

# Portfolio Manager Commentary

September 24, 2021



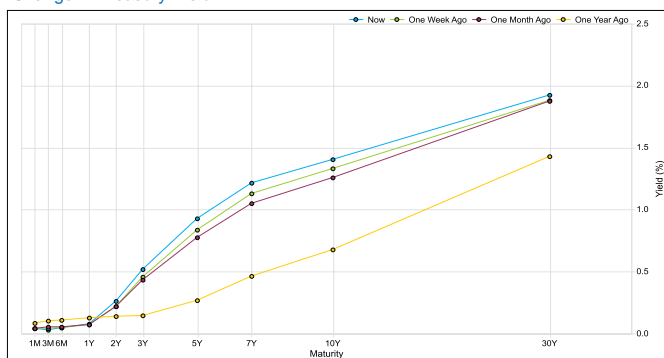
## Economic Outlook

The National Association of Homebuilding Index came in at 76 for September, well above the 50-neutral level. The U.S. Index of Leading Economic Indicators was up a nice 0.9% for August, after having been up 0.8% for July. U.S. Single-Family Home Sales came in at a 740,000-unit annual rate for August, a bit below normalized levels.

## Fixed Income

Traffic on the road to higher Treasury yields appears finally to be clearing up as central banks edge closer to ending emergency measures brought on by the pandemic. After getting stuck for months, ten-year Treasury yields broke through the top of a range that has held since mid-July, surpassing 1.40% and ending the week at 1.45%. That is up from the 2021 low of 1.13% set just last month. Bears have the momentum for now, prompting a fresh round of shorts betting U.S. debt yields will continue to move higher. Scoring a sustainable victory on that trade won't be easy. The massive jump in yields during the first quarter of the year petered out as rising Covid cases put a damper on growth prospects. But, for now, a hawkish tilt from the Federal Reserve and Bank of England has cleared the way for yields to rise further. Fed Chair Jerome Powell said last week that the Fed could start its tapering process as early as November. The exit from the market of such a big bond buyer could put more pressure on yields to move higher. Officials also updated their forecasts (aka the dot plot) for the Fed's benchmark rate, showing half of them see an increase by the end of 2022, a more hawkish projection than most strategists expected. Traders will get a hint of how feasible that is in early October when the next new monthly jobs report is released. For now, bulls are nursing losses. U.S. Treasuries are down about 1.8% for the year, while global sovereign bonds are off over 4%, according to Bloomberg Indices. Powell is trying to frame the tapering and rate-increase decisions as separate from each other, but that seems to be a losing battle. Last week's clarity from the Fed on their plans going forward spurred derivatives traders to bring forward their target for the first-rate increase which now stands at December 2022 versus the first quarter of 2023.

## Change in Treasury Yield



## Current Generic Bonds Yields

| Treasuries  | Agencies    | Corporates  | Municipals  |
|-------------|-------------|-------------|-------------|
| 3 mo. 0.03% | 3 mo -0.06% | 3 mo 0.17%  | 3 mo 0.19%  |
| 6 mo 0.04%  | 6 mo -0.04% | 6 mo 0.18%  | 6 mo 0.19%  |
| 1 yr 0.07%  | 1 yr 0.04%  | 1 yr 0.22%  | 1 yr 0.21%  |
| 2 yr 0.27%  | 2 yr 0.28%  | 2 yr 0.37%  | 2 yr 0.22%  |
| 5 yr 0.95%  | 5 yr 0.77%  | 5 yr 1.15%  | 5 yr 0.57%  |
| 10 yr 1.45% | 10 yr 1.54% | 10 yr 1.94% | 10 yr 1.11% |
| 30 yr 1.98% | 30 yr       | 30 yr 2.72% | 30 yr 1.79% |

## Equity

U.S. Equity finished the week higher as the S&P 500 Large Cap Index rose +0.57%. This comes after a large two-day rally after U.S. equity struggled for a couple of weeks. Most headlines point to Evergrande and China as being the reason for the pre-two-day rally weakness, while the Market responded positively to the mostly in line FOMC meeting that pointed towards the expected asset-purchasing taper.

Value (0.83%) led growth (0.24%) this week as Energy (+4.40%) and Financials (+2.13%) led sectors while Utilities (-1.15%) lagged the most. The S&P 500 Index has been in a consolidative state the past month as the index has formed the well-known "Head-and-Shoulders" technical pattern. Resistance forms around the 4480 mark while support stands around 4350.

| Index Returns         | Last Week | YTD    |
|-----------------------|-----------|--------|
| Dow Jones Industrials | 0.65%     | 15.15% |
| S&P 500 (LCap)        | 0.57%     | 19.82% |
| S&P 400 (MCap)        | 0.80%     | 17.03% |
| Russell 2000 (SCap)   | 0.50%     | 13.83% |
| NASDAQ Composite      | 0.02%     | 16.75% |
| MSCI EAFE (Int'l)     | -0.25%    | 11.57% |
| iShares Real Estate   | -1.04%    | 24.52% |

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 overweighted 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 diversified d portfolio. Used alone though is not recommended

Sources of statistical information are Bloomberg and Ned Davis Research.

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