Entrust FINANCIAL LLC®

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Entrust Financial LLC® Market Commentary – Second Quarter, 2019

Hot Today, But Winter Is Coming

Investors enjoyed positive results in the second quarter, due to the continued rally that began in the early part of 2019. Domestic equities performed particularly well, experiencing the best first half of a year since 2007. However, while current market conditions may have investors in a celebratory mood, it is important to balance the exuberance of positive returns with the reality of our underlying economy.

Though we are pleased to see that, for the moment, the capital markets are as hot as our summer afternoons, the U.S. is certainly in the later stages of the economic cycle. For example, recent economic data has been mixed and therefore somewhat underwhelming. With an eye to the future, Entrust will focus on a few key aspects of client portfolios as we head into the second half of the year.

Following are several objectives of the Entrust Investment Committee, that influence the fine-tuning of our recommended asset allocation portfolios:

- Maintain an intermediate-maturity strategy for fixed income, given the current interest rate environment
- Limit international fixed income holdings due to decreased reward per the risks assumed and the continued strength of the U.S. dollar
- Decrease equity exposure to small-cap companies and those in Emerging Markets
- Maintain a solid balance of value and growth-oriented companies[1]

The Entrust process of research and investment strategy is structured to keep the dynamic nature of investing at the forefront. While achieving the most important goals of our clients over the long-term is always the top priority, it may sometimes be appropriate to rebalance our asset allocations as economic and market conditions evolve along the way. Managing finances is always a balancing act; in this case, balancing the current *hot* trends while positioning our clients for all that is still to come.

[1]Value companies may be thought of as "on sale," or those that are already worth more than their stock prices reflect. Growth companies, on the other hand, are those with the expectation of dramatic increases over time.

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

Asset Class Review

	Q2 2019	2019 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	4.25%	18.84%	10.02%	14.15%	10.45%	14.77%
US Small Cap Equity	2.10%	16.98%	-3.31%	12.30%	7.06%	13.45%
International Equity	3.68%	14.03%	1.08%	9.11%	2.25%	6.90%
Emerging Market Equity	0.61%	10.58%	1.21%	10.66%	2.49%	5.81%
Global Real Estate	1.58%	16.19%	10.05%	4.58%	6.44%	13.43%
US Corporate Bond	4.21%	9.57%	10.55%	3.91%	4.01%	5.85%
US Government Bond	2.92%	5.15%	7.27%	1.35%	2.51%	3.02%
International Bond	3.42%	4.99%	4.10%	0.97%	-0.12%	2.10%

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 6/30/2019.

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

Results in North America

- U.S. Equities reached new all-time highs, rising 4% for the quarter
- Energy was the only sector to decline as a result of falling crude oil prices
- Volatility returned early in the quarter due to U.S.-China trade discussions
- The labor market showed signs of a plateau with wage growth at the slowest pace since late 2018
- Qualcomm was a standout in a soaring Technology sector, gaining 35% after the announced end to a two-year dispute with Apple

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International Results

- European stocks rose despite weak economic data, aided by indications of interest rate cuts and other potential stimulus measures by the European Central Bank
- Europe continues to experience political turmoil, including the announced resignation of U.K. Prime Minister Theresa May amid stalled Brexit negotiations
- Japanese stocks fell modestly following weak exports and an unprecedented, mid-quarter, 10-day market holiday declared by the government to mark the ascension of Emperor Naruhito
- Australia led the Asia-Pacific region as stocks gained 9% and the central bank cut interest rates
- Volatility caused by U.S. – China trade negotiations was felt far and wide, impacting Emerging Market stocks and currencies throughout the quarter

Fixed Income

- The U.S. Federal Reserve left interest rates unchanged at their June meeting, but strongly signaled impending interest rate cuts
- U.S. Fixed Income had another strong quarter, with Investment Grade corporate bonds among the best performers
- The 10-year U.S. Treasury spread ended at 2.00%, down 41 basis points in the quarter
- Dollar-denominated sovereign debt recorded solid returns, with assistance from several major central banks showing favor to maintaining low interest rates
- Several countries sold new bonds, including Serbia, Croatia and Peru, signaling the continued appetite for new Emerging Markets debt issuers

940 West Valley Rd, Suite 1902, Wayne, PA 19087 | 610-687-3515 | www.entrustfinancial.com