Portfolio Manager Commentary

July 31, 2020

Trustmark Investment Advisors, Inc.

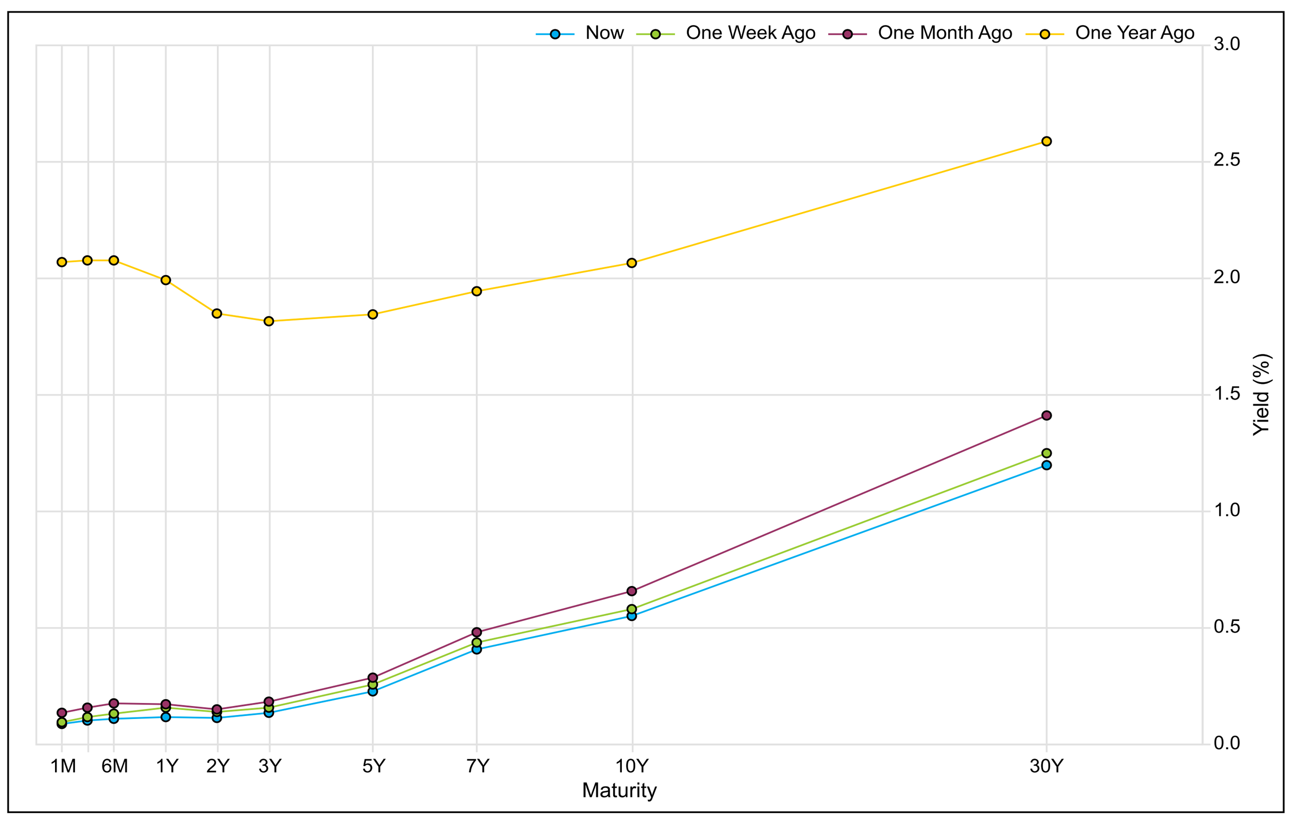
Economic Outlook

U.S. Durable Goods Orders for June were 7.3% higher, versus having been 15.1% higher in May. Second quarter U.S. GDP was down an astounding 32.9%, after having been down 5.1% in the first quarter. The Chicago Purchasing Manager's Index was finally above 50, at 51.9 for July, up from 36.6 in June. The U.S. Home Ownership rate was 67.9% in the second quarter, up from 65.3% last quarter. Core U.S. Inflation was up 0.2% for June, and the Employment Cost Index was up 0.6% for the second quarter.

