

ECONOMIC HIGHLIGHTS

The PMI and ISM Manufacturing Indexes came in at 55.6 and 59.8, respectively, for September. The PMI and ISM Services Indexes came in at 53.5 and 61.6, also respectively, for September. Overall, it was still a nicely expansionary profile for the U.S. Economy. U.S. Factory Orders remain in a nice uptrend, with August orders up 2.3%. Finally, the U.S. Unemployment rate dipped down to 3.7% in September from 3.9% in August. Average hourly earnings were up 2.8% year-over-year.

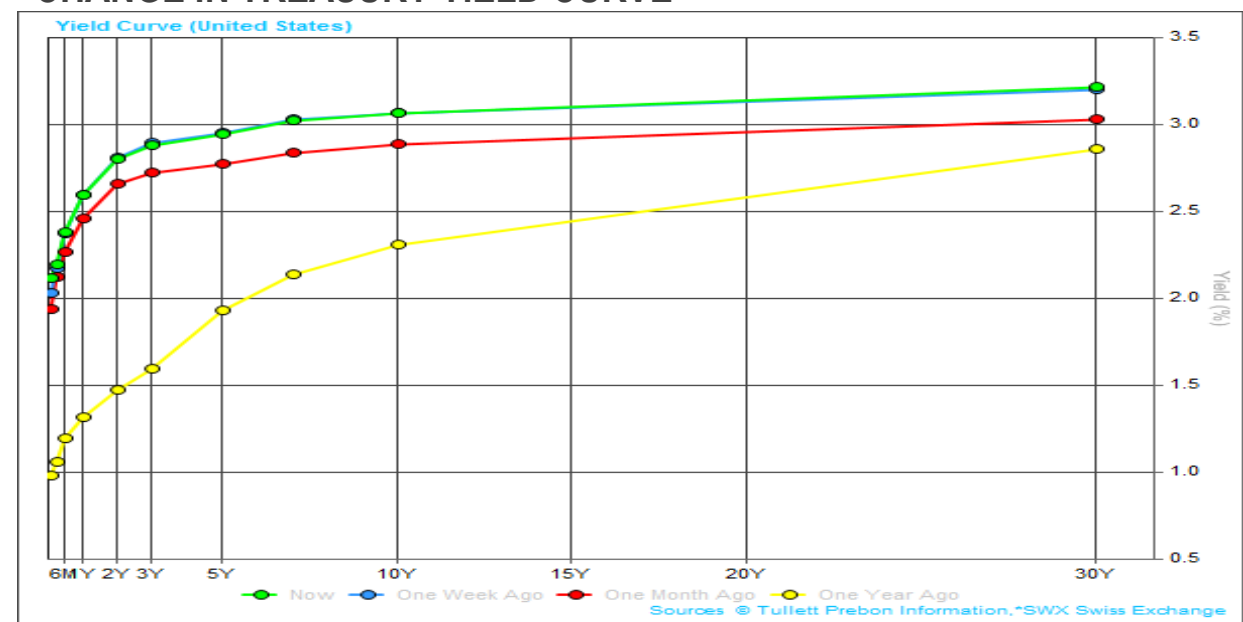
FIXED INCOME

Treasury bears had plenty of momentum to close out last week, with volume surging as yields climbed toward the highest levels in years. Not even a smaller-than-forecast increase in September U.S. payrolls or sliding stock prices could put the brakes on the bond-market selloff. The yield on the benchmark ten-year note reached about 3.25% during trading on Friday, the highest level since 2011, putting it on track for the biggest weekly increase since February. Some traders are now making predictions that the ten-year could move as high as 3.60% by year end. The bond-market slide started early last week on the back of stronger-than-forecast data on services and private employment. Traders also pointed to Federal Reserve Chairman Jerome Powell, who praised the economy's performance and said officials may go beyond the neutral policy rate threshold, though rates are currently a "long way from" that level. "The Fed is basically saying there is a groundswell of economic activity that we see that the general public may not see," said David Robin, a strategist at TJM Institutional Securities Services. "Fixed-income markets had built themselves around a reality for which all bets are off now." The increase in bond yields reflects the economic outlook, rather than alarm that the Fed would allow inflation to get out of hand, New York Fed President John Williams said on Bloomberg Television last Friday. He also said the central bank should continue to keep gradually raising short-term rates. Treasury futures volume surged last Friday as yields eclipsed Thursday's highs, with about 40,000 contracts trading in just over one minute during trading Friday morning in New York on the ten-year note contract that expires in December. Ben Emons, chief economist at Intellectus Partners, LLC said Friday, "Powell and Williams aligned to give the same message. The way the Treasury market traded on Friday is about readjusting positions in duration hedging with the view that 3.50% is possible on the ten-year note, which wasn't thinkable for the majority of the year until now." Some maturities across the yield curve closed trading last Friday at levels not seen in a decade. Two-year Treasuries ended the week at 2.89%, highest since June 2008. Five-year Treasuries ended the week at 3.07%, the highest since August 2008. Ten-year Treasuries ended the week at 3.23%, the highest since April 2011. Thirty-year Treasuries ended the week at 3.40%, the highest since July 2014.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	2.21%	3 mo	2.24%	3 mo	2.49%	3 mo	1.80%
6 mo	2.41%	6 mo	2.39%	6 mo	2.61%	6 mo	1.85%
1 yr	2.61%	1 yr	2.53%	1 yr	2.75%	1 yr	1.91%
2 yr	2.89%	2 yr	2.86%	2 yr	3.09%	2 yr	2.03%
5 yr	3.07%	5 yr	3.14%	5 yr	3.50%	5 yr	2.37%
