# Portfolio Manager Commentary

July 10, 2020

Trustmark Investment Advisors, Inc.

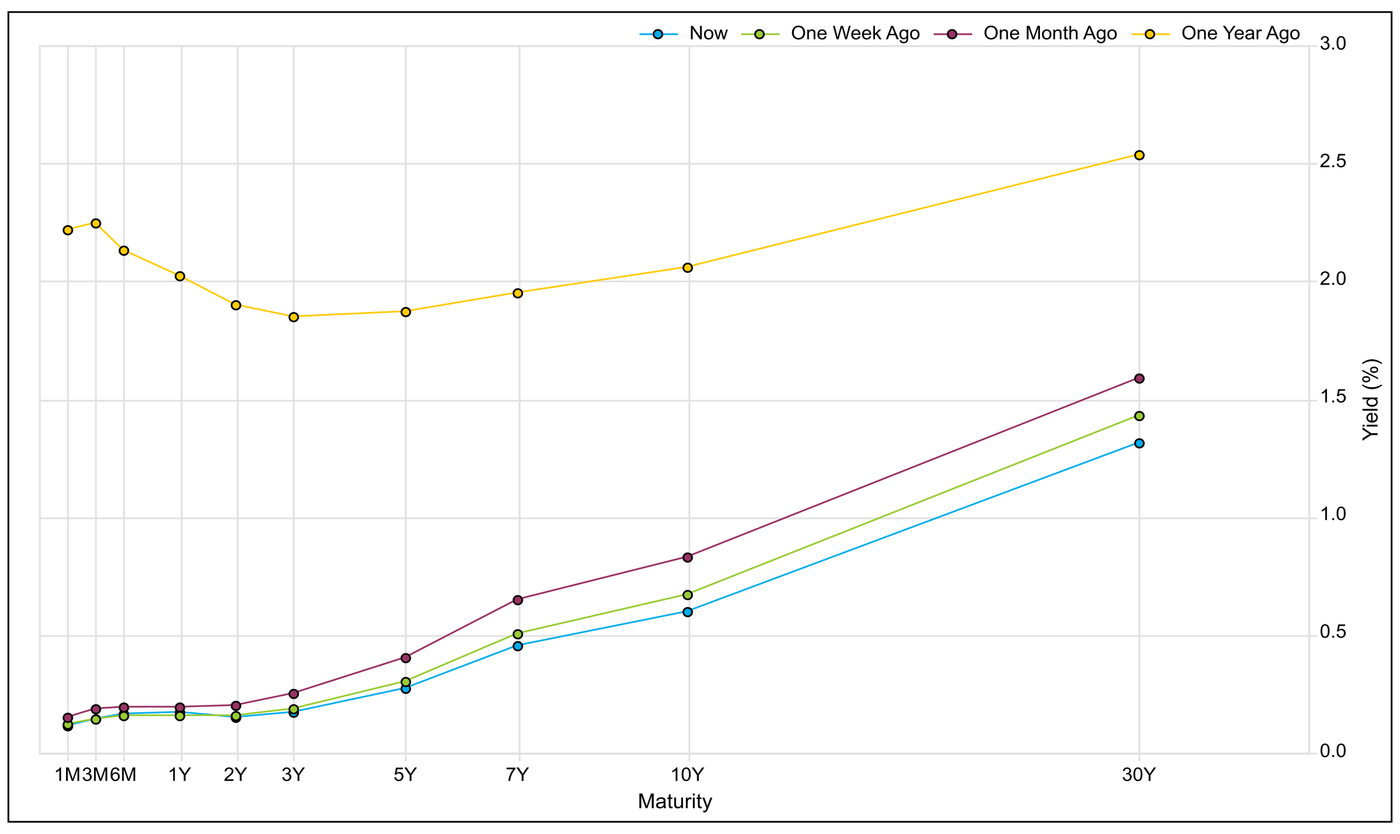
## Economic Outlook

U.S. Services PMI came in at 47.9 for June, up from 46.7 in May. The ISM Non-Manufacturing Index came in at 57.1 in June, up from 45.4 in May. U.S. Producer Prices decreased by 0.2% in June after having been up 0.4% in May.

