Entrust Financial LLC® Market Commentary – First Quarter, 2018

Volatility is Back

After living through a year of record growth and stability in the financial markets during 2017, volatility is back with a vengeance to kick off 2018!

Volatility is described as sharp price movements up and down in the markets. What has fueled higher volatility? A primary factor is the gradual raising of interest rates by the Federal Reserve, due to the strengthening of both the U.S. and world economies. While during the years following the 2008 financial crisis the world's central banks kept interest rates artificially low in order to encourage economic growth and subdue inflation, our current synchronized global expansion calls for a different response. Thus, the raising of interest rates. Historically, this so-called "tightening of monetary policy" leads to higher volatility and we investors experienced that during the first quarter of 2018.

Other influences on volatility are the worries faced by investors, such as: rising interest rates, inflation pressures, and the possibility of a global trade war as President Trump announced tariffs on foreign steel and aluminum. While proposed in the interest of making U.S. steel and aluminum more attractive to U.S. manufacturers, there is growing fear of antagonizing foreign trading partners—thus sparking a global trade war with retaliatory tariffs placed on U.S. imports to other countries. Naturally, any higher costs for U.S. manufacturers will be passed along to the consumer. All these factors have produced increased volatility in the markets.

However, volatility does not necessarily signal bad times ahead for investors. It is important to recognize that traditional stock market fundamentals continue to support an ongoing bull market, and fortunately the U.S. economy doesn't appear to be anywhere near a recession which historically accompanies a bear market.

Let's take a look at some of the highlights from the quarter:

- In early February, the market officially went into correction mode, defined as stock prices falling 10% from their peak prices.
- The strengthening of the U.S. economy is causing concern that the Federal Reserve will raise interest rates at a faster pace than expected.
- Worldwide, employment has been strong and the U.S. is seeing wage inflation which is expected to increase worldwide. This could result in a faster rate of inflation globally.
- President Trump announced a plan to impose tariffs on steel and aluminum coming into the U.S., which has raised the fear of a trade war.
- Technology sector stocks experienced some big price swings as, following some major data breaches, the likelihood of increased regulation has become apparent.

Especially during times of accelerating volatility, our Entrust clients may be reassured knowing that the portfolios we recommend are well diversified across asset classes. We believe that diversification is a key ingredient to long-term investment success.

Following are results for indices of asset classes commonly used to build our Entrust globally diversified portfolios:

Asset Class Review

	Q1 2018	2018 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	-0.7%	-0.7%	14.0%	10.4%	13.2%	9.6%
US Small Cap Equity	-0.1%	-0.1%	11.8%	8.4%	11.5%	9.8%
International Equity	-1.5%	-1.5%	14.8%	5.6%	6.5%	2.7%
Emerging Market Equity	1.4%	1.4%	24.9%	8.8%	5.0%	3.0%
Global Real Estate	-5.8%	-5.8%	-0.3%	0.9%	4.1%	3.8%
US Corporate Bond	-2.2%	-2.2%	2.6%	2.3%	3.0%	5.3%
US Government Bond	-1.2%	-1.2%	0.5%	0.5%	1.1%	2.8%
International Bond	3.6%	3.6%	11.8%	4.6%	1.2%	1.9%

The above chart is for illustrative purposes only and does not attempt to predict actual results of any particular investment. Past performance is no guarantee of future results. It is not possible to invest directly into an index.
Source: Morningstar Direct- US Large Cap is represented by the Russell 1000 Index; US Small Cap is represented by the Russell 2000 Index; International is represented by MSCI EAFE Index; Emerging Markets are represented by the MSCI Emerging Markets Index; Global Real Estate is represented by the S&P Global REIT Index; US Corporate Bonds is represented by the Morningstar US Corp Bond Index; US Government Bonds is represented by the Morningstar US Government Bond Index; International Bonds are represented by the Barclays Global Aggregate Bond ex USD Index. Returns as of 03/31/18.

