Portfolio Manager Commentary

July 16, 2021

Trustmark
Investment Advisors, Inc.

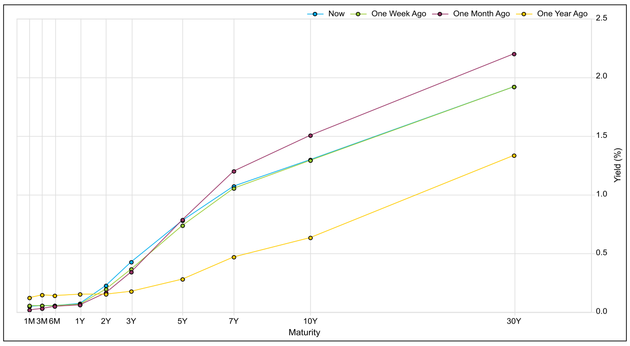
Economic Outlook

The U.S. Consumer Price Index was up 0.9% for June versus being up 0.6% in May. Producer Prices were up 1.0% in June versus being up 0.8% in May. U.S. Industrial Production was up 0.4% in June versus +0.7% in May. Capacity Utilization was 75.4%.

Fixed Income

Long maturity Treasury notes and bonds continued to move lower in yield as the thirty-year bond is now firmly below the 2% level. Against the backdrop of economic recovery and higher inflation -- which prompted Federal Reserve Bank of St. Louis President James Bullard to call for the central bank to begin reducing stimulus measures -- the broad decline in Treasury yields since the end of May is confounding many bond investors. Demand for interest-rate swaps tied to new corporate bond sales by U.S. banks potentially contributed to the latest move lower in rates. But the lack of a fundamental catalyst -- like bad economic news or a clear shift in policy -- is fostering a sense that much of the move is being driven by positioning and technical factors. Positioning for higher yields remains widespread and unprofitable, which means that incremental declines in yield can snowball as those positions are scrapped. Last week's price action has "revealed a persistent short position in long duration," said Jorge Portugal, managing director in sales and trading at Buckler Securities. Last Tuesday's hotter-than-expected June's consumer price inflation data led to a selloff that accelerated after the thirty-year bond auction later that day drew weak demand. But "when yields stopped moving higher, the counter wave of short-covering met no resistance," according to Portugal. Trading during the rest of the week led to a move lower in the thirty-year bond by around fourteen basis points closing the week at 1.92% while the benchmark ten-year yield moved lower by about six basis points to close the week at 1.29%. As the trend to lower yields persists, the ten-year's 200-day moving average near 1.25% is "an important target," according to Portugal. That level may be in jeopardy as this week brings little in meaningful economic data or new supply to perhaps push rates higher. Also, there are doubts beginning to creep into the market about whether the economy can continue its impressive recovery as consumer confidence for the first part of July as measured by the University of Michigan moved lower. The consumer is the driving force behind the current recovery and any sign that inflation may be starting to change the buying habits of the populace at large is worrisome.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.04%	3 mo	-0.04%	3 mo	0.17%	3 mo	0.08%
6 mo	0.05%	6 mo	-0.03%	6 mo	0.19%	6 mo	0.09%
1 yr	0.07%	1 yr	0.02%	1 yr	0.23%	1 yr	0.11%
2 yr	0.22%	2 yr	0.22%	2 yr	0.33%	2 yr	0.15%
5 yr	0.77%	5 yr	0.64%	5 yr	1.04%	5 yr	0.51%
10 yr	1.29%	10 yr	1.35%	10 yr	1.85%	10 yr	1.02%
30 yr	1.92%	30 yr		30 yr	2.73%	30 yr	1.58%

Equity

U.S. Equity Finished the week lower as the S&P 500 fell -0.96%. FactSet Research Systems reports that June's headline retail sales, a leading economic indicator, unexpectedly increased with ex-autos, with the reopening segments strong. Autos are down month-over-month following a supply chain issue. Michigan consumer sentiment report, another leading indicator, missed, hitting its lowest level since February. Secretary of the Treasury Yellen said that she expects several more months of rapid inflation but sees it declining back towards normal over the medium term and noted inflation expectations remain contained.

Utilities (+2.59%) and Consumer Staples (1.27%) are the only sectors to finish positive as Energy is the standout sector falling -7.89% for the week, though still remains the leading sector year-to-date at +31.21%. The S&P 500 closed ~4327.

Index Returns	Last Week	YTD
Dow Jones Industrials	-0.38%	14.50%
S&P 500 (LCap)	-0.77%	16.29%
S&P 400 (MCap)	-3.07%	13.73%
Russell 2000 (SCap)	-5.00%	9.68%
NASDAQ Composite	-1.81%	12.01%
MSCI EAFE (Int'l)	-1.51%	8.90%
iShares Real Estate	0.69%	25.04%

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.