed to ensuring bond markets operate in an orderly manner, companies have rushed to stockpile cash, often by issuing bonds or drawing down their lines of credit, ahead of what is expected to be several quarters of pinched profits during the coronavirus pandemic. In one of the larger issues that came to market last week, Boeing Company brought a $25 billion deal last Thursday at significantly lower yields than traders initially anticipated, a day after the embattled plane maker reported a net loss of $641 million for the first quarter. The months of March and April saw a combined $558 billion of borrowing in the U.S. investment-grade corporate bond market, a record pace that Goldman Sachs expects to continue in May and push 2020's issuance volume to a new all-time high of around $1.5 trillion. Bank of America Global research analysts think May could add another $150 billion to $250 billion of investment-grade supply, while pointing to recent newcomers to the market who expect the Federal Reserve, through several of its emergency credit facilities, to take the exposure off their hands. The Fed has an estimated capacity of $750 billion available to buy corporate bonds, potentially a significant chunk of what is likely to be newly issued this year.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	0.10%	3 mo	-0.27%	3 mo	0.73%	3 mo	0.99%
6 mo	0.09%	6 mo	-0.05%	6 mo	0.75%	6 mo	1.00%
1 yr	0.16%	1 yr	0.28%	1 yr	0.79%	1 yr	1.02%
2 yr	0.19%	2 yr	0.26%	2 yr	0.73%	2 yr	1.09%
5 yr	0.35%	5 yr	0.56%	5 yr	1.11%	5 yr	1.39%
10 yr	0.61%	10 yr	1.08%	10 yr	1.84%	10 yr	1.75%
30 yr	1.25%	30 yr		30 yr	2.77%	30 yr	2.65%

Equity

U.S. Equity finishes the week slightly lower as the S&P 500 closes down -0.20%. Big name earnings reports seem to be in focus as Apple beat earnings and highlighted an uptick across the board in late April but declined to give Jun Q guidance. Amazon's Q1 revenue beat and Q2 guidance is ahead but profitability seems to be constrained by big investments to meet higher demand. Visa said volume trends improved in April but are still weak. Amongst this, more U.S.-China tensions seems to be a possibility as President Trump has been reported to blame China for the Coronavirus, and possibly enforce tariffs as a retaliation.

Bloomberg discussed the big bounce in U.S. equities since the March 23rd low, which it said marked one of the fastest recoveries on record. More than half of the S&P 500 is now trading above their 50-day moving averages for first time since late February, up from single-digits just a month ago. In addition, small-caps, value, and cyclicals stocks have found some traction in recent days. The article noted that while some of the credit has going to improving coronavirus trends and reopening plans, unprecedented fiscal and monetary measures seem to the bigger driver.

Tech seems to be the best performing sector as the New York Times highlights the resilience of big names such as Alphabet, Apple, Facebook, Amazon, and Microsoft. As of yesterday, these stocks were up at least 20% since the market low on March 23rd, with Alphabet being the exception at +17%. According to Goldman Sachs, these five stocks now account for 20% of the S&P 500. Energy (+9.51) leads the sector for the week with Utilities (-1.83%) and Consumer Staples (-0.76%) seeing the largest decline.

Index Returns	Last Week	YTD
Dow Jones Industrials	-0.22%	-16.26%
S&P 500 (LCap)	-0.21%	-11.83%
S&P 400 (MCap)	2.59%	-22.45%
Russell 2000 (SCap)	2.22%	-24.11%
NASDAQ Composite	-0.34%	-3.75%
MSCI EAFE (Int'l)	0.24%	-20.31%
iShares Real Estate	0.96%	-20.35%

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.