2018 Weekly Portfolio Manager Commentary   *August 24, 2018*

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

U.S. Single-Family New Home Sales came in at a 627,000 annualized rate versus consensus of 649,000. Durable Goods Orders for July were down 1.7%; however, Core Capital Goods orders were up 1.4%. The PMI Composite Flash Index came in at 55.0 for August, with a reading of the same for both Manufacturing and Services.

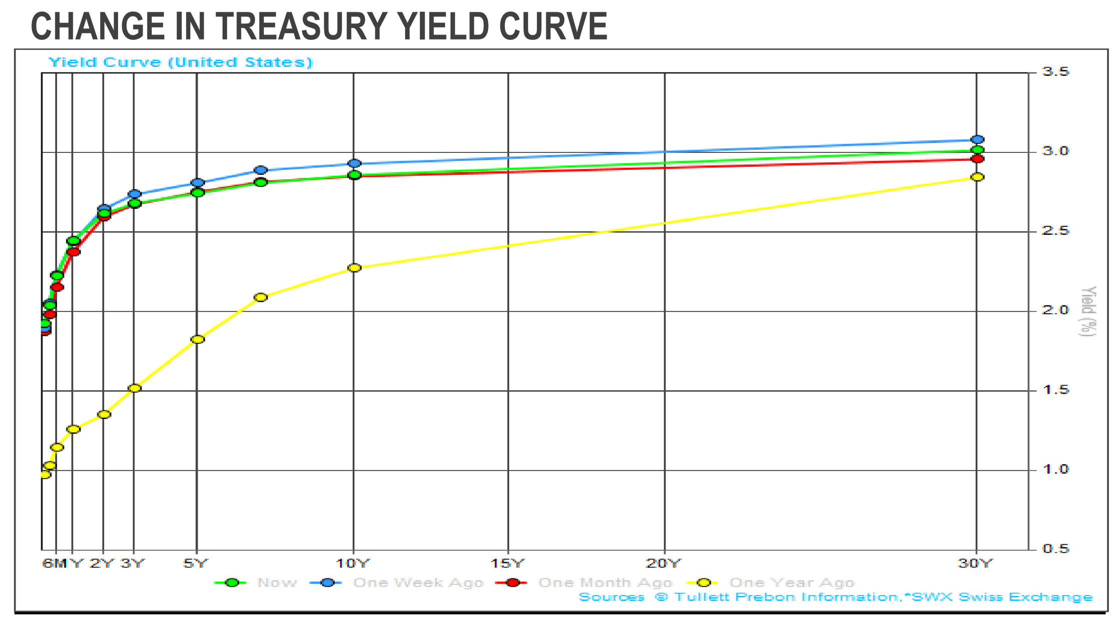
FIXED INCOME

Federal Reserve Chairman Jerome Powell laid out a doctrine of basing monetary policy as much on how the economy performs in reality as on the prescriptions of academic models as his Federal Reserve tries to extend a nearly decade-long expansion. In his first speech as Fed chief at an annual conference in Jackson Hole, Wyoming, Powell defended his gradualist approach and, in the process, hardened expectations for a September interest-rate increase. In addition, he stressed that estimates on how the economy works -- like those followed by Ph.D. economists on the Fed staff -- were at best "hazy" navigational guides. As a result, they often need to be tested by close observation of real economic data. The approach means that because policymakers often operate amid uncertainty they need to feel their way rather than rush to tighten because of what models say. The Fed's job is set to become more complicated as its benchmark rate turns restrictive and the expansion ends. Powell used the term "shifting stars" several times in his speech last Friday, referring to the guideposts in economic models often symbolized with an asterisk, or "star." As Powell defined it, the FOMC's job is to be aware of how these estimates are changing and not take them as set in stone. The chairman reminded his audience of central bankers and economists that if the Fed stubbornly tried to defend a previous estimate for full employment -- a term economists refer to as U-star -- the cost would be 1.6 million jobs. Just last week, a paper by Fed economists warned that even though there is uncertainty about estimates of the natural rate of unemployment, it's still better to set rates based on those than just wait for inflation. The Fed chairman said he expected the economy's "strong performance will continue" and as a result the Fed's "gradual process of normalization remains appropriate." The word "normalization" is significant in that it signals the central bank, even with the economy now in its 10th year of expansion, is still returning policy to something more consistent with a neutral interest rate, or one that doesn't slow or stimulate the economy. Even so, the policy has attracted the ire of President Donald Trump, who nominated Powell to the top Fed job and has since complained about his rate hikes. Powell's discussion of the challenges of monetary policy at a time of uncertainty is an introduction to his chairmanship and how different it will be from his predecessors. Under chairs Ben Bernanke and Janet Yellen, the case for holding off on rate hikes was simple as the unemployment rate declined from a peak of 10% in 2009 with an economy still scarred by the financial crisis. Powell took over from Yellen in February in the midst of a mature expansion that was given a big boost by Republican tax cuts and higher federal spending. Unemployment currently stands at 3.9%, well below the level of 4.5% which the Fed regards as consistent with full employment in the long run.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.09%	3 mo	2.01%	3 mo	2.33%	3 mo	1.39%
6 mo	2.23%	6 mo	2.21%	6 mo	2.45%	6 mo	1.45%
1 yr	2.43%	1 yr	2.40%	1 yr	2.54%	1 yr	1.51%
2 yr	2.62%	2 yr	2.63%	2 yr	2.82%	2 yr	1.65%
5 yr	2.71%	5 yr	2.80%	5 yr	3.17%	5 yr	2.05%
10 yr	2.81%	10 yr	3.11%	10 yr	3.58%	10 yr	2.63%
30 yr	2.96%	30 yr		30 yr	4.03%	30 yr	3.64%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.51%	5.90%
S&P 500 (Large Cap)	0.00%	8.87%
S&P 400 (Mid Cap)	1.26%	8.12%
Russell 2000 (Small Cap)	1.94%	13.24%
NASDAQ Composite	1.67%	15.92%
MSCI EAFE (International)	1.42%	-2.33%
iShares Real Estate	-0.78%	-5.17%

