Portfolio Manager Commentary

November 13, 2020

Trustmark Investment Advisors, Inc.

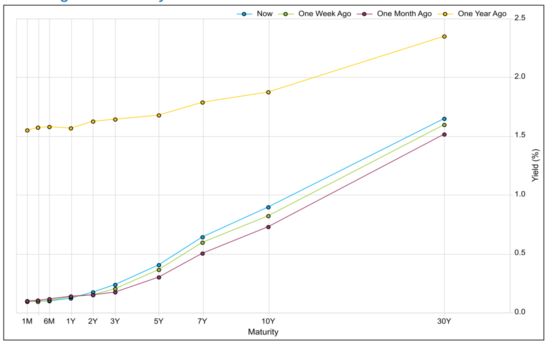
Economic Outlook

The U.S. Consumer Price Index was flat for October. U.S. Producer Prices were up 0.3% for the month. Otherwise it was a slow week for economic releases.

Fixed Income

The bond market is demonstrating that the road to higher Treasury yields is going to be a rocky one, leaving bets on a reflating economy and a steeper yield curve hanging in the balance. All eyes in the world's most important debt market were on the 1% percent level on ten-year Treasuries last week, as a volatile, post-election sell-off pushed the implied yield on futures within a couple of basis points of touching that mark for the first time since March. Surging coronavirus cases then took over the narrative, fueling an end of the week rally that left the cash rate at 0.90% at the close of trading Friday. Traders are now bracing for more wild swings, given the potential for more stringent rules from local and state governments that could stall the current economic recovery, even as hope for an effective vaccine builds. If the ten-year Treasury continues to make a move toward 1% without breaching that level, which seemed a certainty earlier this month, investors who are making bets that this will happen by the end of the year may become disenfranchised and abandon the trade. But for now, many investors are still leaning towards higher longer-maturity yields, with speculators holding near-record short positions on bond futures. "The trend is still toward higher rates and a steeper curve," said Scott Buchta, head of fixed-income strategy at Brean Capital. But given the daily swings seen in November, "we should not be surprised to see these larger intraday moves take place as they are driven primarily by headlines, supply and positioning." Even as the ten-year note pared its losses this past week, its yield still appears to have entered a higher trading range, averaging about 0.86% in November, compared with 0.78% in October. It is a similar story for the spread between five- and thirty-year yields, which was near the widest level since 2016 last week. Granted, with virus cases moving higher across the majoriy of the nation, a case can be made for lower rates in the near-term as some traders started building positions in the futures market for the ten-year yield to make a move toward the 0.70% level by year end. Given the lack of major economic data this week, investors will be paying even closer attention to news concerning the pandemic and whether its intensification pressures lawmakers to cobble together some kind of stimulus package in the next few weeks.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.08%	3 mo	0.01%	3 mo	0.22%	3 mo	0.30%
6 mo	0.09%	6 mo	0.01%	6 mo	0.24%	6 mo	0.30%
1 yr	0.12%	1 yr	0.04%	1 yr	0.27%	1 yr	0.32%
2 yr	0.18%	2 yr	0.19%	2 yr	0.34%	2 yr	0.34%
5 yr	0.41%	5 yr	0.51%	5 yr	0.75%	5 yr	0.51%
10 yr	0.90%	10 yr	0.96%	10 yr	1.56%	10 yr	1.10%
30 yr	1.65%	30 yr		30 yr	2.64%	30 yr	1.85%

Equity

U.S. Equity finished the week higher as the S&P 500 (+2.27%) hovers around its all-time high. Vaccine optimism, monetary policy, eventual fiscal stimulus expectations, and the potential of a split Congress all push the market higher, while an increase in Coronavirus cases continue to cause concern. Energy (+17.11%) and Financials (+8.29%) push for a comeback as they finish the week much higher amongst peer sector groups with value vastly outperforming growth. Tech (-0.31%) finished as the only negative sector, further indicating the spread between growth and value this week. There are concerns of value continuing its outperformance due to worsening coronavirus trends, as this has favored growth in the past. However, additional vaccine successes, fiscal stimulus, the turn in the earnings cycle, 2021 comparison dynamics (easy for value, difficult for growth) and expectations for a pickup in inflation expectations all play into the value rotation camp, while continued outsized monetary policy support and secular tailwinds seem to favor growth.

Index Returns	Last Week	YTD
Dow Jones Industrials	4.12%	5.10%
S&P 500 (LCap)	2.16%	10.97%
S&P 400 (MCap)	4.26%	2.44%
Russell 2000 (SCap)	6.08%	4.53%
NASDAQ Composite	-0.55%	31.84%
MSCI EAFE (Int'l)	4.77%	1.13%
iShares Real Estate	6.15%	-5.94%

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, an 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 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.