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Entrust Financial LLC® Market Commentary – Second Quarter, 2021

INFLATION UPTICK: BAD NEWS OR GOOD?

Global capital markets ended the first half of 2021 on a decidedly positive note, following another quarter of impressive gains. Vaccination rates, manufacturing and leisure spending all accelerated in the second quarter, which enabled many of the world's largest economies to continue their reopening efforts and helped to sustain investment results.

Although positive financial headlines abound, one less widely understood but potentially ominous theme does loom large for many investors: inflation. Economists like to define inflation in terms of supply and demand. Broadly defined, the concept of inflation can be thought of as the natural increase in the price of goods and services over time. Inflated prices may precipitate many other important changes as well, such as: 1) enhanced profits for businesses; 2) higher interest rates on cash savings; 3) increased wages for workers. As such, keen investors recognize that despite the negative impact rising prices can have on the wallets of consumers, inflation is essential to the long-term, continued growth of the economy.

A Closer Look: Context Counts

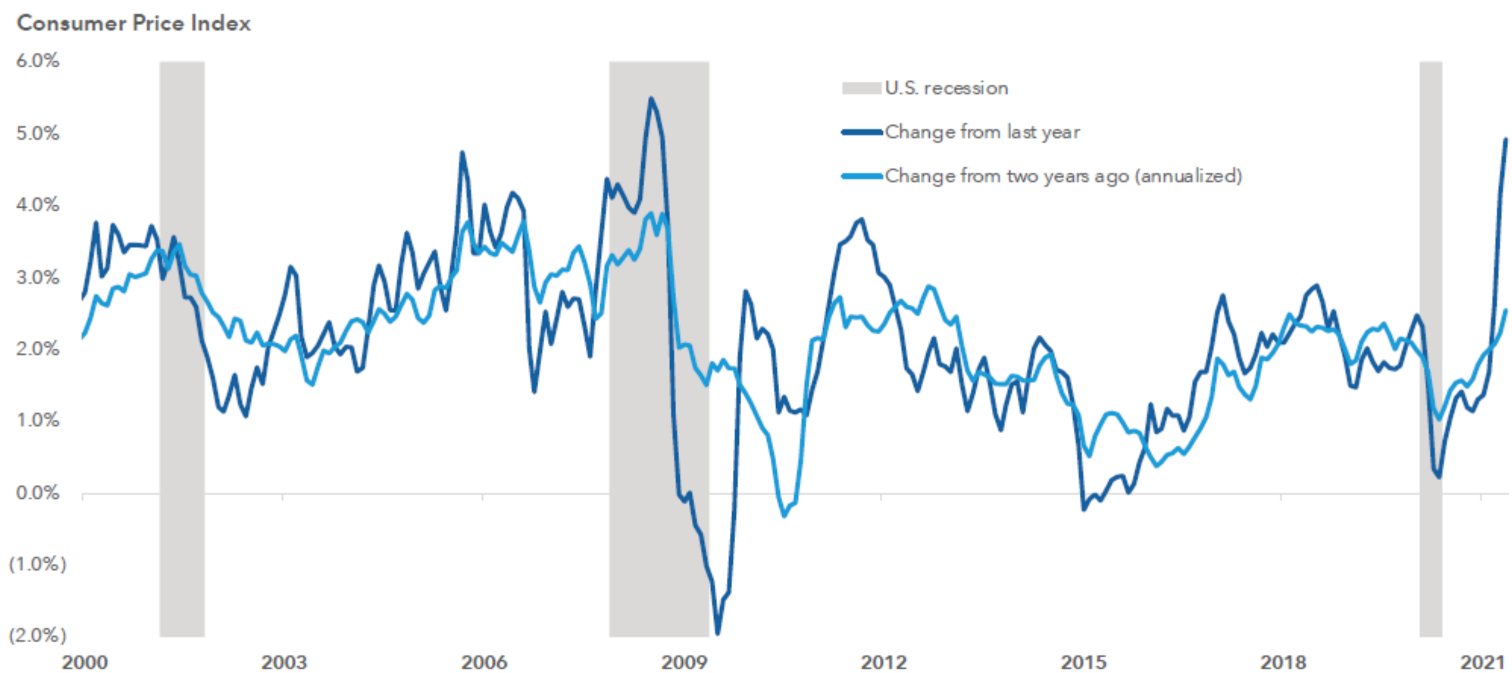
In early July, the Department of Labor reported that inflation increased 5.4% from a year earlier. This increase represents the most dramatic jump in over a decade, but as with all facts and figures, context is important. A year ago the global economy was at a virtual standstill, with strict lockdowns in place at the height of the pandemic. However, with economies now reopening around the world, it is reasonable to expect that supply is still catching up with demand across a wide range of industries. While not knowing the exact timing, it is sensible to assume that as manufacturing and consumer spending normalizes, inflation will likely return to historically average levels.

Highlights from the second quarter include:

- **U.S. equities continued to soar,** bolstered by accelerating COVID-19 vaccine rollouts and the prospect of additional stimulus measures.
- **Growth stocks reasserted their dominance** for the first time in three quarters, once again outshining their value-oriented counterparts. Large technology companies led this trend, with shares of Apple, Microsoft and Facebook all achieving double-digit returns.
- **The Federal Reserve signaled interest rate hikes** may come sooner than expected, potentially as soon as 2023.
- **Energy stocks continued to soar,** gaining 46% year to date. Spikes in oil prices were supported by a sharp increase in driving activity and air travel.
- **Bonds rose in the second quarter,** primarily due to volatile jobs and inflation reports.

The illustration below, from our trusted partners at Capital Group, demonstrates the fluid nature of inflation. As with many other aspects of the financial markets, the inflation rate is dynamic – and relative. A look at the bigger picture may offer investors helpful perspective.

Inflation may not be as high as it seems



Sources: Bureau of Economic Analysis, Refinitiv Datastream. As of 5/31/21.

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

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

Asset Class Review

	Q2 2021	2021 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	8.54%	14.95%	43.07%	19.16%	17.99%	14.90%
US Small Cap Equity	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
International Equity	5.17%	8.83%	32.35%	8.27%	10.28%	5.89%
Emerging Market Equity	5.05%	7.45%	40.90%	11.27%	13.03%	4.28%
Global Real Estate	10.43%	17.55%	36.11%	8.40%	5.77%	8.01%
US Corporate Bond	3.55%	-1.27%	3.30%	7.79%	4.90%	5.17%
US Government Bond	1.75%	-2.58%	-3.22%	4.66%	2.15%	2.84%
International Bond	0.92%	-4.42%	4.60%	3.12%	1.63%	0.99%

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 6/30/2021.