Portfolio Manager Commentary

September 11, 2020

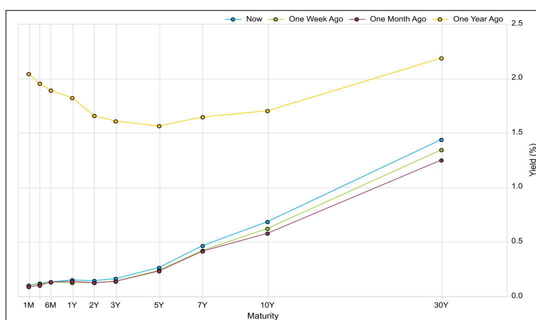
Economic Outlook

The U.S. Consumer Price Index was up 0.4% in August, after having been up 0.6% in July. The Core CPI Index was up the same for both months. The U.S. Producer Price Index was up 0.3% for August versus +0.6% in July.

Fixed Income

A popular arbitrage strategy favored by many hedge funds using Treasuries as the main investment has begun to disappear and is threatening to drain liquidity from the world's largest debt market. Bets that use borrowed money to profit from tiny price discrepancies between futures and underlying cash Treasuries unraveled in a matter of weeks amid the global rush to safety back in March. Known as the cash-futures basis trade and commanding almost $1 trillion at its peak, the strategy is now about half that size, and many a nalysts doubt it will ever return to its previous highs due to the fact that the profit potential isn't the same as it used to be and some traders are still smarting from the unpredicted volatility from March and the losses that resulted from that time frame. The fate of the trade has crucial implications for the $20 trillion Treasury market, with the Federal Reserve already buying billions of dollars of U.S. debt o bligations to keep it functioning smoothly. The popular wager's decline risks making it harder to transact in America's debt at a time when investors are facing a record amount of government bonds. The trade work s like this: The price of Treasury futures, a product of CME Group Inc., converges with underlying securities at expiration. Before then, investors may be able to buy the "cheap" bonds and sell the futures t o capture any difference that exceeds the cost of financing the trade. The spread between the two, or the basis, is usually miniscule, so funds borrow cash to leverage positions and increase returns. But in the panic of March, investors piled into the most liquid assets, which in Treasuries meant futures over cash. That blew out the spread between to two and triggered a stampede out of the cash -futures trade. When the Fed then intervened to pump in liquidity, there was a sense of relief on Wall Street but also of frustration over how some firms had once again had landed in trouble by heaping on leverage. Now the market is keen on seeing the trade return again. The dislocation was so great at the time that it rippled across fixed income, causing a key source of corporate cash to seize up. That spurred the Fed to pr omise trillions of dollars in liquidity to calm short-term financing markets. Months later, activity has yet to recover in some areas, and the diminished basis trade is a contributor to that, plus the Fed policy that has helped quash volatility.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.11%	3 mo	0.10%	3 mo	0.18%	3 mo	0.17%
6 mo	0.12%	6 mo	0.11%	6 mo	0.24%	6 mo	0.17%
1 yr	0.13%	1 yr	0.12%	1 yr	0.25%	1 yr	0.18%
2 yr	0.13%	2 yr	0.14%	2 yr	0.30%	2 yr	0.20%
5 yr	0.25%	5 yr	0.51%	5 yr	0.64%	5 yr	0.36%
10 yr	0.67%	10 yr	0.81%	10 yr	1.45%	10 yr	0.90%
30 yr	1.41%	30 yr		30 yr	2.55%	30 yr	1.88%

Equity

U.S Equity finished the week negative as the S&P 500 saw a loss of -2.48%. Materials (+0.99%) was the only sector to finish posi tive with Energy (-6.45%) and Technology (-4.36%) declining the most. Energy (-44.16%) still holds the title of largest year-to-date decliner while Tech, the leader of the pack, starts to narrow with the sector having a +23.95% year-to-date gain.

Headlines have been fairly quiet with no real catalyst for the recent two-week decline. Many of the big bullish themes including positive economic surprise momentum, solid corporate earnings, vaccine/treatment optimism and positioning/FOMO, are still in discussion, however, the downside case seems to involve the waning change of fiscal support, plateauing economic recovery, volatility in COVID/vaccine news, presidential election uncertainty, and narrow market leadership.

Index Returns	Last Week	YTD
Dow Jones Industrials	-1.66%	-1.51%
S&P 500 (LCap)	-2.51%	3.41%
S&P 400 (MCap)	-2.27%	-10.09%
Russell 2000 (SCap)	-1.79%	-9.63%
NASDAQ Composite	-4.06%	20.96%
MSCI EAFE (Int'l)	0.42%	-5.46%
iShares Real Estate	-2.23%	-12.22%

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, a n 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 diversifie d 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.

Non-deposit investment products are not insured or guaranteed by any government agency or government sponsored agency of the federal government or any state; are not deposits, obligations, or guaranteed by Trustmark National Bank or its affiliates; and are subject to investment risks, including the possible loss of principal. The opinions and analysis in this report are accurate to the best of our knowledge and are based on information and sources that we consider to be reliable and appropriate for due consideration. The volatility of market conditions and any change from the basic set of assumptions used herein could lead to substantial differences in the projected results and conclusions in this report. All projections, prices and assumptions herein are subject to change without notice. We do not guarantee the results, performance or liquidity of the securities discussed and any strategy or investment selection remains your responsibility. This report is strictly for information purposes and is not intended as an offer or solicitation for any transaction. Trustmark Investment Advisors, Inc. is a registered investment adviser under the Securities and Exchange Commission, a wholly owned subsidiary of Trustmark National Bank, and a division of Trustmark Tailored Wealth.