2019 Weekly Portfolio Manager Commentary — October 11, 2019

Trustmark Investment Advisors, Inc.

ECONOMIC HIGHLIGHTS

Producer Prices were down 0.3% for September, below consensus. Consumer Prices were flat for September, in line with expectations. Otherwise it was a fairly slow week for economic data releases.

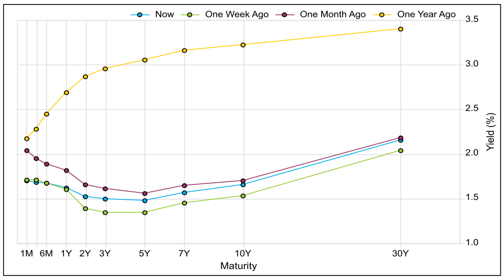
FIXED INCOME

The Federal Reserve announced last Friday that it will begin buying Treasury bills this week and each month through the second quarter of 2020 to inject cash into the banking system which should make it easier for the central bank to control its target effective fed funds rate. The decision is the Fed's latest response to a shortage of cash reserves that surfaced last month and caused overnight lending rates to spike which led to a brief spike in the fed funds rate above the Fed target. The announced T-bill purchases will begin with an amount of $60 billion which could move higher or lower depending upon how effective the program is at bringing some calm to the funding markets. The Fed also announced it will continue its overnight and term repurchase facility through January. Fed Chairman Powell has stated that these Treasury bill purchases aren't intended to simulate the economy and that they are "technical" and "should not have any meaningful effects on household and business spending decisions and the overall level of economic activity." The Chairman is trying to distinguish this buying program from the previous quantitative easing programs from earlier in the decade which were intended to lower long-term interest rates and stimulate economic growth. The Fed's benchmark interest rate target currently floats between the stated range of 1.75% to 2.00%. The central bank keeps its short-term rate in its target range by paying banks interest on the reserves they hold at the Fed which is currently 1.80%. This provides an incentive to banks to lend only at rates above 1.80%. The Fed plans to buy Treasury bills of durations between five weeks and one-year, in the effort to bring reserves back to the levels they were in early September which totaled around $1.5 trillion. Benchmark ten-year yields rose last week as high as 1.76% during trading last Friday and are about 20 basis points higher than at the close the previous week. As a result, the yield curve is no longer inverted as three-month bill rates closed the week lower than ten-year notes. This is the first time the yield curve hasn't been inverted since July.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.66%	3 mo	1.72%	3 mo	1.93%	3 mo	1.21%
6 mo	1.68%	6 mo	1.88%	6 mo	1.89%	6 mo	1.22%
1 yr	1.64%	1 yr	1.88%	1 yr	1.83%	1 yr	1.22%
2 yr	1.59%	2 yr	1.71%	2 yr	1.76%	2 yr	1.23%
5 yr	1.55%	5 yr	1.60%	5 yr	1.92%	5 yr	1.28%
10 yr	1.73%	10 yr	1.93%	10 yr	2.36%	10 yr	1.56%
30 yr	2.20%	30 yr		30 yr	3.14%	30 yr	2.22%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	1.29%	17.14%
S&P 500 (Large Cap)	1.18%	20.48%
S&P 400 (Mid Cap)	1.26%	16.80%
Russell 2000 (Small Cap)	1.01%	13.42%
NASDAQ Composite	1.27%	22.47%
MSCI EAFE (International)	2.32%	14.04%
iShares Real Estate	-0.05%	27.24%

U.S. Equity finished strong Friday to break its third week of declines. The main reason can be summed up to positive US-China trade talks. Energy (+0.53%) is the leading sector while Health Care (-0.65%) struggled the most. Gold fell -0.90% while Oil had strong gains of 3.70%.

Friday saw the second day of US-China trade talks take place in Washington. Reports from Reuters saw hopes rising for a limited deal while the NY Times noted the U.S. and China could announce an agreement this week that prevents this month's tariff increase from going into effect. An agreement to a deal this week could pave a way for a larger agreement when President Trump is next expected to meet Chinese President XI at November's APEC meeting.

October's consumer sentiment reading rebounds higher as the preliminary UMich report came in at 96.0, which is above the consensus of 92.0 and September's final 93.2 reading. The release noted consumers' income expectations rose to their most favorable level in two decades and added that while stronger finances and lower rates bolstered consumer buying plans, there are still concerns for pace of the overall economy. The release also noted that the ramp in presidential impeachment headlines has not had a significant impact on the views of the economy, and consumption spending may be enough to offset weakness in the business investment.

In its monthly Oil Market Report, the IEA noted that it is cutting oil demand growth forecast by 100K bpd to 1.0M bpd in 2019 and to 1.2M bpd in 2020. The IEA expects growth in 2019 to be the weakest since 2016 due to evidence of a slowdown in several major consuming regions and countries. The report also noted that total global demand expected to tally just over 100M bpd this year and 101.5M bpd next year, while global oil supply slid by 1.5M bpd in September to 99.3M bpd after the attacks on Saudi Oil facilities last month.

The S&P 500 Index rebroke its resistance level of 2955, as well as its 50-Day EMA as the large cap index heads towards highs of 3027 which seems to be the next notable point of resistance. The S&P 500 index closed at 2970.

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	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

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

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
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 floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
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 be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. 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. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.
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. 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.