The S&P 500 made a new all-time high on Friday pushing past the prior high from back in January. Energy, Telecom, and Consumer Discretionary were the best performing of the major sector groups. Confirming the break-out to new all-time highs on the S&P 500 was a move to new highs in the Dow Jones Transportation Index which closed at a new high on Tuesday. Also making new highs last week were the Russell 2000, the broader S&P 1500 and the Wilshire 5000.

Results from Target were a bright spot for the company. The retailer beat both revenue and earnings per share estimates with the best comparable same store sales performance in 13 years. Of note was that digital sales were up +41% quarter-over-quarter. The stock rose +3% Wednesday after results were announced.

There is a growing debate which escalated last week surrounding the claims that this secular bull market is now the longest bull market on record. Some of the debate is semantics such as how does one measure the beginning of a bull market? Is it from the prior lows (March 2009) or does it start when the prior high is eclipsed (May 2013)? Does the -19.39% decline in 2011 meet the standard for a cyclical bear in a secular bull? Regardless of how one answers these questions the salient point is that bull markets do not die of old age. In other words just because this bull market has lasted a while by historical standards does not mean it has to immediately end. For perspective, the longest bull market on record for the S&P 500 lasted from December 1987 to March 2000 – 4,494 days and a gain of +582% or about 1,000 days and +260% more than the current bull market.

A closer look at the S&P 1500 Metals and Mining Group shows the impact the recent tariffs have had on certain segments of the market. The group has been stuck in a downtrend ever since the topic of tariffs first came up. Over the past six months just two of the 20 members of the group have a positive return. Eleven of them are down over -10% and five are down over -20%. The tariffs are only partly to blame as the underlying industrial metals have performed poorly as well – including a -20% drop in copper since mid-May.

The flattening yield curve continues to garner lots of attention as the spread between the yield on the 10-year and 3-month Treasuries dipped below 0.75% - the last time the curve was that flat was in January 2008 as it steepened following a period where it was inverted. Bespoke examined the performance of the S&P 500 during periods of flat yields and found that a flat yield curve has generally been positive for equities. In prior instances where the yield curve has dropped below 0.75% on a 10-year vs 3-year basis, the S&P 500 has averaged a return of 12.04% 12 months later compared to an 8.25% gain for all one year periods since 1962. Warning bells would sound should the yield curve invert and then begin to steepen, that situation typically signals a slowdown or recession in the economy.

For the week ahead earnings will see a slight uptick with several notable retailers scheduled to report including Best Buy, Dick's Sporting Goods, Dollar Tree, Dollar General, and Campbell's Soup. The economic calendar is relatively quiet but we will get U.S. advance goods trade balance, Case-Shiller home prices, and second look at Q2 GDP.

On Friday the S&P 500 made a new intraday high of 2876 as well as a new closing high so we will watch if that level can be eclipsed by a continuation of the rally. Support levels we are watching are 2800, 2790, and 2725. The S&P 500 closed slightly off the Friday intraday high at 2874 marking a new closing high for this secular bull market.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Neutral
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Favorable
Real Estate	Favorable
Commodities	Unfavorable

Below is a summery of our current stance on most asset classes:

Cash - Holding as little as possible given the miniscule yields in money market instruments. Any exposure is for defensive positioning.
Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.
Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in spread products.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened; however, still remain attractive versus Treasuries.
International Bonds - Emerging market bonds offer good diversification qualities while providing higher yield opportunities relative to domestic fixed income.
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 has reemerged as a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure along with a value tilt is preferred. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.
Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.
International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight 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. Recent relative performance versus developed markets support the stronger fundamental backdrop and positions have been added.
Real Estate - Pricing has stabilized and long-term valuations appear attractive. Real Estate has performed well of late and 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. Although, volatility will be higher and commodities will be susceptible to short-term price shocks, if used in conjunction with other asset classes, risk can be reduced substantially to a diversified portfolio. However, used alone is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.