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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 companies¹

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.

¹Value 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.



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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

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.