For those interested in more in-depth technical analysis of the capital markets world-wide:

Results in North America

U.S. Stocks experienced a modest decline overall. Growth stocks did better than value stocks. Economic data was positive with improvements in the labor market and retail.

Consumer staples stocks were lower after disappointing quarterly earnings and the influence of e-commerce on some retailers. Coca-Cola and Pepsi declined on lower demand for their products.

Financial Companies were overall lower after the Federal Reserve issued aggressive enforcement actions against Wells Fargo for consumer fraud.

Information Technology stocks were higher for the quarter despite some big price swings. There is strong demand and optimism in the sector.

Better economic conditions and a weaker U.S. dollar allowed for better revenue growth in multinational companies.

Bonds returns were lower due to rising interest rates.

International Results

European stocks declined on investors' fears of a global market sell-off, rising U.S. interest rates and a strengthening euro. This decline was in spite of signs of ongoing economic improvement in the euro-zone including healthy gross domestic product growth, and a declining unemployment rate.

All sectors in Europe posted declines for the quarter. This was led by the telecommunications sector, where companies such as Vodaphone were hurt by fierce competition for wireless services.

European government bonds rose, supported by gains in Spain and Italy. ECB President Mario Draghi called to maintain the European Central Bank's stimulus program, despite signs of economic growth.

Japanese equities fell sharply because of geopolitical tensions in the region, and global trade restrictions. The Japanese economy overall grew during the quarter, boosted by increased infrastructure development and tourism ahead of the 2020 Olympic Games in Tokyo.

Australian equities were dragged down by lackluster returns from large banking stocks.

Hong Kong stocks declined slightly overall due to a 53% plunge in Kingston Financial following a warning from securities regulators and removal from FTSE Russell's benchmarks.

Emerging markets stocks rose for a fifth consecutive quarter. This was due to steady economic growth in China and other developing countries, higher oil prices and a weaker dollar. The MSCI Emerging Investable Markets index was the only major equity index to finish in positive territory for the quarter.

Chinese equities were up for the quarter, despite U.S.-China trade tensions, due to higher than expected results in home sales and retail.

Indian stocks lagged despite signs of economic growth.

Russian and Brazilian equities were among the biggest gainers in the emerging markets category, supported by higher oil prices and improving economic conditions.

Sovereign bond sales remained strong in Latin America and Africa. There was strong demand for Chinese corporate bonds.

Past performance is no guarantee of future results. International investing involves special risks, including but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties. Diversification does not guarantee a profit nor protect against a loss. Large Cap refers to companies with a market capitalization value of more than $10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and politic al uncertainties. Emerging markets are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by GDP. Investments in emerging markets come with much greater risk due to political instability, domestic infrastructure problems, currency volatility and limited equity opportunities (many large companies may still be "state-run" or private). Also, local stock exchanges may not offer liquid markets for outside investors. Small cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small-cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. Government bonds are guaranteed by the U.S. Government and if held to maturity, offer a fixed rate of return and fixed principal amount. Guarantee only applies to the timely payment of principal and interest and does not pertain to the portfolio or mutual fund, holding such securities. Values will fluctuate, and upon redemption, share values may be worth more or less than the original investment. Investments in high yield bonds entail higher risks, including greater credit risks. Their NAVs are sensitive to interest rate movements (a rise in interest rates can result in a decline in value of the investment). Upon redemption, share values may be worth more or less than the original investment. Corporate bonds are debt securities issued by a corporation and sold to investors. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Corporate bonds are considered higher risk than government bonds. As a result, interest rates are almost always higher. Treasury Inflation Protected Securities (TIPS) are a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and since their par value rises with inflation, as measured by the Consumer Price Index, while their interest rate remains fixed. The value of the shares of a REIT fund will fluctuate with the value of the underlying assets (real estate properties.) There are special risk factors associated with REITs, such as interest rate risk and the illiquidity of the real estate market. A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.