Entrust Financial LLC® Market Commentary – Third Quarter, 2018

Flashing Yellow Lights

The third quarter was characterized by what could be called "flashing yellow lights." What this means to investors is that while the economic road ahead will likely be bumpy, the alarm bell of recession is not yet sounding. For instance, investors continue to be concerned about the escalating conflict with China, our largest trading partner. But following months of trade war fears, the third quarter did bring about the good news of the apparent re-affirmation of NAFTA (now called USMCA, the "United States, Mexico and Canada Agreement").

There are several reasons for optimism regarding the U.S. economy—daily, dramatic headlines notwithstanding. For example, we are currently experiencing the second-longest expansion in market history and are on pace to extend to the longest. In addition, Federal Reserve Chair Jerome Powell recently indicated there are several more rate hikes still to come before we hit our "new neutral." Though rising rates can cause stress on sentiment, investors may find some relief in the historical trend that recessions tend to come after a rate hike cycle is completed, not during.

Here are some highlights from the third quarter:

- Strong corporate earnings and solid growth among the developed markets allowed global equities to rally.
- U.S. stocks hit a series of new record highs, with health care stocks generating the highest returns.
- Impressive earnings reports from Apple, Microsoft and others allowed Information Technology stocks to continue to shine.
- The U.S. Dollar rallied against the Euro, the Yen and most other currencies.
- European and Asia-Pacific stocks rose during the quarter. As in the U.S., European health care companies enjoyed strong earnings growth; the re-election of Japanese Prime Minister Shinzo Abe helped investor confidence with respect to policy continuity.
- Emerging markets stocks were down due to weakened currency versus the U.S. dollar, and global trade tensions.
- The Federal Reserve raised the Fed funds rate another 25 basis points in September, marking the third rate hike this year.

As we watch these and other potential "flashing yellows" as they emerge, Entrust will continue to invest our clients' assets in well-diversified portfolios.

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

Asset Class Review

	Q3 2018	2018 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	7.42%	10.49%	17.76%	17.07%	13.67%	12.09%
US Small Cap Equity	3.58%	11.51%	15.24%	17.12%	11.07%	11.11%
International Equity	1.35%	-1.43%	2.74%	9.23%	4.42%	5.38%
Emerging Market Equity	-1.9%	-7.68%	-0.81%	12.36%	3.61%	5.4%
Global Real Estate	0.22%	0.77%	4.06%	7.17%	7.49%	7.07%
US Corporate Bond	1.02%	-2.19%	-1.12%	3.14%	3.51%	6.16%
US Government Bond	-0.57%	-1.69%	-1.59%	0.25%	1.35%	2.70%
International Bond	-1.74%	-3.03%	-1.45%	2.41%	-0.33%	2.2%

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 9/30/2018..

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

Results in North America

U.S. equities had the highest return of any developed market, hitting record levels at the end of the quarter.

The U.S. added tariffs on a further $200 billion of Chinese goods, adding to trade tensions and prompting additional retaliation by China.

Growth companies continued to outpace value stocks, as pharmaceuticals soared on better-than-expected earnings.

Social media companies like Facebook and Twitter saw sharp declines amidst slowing user growth.

The Federal Reserve hiked the federal funds target rate in September by another 25 basis points. The Fed also signaled more future increases than previously expected.

International Results

European stocks rose despite investor fears about slowing economic growth and escalating trade tensions. Overall, the MSCI Europe Index rose 1% in local currency terms, but the euro declined 1% against the U.S. dollar.

The European Central Bank announced that it will remain on schedule to phase out its bond-buying stimulus program by the end of the year.

Japanese equities rose late in the quarter amidst strong economic indicators both at home and in the U.S. The MSCI Japan Index rose 6%. , while the yen fell 2% against the U.S. dollar.

Emerging markets stocks fell due to rising U.S. rates and a strong U.S. dollar. Trade tensions between the U.S. and China continued to dampen this space. Overall, the MSCI Emerging Markets Investable Market Index fell 1%, putting its year-to-date loss at 8%.

Chinese stocks were down for the second quarter in a row due to escalating trade tensions with the U.S. and China's slowing pace of economic growth.