Portfolio Manager Commentary

August 14, 2020

Trustmark Investment Advisors, Inc.

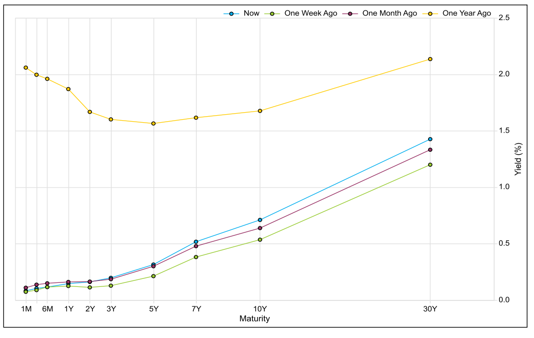
Economic Outlook

U.S. Retail Sales were up 1.2% in July versus +8.4% in June. Industrial Production was up 3.0% in July versus +5.7% in June. Capacity Utilization was up over 70% for the month. Productivity rebounded nicely in the second quarter, up 7.3% versus having been down 0.3% in the first quarter. Unit Labor Costs remainedstrong (however the data is somewhat inaccurate due to the lack of a full base of workers for the quarter), at +12.2% for the second quarter. Producer Prices were up again sharply for July at +0.6%,versus -0.2% in June. Consumer Prices were up 0.6% in July versus +0.6% in June.

Fixed Income

Hefty bets against the U.S. Treasury market paid off last week. Whether it is just a win in the short-term or perhaps the trade of the year for those making bets for higher yields last week will depend on what happens next in Washington. The Treasury's $122 billion sale of notes and bonds last week helped propel long-end bond yields to the highest levels in more than a month. That move benefited a recent surge of wagers on rates rising on the longer end of the curve, and they may have more room to rise as the Treasury will sell $25 billion of twenty-year notes this Wednesday. Even at the current record pace of issuance, it will take more than just supply coming to market to derail the historic bond rally that has kept yields near historic lows. Instead, Wall Street is leaning into recent unexpected gains in U.S. economic data -- coupled with anticipation that the government can eventually pass a new stimulus spending package of more than $1 trillion -- to support a growing conviction toward higher yields and a steeper yield curve. "Real-time economic data in the third quarter has been pretty good, in spite of the fact that virus cases picked up since mid-June," said Morgan Stanley's head of U.S. rates strategy Guneet Dhingra. "This move higher in rates could have a second leg after the fiscal stimulus is announced." Many analysts on Wall Street are keeping a close eye on the Federal Reserve Bank of New York's high-frequency growth data, causing some to predict the next round of stimulus may be as high as $2 trillion. The fate of that package still hangs in the balance, with lawmakers unable to bride the gap between Republican proposals and Democrats' plan, which includes aid to state governments. The market's apparent lack of concern over the sudden drop in fiscal support that is taking place in the absence of fresh stimulus is curious. It's widely recognized that the so-called V-shaped recovery apparent in some economic data, including Friday's retail sales, has been supported in large part by the extra $600 a week that was being paid to unemployed workers while the pandemic kept businesses closed. One topic that has not been at the forefront of conversation is inflation. That could change soon following a larger-than-expected gain in core consumer prices in July along with the Fed wrapping up its review of the current strategy of targeting 2% inflation.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.09%	3 mo	0.09%	3 mo	0.17%	3 mo	0.15%
6 mo	0.11%	6 mo	0.05%	6 mo	0.25%	6 mo	0.15%
1 yr	0.13%	1 yr	0.05%	1 yr	0.27%	1 yr	0.16%
2 yr	0.15%	2 yr	0.19%	2 yr	0.33%	2 yr	0.18%
5 yr	0.30%	5 yr	0.45%	5 yr	0.67%	5 yr	0.33%
10 yr	0.71%	10 yr	0.94%	10 yr	1.44%	10 yr	0.78%
30 yr	1.45%	30 yr		30 yr	2.50%	30 yr	1.78%

Equity

U.S. Equity ends slightly positive as the S&P 500 notches a +0.68% return. Industrials (+3.19%) and Energy (+2.72%) led the sectors as Communication Services (-0.17%) and Utilities (-1.81%) were the only sectors in the red. It was a fairly quiet week from a headlines perspective. Highlights could be found regarding the U.S. and China cancelling their Phase one trade deal review on Saturday, in which they cited scheduling issues, and no news regarding progress on another stimulus package.

As of month end, the S&P 500 is the most top heavy the index has been in 40-years. The top five weightings, which include all tech stocks of Apple, Microsoft, Amazon, Google, and Facebook, make up ~20% of the entire index, increasing 5% in the past 6 months. This is the largest percentage the top five stocks of the index have held since 1979 and could explain why the S&P 500 Index has continued to rise alongside the Technology sector, which is up 25% year-to-date.

Index Returns	Last Week	YTD
Dow Jones Industrials	1.89%	-0.77%
S&P 500 (LCap)	0.64%	4.40%
S&P 400 (MCap)	0.57%	-5.50%
Russell 2000 (SCap)	0.55%	-5.43%
NASDAQ Composite	0.08%	22.81%
MSCI EAFE (Int'l)	1.84%	-5.45%
iShares Real Estate	-1.38%	-11.03%

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 strengthprovide 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.