10 yr	3.23%	10 yr	3.49%	10 yr	3.93%	10 yr	2.88%
30 yr	3.40%	30 yr		30 yr	4.35%	30 yr	3.86%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.00%	8.83%
S&P 500 (Large Cap)	-0.95%	9.52%
S&P 400 (Mid Cap)	-2.54%	4.75%
Russell 2000 (Small Cap)	-3.78%	7.30%
NASDAQ Composite	-3.18%	13.75%
MSCI EAFE (International)	-2.32%	-3.65%
iShares Real Estate	-2.76%	-1.24%

U.S. equities were mostly lower last week with the S&P 500 suffering back-to-back weekly declines for the first since late June. The weakness was fairly broad as small caps, emerging markets, consumer discretionary, tech and communication services all came under heavy selling pressure. The defensive utility sector was an outperformer gaining nearly 2%. Financials and energy also rallied with WTI crude gaining 1.5% for the week after hitting a nearly four-year high on Wednesday.

The big story to last week's market action was the selloff in Treasuries. The 10-year touched its highest level since mid-2011, while 30-year reached a four-year high. The 2-year also hit the highest level since 2008.

The speed of the recent backup in yields was a big headwind on risk assets during the week. Tech and communication services were among the worst performing sectors as investors exited from growth and momentum stocks as U.S. - China tensions escalated, further estimate cuts in the semi space, and continued regulatory concerns surrounding Internet stocks. The FANG names all saw outsized pullbacks, as did the Semiconductor Index SOX (3.7%). China and emerging market stocks also saw heavy selling with China losing 4.5% and emerging markets dropping 4.9%.

U.S. and China tensions continued to rise with Vice President Pence's alleging a Chinese campaign to sway U.S. opinion and a Bloomberg report of China infiltrating U.S. tech firms with microchips.

The Vice President delivered a speech that accused China of a "whole-of-government" approach to sway American public opinion. Pence also said that "what the Russians are doing pales in comparison" to China. The speech came after a Bloomberg report that China used a chip to infiltrate major U.S. tech firms including AMZN and AAPL.

The report noted chip supplier SMCI was the key conduit of the operation, which reached almost 30 U.S. companies, with investigators determining that the chips allowed attackers to create a stealth doorway into any networks that included the altered machines.

With earnings season fast approaching, angst has begun to rise following back-to-back quarters of ~25% S&P 500 EPS growth, Q3 earnings are expected to increase 19%+, which would be third-best since early 2011. However, there continued to be a pickup in concerns about elevated expectations. The WSJ pointed out that with the tax and economic tailwinds already widely understood higher input costs as well as a stronger dollar and trade tensions could drive some disappointment at the margin.

In addition, Bespoke Investment Group recently pointed out that while beat rates are holding up, the trend of slipping earnings reactions is getting worse which suggests a slowing of market strength and momentum.

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 summary 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.

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