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Entrust Financial LLC® Market Commentary – First Quarter, 2019

The Natural Cycle of the Capital Markets

After a disappointing fourth quarter, the turning of the calendar brought with it not only a new year but also a new wave of cautious optimism. Much to the delight of investors, capital markets rebounded strongly. In fact, U.S. equities experienced the most robust first-quarter rally in more than two decades.

This sharp turnaround can be viewed as an excellent example of the natural cycle of the markets. Declines in the fourth quarter of 2018 were primarily caused by concerns about interest rates and escalating trade tensions with China. In response to this period of stress, the Federal Reserve publicly eased their stance on interest rate adjustments and the U.S. administration seemingly turned down the heat in their trade negotiations with China. These two adjustments may seem small, but they worked; anxious investors calmed, and the markets settled.

Here are some highlights from the first quarter:

- The end of the longest-ever U.S. government shutdown in January helped ease a jittery market
- Despite weak jobs numbers in February, the U.S. unemployment rate fell further to 3.8% and wages continued to grow by 3.4%
- Information Technology stocks led the equity rally, with a gain of 20% for the sector
- After a sharp decline amid devastating headlines surrounding the 737 MAX jet, Boeing managed to end the quarter up by 19%
- The U.S. dollar rose against the euro and Japanese yen, but results against the broader currency market were mixed

It’s important to remember that the market – just like life – is dynamic. We won’t always know how quickly, or to what magnitude, either current events or specific responses will assist in periods of stress. Fortunately, in the first quarter, the markets adjusted quickly and well, resulting in a very positive start to 2019.

Our Entrust process of research and investment selection is structured to keep the dynamic nature of investing front and center. When conducting our due diligence of potential investments for the portfolios of our clients, we look not only to the past success of fund managers but also to their ability to respond to ever-changing market conditions as the years unfold.

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

Asset Class Review

	Q1 2019	2019 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	14.00%	14.00%	9.30%	13.52%	10.63%	16.05%
US Small Cap Equity	14.58%	14.58%	2.05%	12.92%	7.05%	15.36%
International Equity	9.98%	9.98%	-3.71%	7.27%	2.33%	8.96%
Emerging Market Equity	9.91%	9.91%	-7.41%	10.68%	3.68%	8.94%
Global Real Estate	14.39%	14.39%	15.29%	5.67%	7.81%	16.14%
US Corporate Bond	5.14%	5.14%	5.08%	3.64%	3.70%	6.34%
US Government Bond	2.17%	2.17%	4.31%	1.09%	2.19%	2.46%
International Bond	0.91%	-2.15%	-2.15%	3.15%	-0.01%	1.74%

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 3/31/2019.

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

Results in North America

- In the largest quarterly jump since 2009, U.S. crude oil prices rose more than 30%
- Growth stocks continued to dominate with the strongest returns, led by technology companies
- Netflix was a standout with shares rising 33% on the announcement of new fee increases for subscribers
- Energy and industrial stocks benefitted greatly from the economic news of the quarter with both sectors rising sharply
- Health care and financials both rose but lagged other sectors, as evidenced by declines in the shares of Biogen, Cigna and CVS Health

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International Results

- Global stocks rose along with the broader global market rally, despite slowing economic growth in many major countries
- All sectors in the European equity markets moved higher, led by consumer staples stocks
- U.K. lawmakers continue to pursue alternative Brexit plans following the third failed attempt in Parliament at the end of March to secure a deal
- Japan's economy showed further signs of stress, failing to achieve two consecutive quarters of GDP growth since 2017
- Chinese stocks soared on renewed hopes that the U.S. and China may avoid a major trade war
- Emerging markets stocks also rose on the positive news between the U.S. and China, shown by a 10% rise in the MSCI Emerging Markets Investable Market Index

Fixed Income

- U.S. Fixed Income returns followed equities higher, resulting in a nice rally for both investment grade and high-yield corporate bonds
- The 10-year U.S. Treasury spread ended at 2.41%, down 28 basis points in the quarter
- The European Central Bank unexpectedly announced they will restart their stimulus program, ensuring ultra-low interest rates for the remainder of 2019
- In response to the news of the ECB stimulus package, European government bond prices rose dramatically
- Dollar-denominated sovereign debt recorded solid returns, with assistance from several major central banks showing favor to maintaining low interest rates
- In January, the Bank of Japan lowered its 2019 core inflation outlooks to 1.0% - 1.3%, well below its 2% target
- Renewed appetite for emerging markets sovereign debt was demonstrated by bond offerings in Qatar, Saudi Arabia, Mexico and the Philippines

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.

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