Fixed Income

U.S. Treasury yields continue to grind lower as yields across the curve ended last week at or near all-time lows. Longer dated securities are seeing especially high demand and luckily for the market, there won't be any shortage of supply anytime soon. The U.S. Treasury will announce its borrowing plans for the next three months this week, with that blueprint is expected to show a shift from enormous amounts of T-bill supply to record issuance of notes and bonds. Wall Street seems to agree that the department will lean on the 10-, 20- and 30-year maturities as it looks to fill a historic funding gap that the pandemic has blown wide open. These maturities have proven especially popular in recent auctions, leading the past month's Treasury gains and driving the ten-year yield to a record low close of 0.53% to end last week. Investors are acting on the growing conviction that the Federal Reserve will skew its bond-buying program to the longer end of the curve as it shifts its focus from emergency market repair to resuscitating growth. Longer-dated Treasuries are closely bound to the real economy as benchmarks for mortgages and corporate borrowing. "These things are still getting gobbled up," said Blake Gwinn, head of U.S. rates strategy at NatWest markets, noting that July's thirty-year auction drew a record bid from buyers which includes foreign bidders. The appetite for longer bonds is only intensifying with Congress wrangling over another stimulus package to restore benefits to millions of workers out of a job as the pandemic swept through the country. In another sign that the bond markets current outlook for the U.S. economy is somewhat gloomy, ten-year real yields, which strip out inflation, just set a record low of around minus 1.03%. Meanwhile, the long-bond closed last week near a record low of 1.19%, its lowest closing yield since April. This week brings the latest numbers on the wreckage in the labor market as the unemployment rate is expected to fall to 10.5%, but the harsh reality is that 17 million people are still unemployed. The stampede into longer dated debt has left one of the market's favorite trades in shambles, as the curve steepening that flourished in the wake of the market upheaval in March has unraveled. The gap between five- and thirty-year yields has narrowed to 99 basis points, from its peak earlier in the year of around 130 basis points.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.08%	3 mo	0.08%	3 mo	0.16%	3 mo	0.17%
6 mo	0.09%	6 mo	0.08%	6 mo	0.23%	6 mo	0.17%
1 yr	0.11%	1 yr	0.04%	1 yr	0.24%	1 yr	0.17%
2 yr	0.11%	2 yr	0.17%	2 yr	0.27%	2 yr	0.19%
5 yr	0.20%	5 yr	0.37%	5 yr	0.58%	5 yr	0.37%
10 yr	0.53%	10 yr	0.84%	10 yr	1.29%	10 yr	0.78%
30 yr	1.19%	30 yr		30 yr	2.29%	30 yr	1.60%

Equity

U.S. Equity finished the week higher as the S&P 500 Index returned 1.76%. Equity was mostly pushed higher due to big earnings blowouts from Apple, Facebook, Amazon, and Google, all of which make up ~16% of the S&P 500 index. Big tech has been in focus since the March 23 lows, as these companies have led the rebound.

Technology (+4.97%%) and Communication Services (+2.25%) led the sectors as the majority of other sectors finished the week negative. Technology was led by the blowout earnings reports from the top tech companies. Energy (-3.95%) and Materials (-1.81%) were the biggest decliners. Energy continues to have the worst performance year-to-date with a decline of -38.21%.

Index Returns	Last Week	YTD
Dow Jones Industrials	-0.13%	-6.19%
S&P 500 (LCap)	1.73%	1.25%
S&P 400 (MCap)	0.76%	-9.65%
Russell 2000 (SCap)	0.88%	-11.27%
NASDAQ Composite	3.69%	19.76%
MSCI EAFE (Int'l)	-1.91%	-9.41%
iShares Real Estate	4.52%	-10.63%

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.