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## Entrust Financial LLC® Market Commentary – Third Quarter, 2020

### A Random Non-Partisan Walk

The third quarter results surprised many investors who presumed that the “happy days are here again” capital market recovery of the second quarter could not keep going. What a stellar illustration of the fact that “the markets take a **random walk**.” In other words, we cannot predict when the capital markets—and therefore our portfolios—will increase and when they will not. Perhaps random walk, simply defined as *the inability to predict the future*, might be applied as descriptive of two other primary current events that have caused much consternation to investors this year—the pandemic and politics.

Portfolios, the pandemic, and politics have loomed large in client conversations since March of this year. The dynamic nature of each can cause investors to underestimate or overestimate the long-term impact of what they are experiencing. A Bill Gates comment might offer just the dose of perspective we need, before we take a look at some highlights from the third quarter. Gates stated, “We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten.”

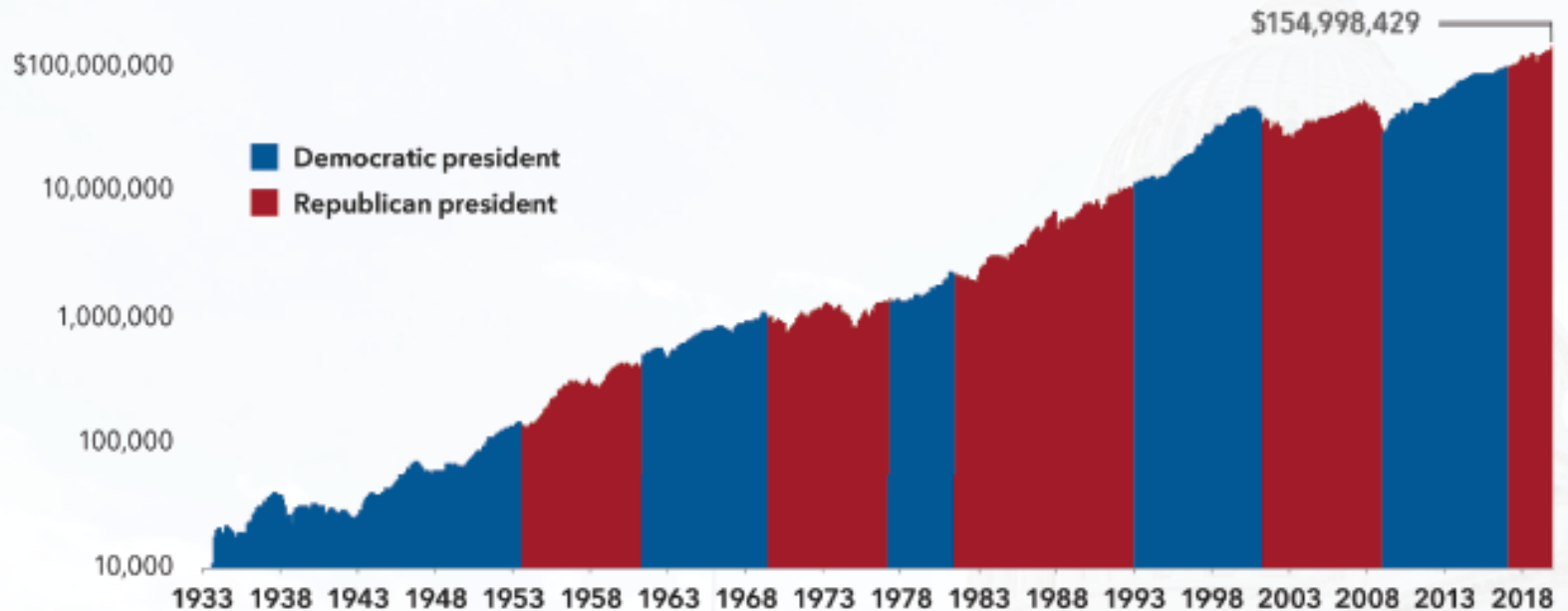
Highlights from the third quarter include:

- **U.S. equities continued to rally**, fueled by optimism about the path of the economic recovery. Activity picked up as businesses reopened and consumers adapted to new guidelines affecting work, commerce and recreation.
- **Led by technology stocks**, the market completed a full reversal of the bear market’s steep losses earlier in the year. Generally speaking, large caps topped small caps, and growth stocks outpaced value.
- **The unemployment rate fell to 8.4% in August**, its fourth consecutive monthly decline, but remained far above pre-recession lows.
- **Low mortgage rates and a desire for more living space** while working from home during the pandemic propelled buyers back to the real estate market.
- **Retail sales rose in August but at a slower rate** than the previous two months, which was partially attributed to the July expiration of the federal unemployment subsidy.
- **Bond markets turned in another quarter of gains** as some economic data showed the U.S. economic recovery grinding on, despite challenges tied to the pandemic.

At Entrust, we remain committed to broadly diversified asset allocation portfolios as we aim to manage our investor’s risk while avoiding predictions of what might be ahead in the random walk of the capital markets. In the interest of helping our clients avoid overestimation of the impact of November election results, the following image may be reassuring.

## Stocks have trended higher regardless of which party has been in office

Growth of a hypothetical \$10,000 investment in the S&P 500 Index



Sources: Morningstar, Standard & Poor's. The start date is March 4, 1933, and the end date is August 31, 2020. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

Chart courtesy of our partners at Capital Group

As always, our Entrust advisors welcome your feedback, and we look forward to our next conversation together.



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

### Asset Class Review

	Q3 2020	2020 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	9.47%	6.40%	16.01%	12.38%	14.09%	13.76%
US Small Cap Equity	4.93%	-8.69%	0.39%	1.77%	8.00%	9.85%
International Equity	4.80%	-7.09%	0.49%	0.62%	5.26%	8.17%
Emerging Market Equity	9.56%	-1.16%	10.54%	2.42%	8.97%	2.50%
Global Real Estate	2.63%	-18.56%	-17.69%	-0.10%	3.35%	6.73%
US Corporate Bond	1.54%	6.64%	7.90%	6.41%	5.98%	5.14%
US Government Bond	0.17%	8.90%	8.04%	5.50%	3.75%	3.15%
International Bond	4.14%	4.77%	5.48%	3.07%	3.60%	1.35%

*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 Bloomberg Barclays US Corp Bond Index; US Government Bonds is represented by the Bloomberg Barclays Aggregate Bond Treasury Index; International Bonds are represented by the Barclays Global Aggregate Bond ex USD Index. Returns as of 09/30/2020.*

*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 political 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.*

10/15/2020