## Fixed Income

Yields across the curve were mostly unchanged last week even as coronavirus cases moved higher across the globe. Treasuries have remained well bid in recent weeks even as equity prices continue to move higher. Bond investors have kept their focus on the path of the pandemic, with fatalities hitting new highs in Florida, Texas and California, and countries including Australia and Italy reinstating travel restrictions. Last week the thirty-year auction was well received by investors as people looked to add yield to their portfolios as this maturity is only one of a few sovereign securities that yield over 1.25%. U.S. stocks extended their gains last week, as this week brings earnings reports from several money center banks, on optimism about the prospects for an effective treatment for Covid-19 patients. But until the market has more clarity on these points, the latest setbacks in economic reporting and blow to confidence may overshadow any better than expected data concerning the economy. Last Friday, the ten-year yield traded as low as 0.57%, a level unseen since late April, before rebounding to finish the week at 0.65%. The thirty-year bond traded as low as 1.24% on Friday, before ending the week at 1.34%. The yield curve between five- and thirty-year bonds closed the week at its flattest level since May at just over 100 basis points. As Treasury issuance has increased during the pandemic, American money-market funds have bought the brunt of the $2.2 trillion in bills that have been issued. The Federal Reserve has bought almost none of the bills issued recently, instead they are focused further out the curve buying notes and bonds. It's the latest case of domestic investors stepping up in the face of a decade long retreat in foreign demand, which may struggle to rebound significantly given the recent diminished yield advantage of U.S. fixed income securities. But Treasuries will always benefit from their premier haven status as last week's ten-year auction sold at a record low yield. But with the U.S. issuing a mountain of debt across maturities, the appetite of homegrown buyers is crucial. The government is on track to issue an unprecedented wave of nearly $5 trillion of new debt in 2020 to plug an exploding budget gap. Assets in U.S. money-market funds have surged as well. They hold a near record $4.7 trillion as investors have sought shelter amid uncertainty over the pandemics economic toll.

### Change in Treasury Yield




### Current Generic Bonds Yields

| Treasuries | | Agencies | | Corporates | | Municipals | |
|---|---|---|---|---|---|---|---|
| 3 mo | 0.13% | 3 mo | 0.11% | 3 mo | 0.20% | 3 mo | 0.29% |
| 6 mo | 0.15% | 6 mo | 0.07% | 6 mo | 0.27% | 6 mo | 0.29% |
| 1 yr | 0.14% | 1 yr | 0.08% | 1 yr | 0.29% | 1 yr | 0.30% |
| 2 yr | 0.15% | 2 yr | 0.19% | 2 yr | 0.33% | 2 yr | 0.35% |
| 5 yr | 0.31% | 5 yr | 0.45% | 5 yr | 0.69% | 5 yr | 0.60% |
| 10 yr | 0.65% | 10 yr | 0.94% | 10 yr | 1.45% | 10 yr | 1.09% |
| 30 yr | 1.34% | 30 yr | | 30 yr | 2.42% | 30 yr | 1.99% |

## Equity

U.S. Equity finished higher as the S&P notched a 1.74% gain for the week. Communication Services (+4.54%) led the sectors as Energy (-4.90%) and Industrials (1.43%) lagged the rest, while value continues to lag growth by a large margin. Year-to-date, the S&P 500 Growth Index has a gain of 11.39% while the S&P 500 Value Index holds a loss of -18.03%.

Headlines have been fairly quiet with U.S. COVID-19 cases continuing to rise but offset by optimism around vaccines. The Wall Street Journal how the reopening trade has come under scrutiny as COVID-19 infections have increased across the U.S. with some state re-imposing strict containment measures. The S&P is roughly flat for the month; however, airline, cruise ship, other leisure & hospitality companies, and banks have been hit hard, though big tech has continued to outperform.

The equity market continues to recover as Bespoke Investment Group released an article noting that this has been the S&P 500's best quarter since Q4 of 1998. This follows one of the worst quarters for the past twelve years. This once again brings into context the idea of a V-shaped recovery, though as things stand the S&P 500 continues to hover above its 200-day moving average, which is a strong level of support. The S&P 500 closed at 3185.

| Index Returns | Last Week | YTD |
|---|---|---|
| Dow Jones Industrials | 0.96% | -7.48% |
| S&P 500 (LCap) | 1.76% | -1.42% |
| S&P 400 (MCap) | -0.34% | -14.06% |
| Russell 2000 (SCap) | -0.64% | -14.73% |
| NASDAQ Composite | 4.01% | 18.33% |
| MSCI EAFE (Int'l) | 0.91% | -9.00% |
| iShares Real Estate | -2.27% | -14.44% |

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.