



## Entrust Financial LLC® Market Commentary –Third Quarter, 2022

### Silver Linings Playbook

Despite ongoing capital market volatility, economic data in the third quarter was largely positive and points to the resiliency of the U.S. economy. The most striking of this data may be the unemployment rate, which remains at a historically low 3.7%. Similarly positive is the outlook for corporate earnings; the current consensus among analysts is an expectation for growth through 2023, though at a slower pace than in recent years.

As is often the case in times of stress, positive economic news did not translate to positive investment returns in the third quarter. Much of the negative sentiment in recent months can be attributed to the U.S. Federal Reserve, and many central banks around the world, as they reiterated their commitment to fighting inflation rather than to supporting growth.

Other highlights from the third quarter include:

- U.S. equities continued to decline across most sectors, with the S&P 500 index losing 5%
- Inflation slowed somewhat but remained high, rising 8.3% in August as measured by the Consumer Price Index
- The Federal Reserve raised interest rates by 75 basis points two times in the quarter, for a total of five increases this year
- Consumer Discretionary was a bright spot in U.S. equities, boosted by solid gains from Tesla and Starbucks
- Global bond prices continued to suffer under the pressure of rising interest rates by central banks and sustained levels of inflation

The complex nature of the current economic situation will take some time to resolve. While counseling patience to weary investors, there are reasons for optimism if one looks past the major headlines to “silver linings,” if you will. One such silver lining comes to us from the labor market, with a significant 10% average increase in household income over the last year. Another silver lining will certainly delight savers, in the form of the highest interest rates on bank deposits in over a decade. However, it is history that may provide the third, and perhaps most meaningful, silver lining to investors. While one never can predict the random walk of the capital markets, history shows us that the stock market typically begins to recover prior to the economy improving during periods of turmoil.

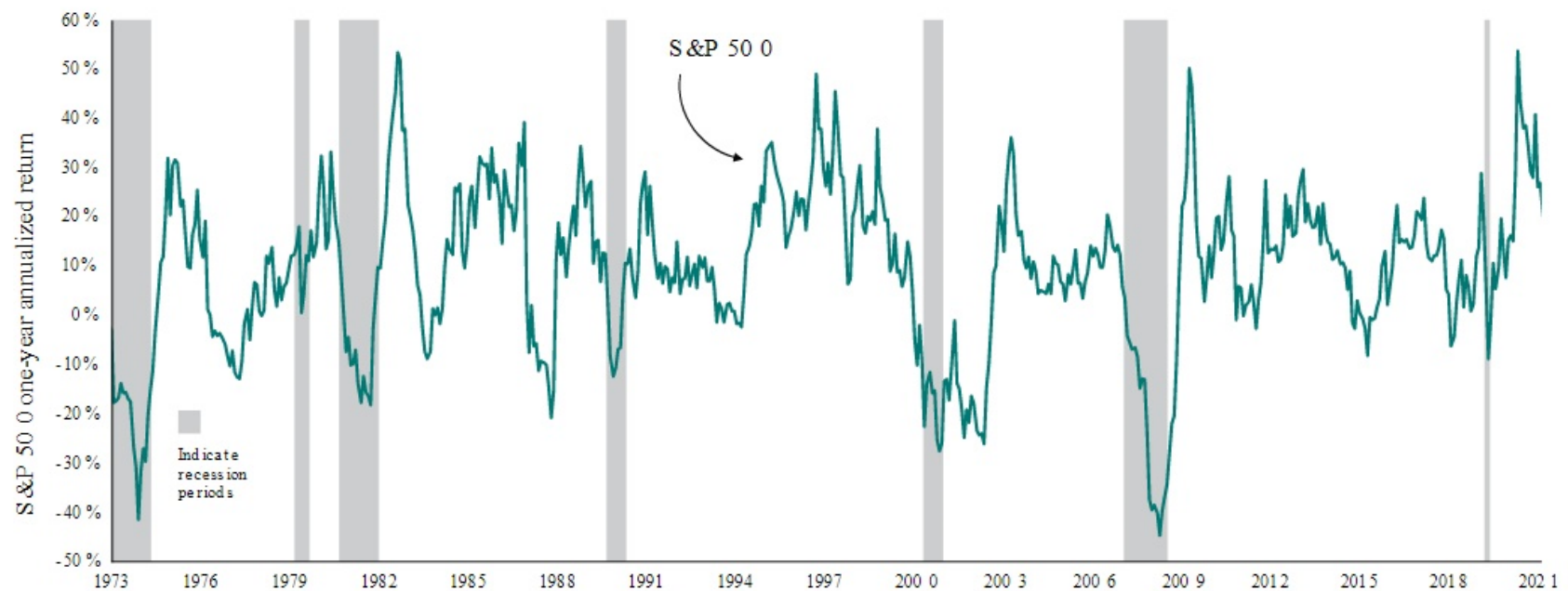
The more volatile the capital markets are, the more difficult it can be to remember that stock prices do not always reflect the true strength or value of a company, in both good times and bad. It is a sentiment worth keeping in mind as we look towards the new year ahead.



For our investors who prefer images to text, the chart below from our trusted partners at Vanguard illustrates the relationship between the capital markets and the economy throughout modern history in more detail. We hope you will find it helpful.

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

## Stocks start to recover before recessions end



**Sources:** Vanguard calculations as of December 31, 2021, using data from Refinitiv.

**Notes:** This chart shows the one-year annualized returns for the S&P 500 Index from 1973 through 2021. The shaded areas represent months where the U.S. economy was in recession as defined by the National Bureau of Economic Research.



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

### Asset Class Review

|                        | Q3 2022 | 2022 Year to Date | 1 Year Trailing | 3 Year Trailing | 5 Year Trailing | 10 Year Trailing |
|------------------------|---------|-------------------|-----------------|-----------------|-----------------|------------------|
| US Large Cap Equity    | -4.61%  | -24.59%           | -17.22%         | 7.95%           | 9.00%           | 11.60%           |
| US Small Cap Equity    | -2.19%  | -25.10%           | -23.50%         | 4.29%           | 3.55%           | 8.55%            |
| International Equity   | -9.36%  | -27.09%           | -25.13%         | -1.83%          | -0.84%          | 3.67%            |
| Emerging Market Equity | -11.57% | -27.16%           | -28.11%         | -2.07%          | -1.81%          | 1.05%            |
| Global Real Estate     | -17.00% | -20.00%           | -9.83%          | 1.43%           | 3.87%           | 6.26%            |
| US Corporate Bond      | -5.06%  | -18.72%           | -18.53%         | -3.65%          | -0.03%          | 1.70%            |
| US Government Bond     | -4.35%  | -13.09%           | -12.94%         | -3.11%          | -0.23%          | 0.50%            |
| International Bond     | -8.85%  | -23.88%           | -24.77%         | -7.78%          | -4.03%          | -2.39%           |

*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 9/30/2022.*

*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. 10/13/2022*