Portfolio Manager Commentary

July 3, 2020

Trustmark Investment Advisors, Inc.

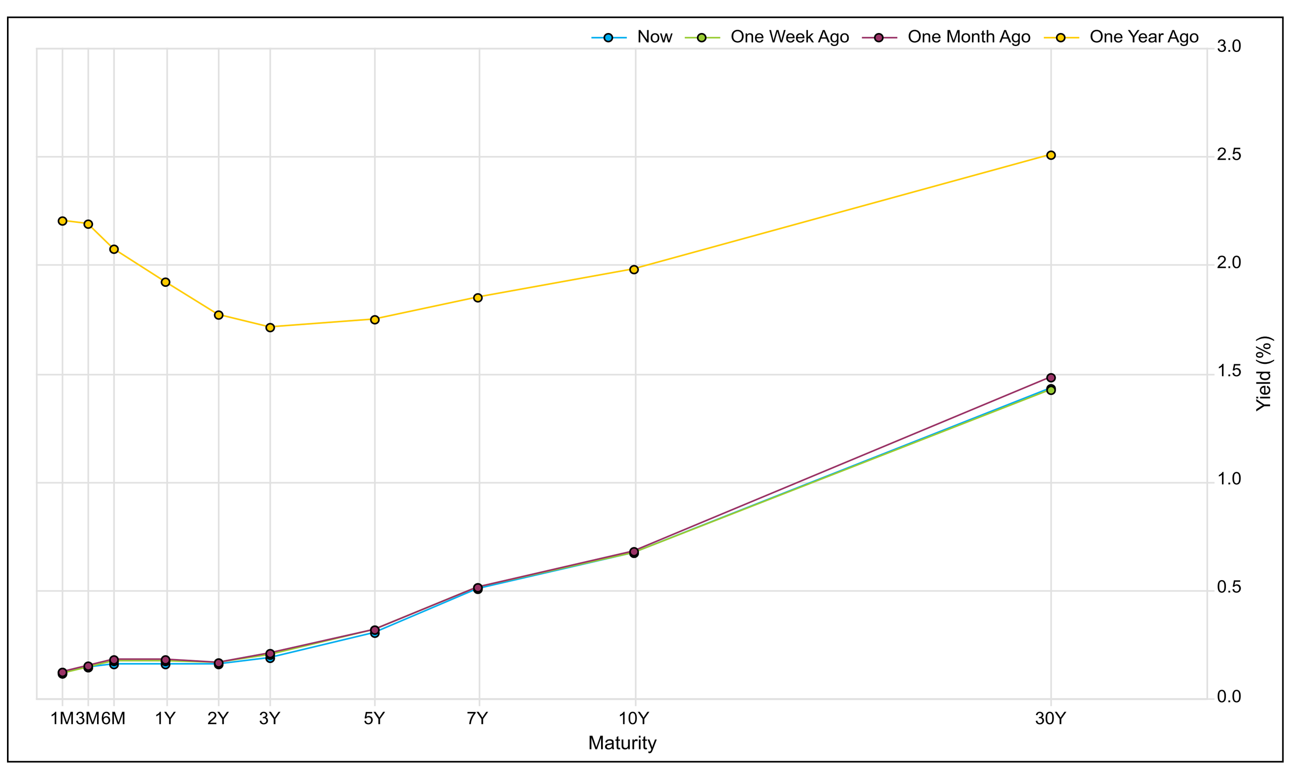
Economic Outlook

The ISM Manufacturing Index was 52.6 for June, well up from 43.1 in May. The Markit Manufacturing Index was still at 49.8 in June, up slightly from 49.6 in May. The Chicago PMI was 36.6 for June, up from 32.3 in May. Factory Orders were up 8.0% in May after having been down 13.5% in April. Home prices in the U.S. were up 4.7% in April. The U.S. Unemployment Rate was down to 11.1% for June and Average Hourly Earnings were down 1.2%.

Fixed Income

The summer doldrums seem to have arrived as volume has slowed in interest-rate markets, yet underneath the surface there are signs that traders are bracing for more drama ahead. From traders anticipating yield-curve control measures by the Federal Reserve, to lingering bets on negative interest rates and even positions that would benefit from an eventual interest rate increase by the Fed, traders are searching for the next edge based on what they expect the central bank will do. The positioning highlights the array of options that remain on the table for Fed policy this summer and beyond, depending on how the economic outlook evolves with the continued spread of the coronavirus. The latest read on growth briefly buoyed bond bears last week as ten-year Treasury yields touched a recent high of 0.71% after June employment data came in stronger than forecast. Yet in a sign of how uncertain the outlook remains as the virus spreads, that move quickly faded. The yield ended the week at 0.67%, right in line with its average for the last three months. Fed funds futures continue to price in a chance of a negative policy rate beginning in mid-2021 and positioning for that scenario has been a popular theme in eurodollar options. While options hedging activity has slowed, there remains a significant amount of risk in calls targeting an equivalent yield of zero percent or lower, despite continued push-back from Fed officials. More recently, demand has shifted into mid-curve eurodollar plays which target a negative policy rate for 2022. The Fed's most recent summary of economic projections shows expectations that the policy rate will be on hold at the current level through 2022. Treasury volatility has subsequently remained at depressed levels for the past two months. Also a possible scenario that could play out later in the year is yield-curve control. The best case scenario for many economists is that the Fed will set target yields for certain maturities of Treasuries by the end of the year, though policymakers appeared unconvinced of the need for that when they met at their June meeting, according to minutes released last week. Should the Fed adopt a type of curve control favored by former Fed chair Ben Bernanke, expect the central bank to rule out targeting rates on securities more than two to three years in maturity.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo	0.14%	3 mo	0.08%	3 mo	0.22%	3 mo	0.28%
6 mo	0.15%	6 mo	0.04%	6 mo	0.29%	6 mo	0.28%
1 yr	0.15%	1 yr	0.05%	1 yr	0.32%	1 yr	0.29%
2 yr	0.15%	2 yr	0.19%	2 yr	0.36%	2 yr	0.32%
5 yr	0.30%	5 yr	0.45%	5 yr	0.76%	5 yr	0.56%
10 yr	0.67%	10 yr	0.98%	10 yr	1.58%	10 yr	1.06%
30 yr	1.43%	30 yr		30 yr	2.60%	30 yr	2.01%

Equity

U.S. Equity finished positive as the S&P 500 rose 4.06% for the week. Focus continues to be on rising coronavirus cases, vaccine news, and solid U.S. economic data against the continued concerns about the resurgent COVID-19 epidemic and simmering U.S.-China tensions.

Momentum continues to outperform value, while the majority of equity gains continue to be focused in groups such as FAANG, software, internet, media, utilities, entertainment, and REITS. All sectors finished positive as Materials (5.58%) and Communications Services (5.20%) outperformed, and Financials (+1.73%) gained the least. The S&P 500 continues to hover above its support level of ~3000 with the Large Cap Index's 200-Day Moving average at 2976.

Index Returns	Last Week	YTD
Dow Jones Industrials	3.21%	-8.34%
S&P 500 (LCap)	4.02%	-3.12%
S&P 400 (MCap)	3.47%	-13.77%
Russell 2000 (SCap)	3.85%	-14.18%
NASDAQ Composite	4.62%	13.76%
MSCI EAFE (Int'l)	2.12%	-9.81%
iShares Real Estate	5.02%	-12.48%

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.