Entrust FINANCIAL LLC® FOR A BETTER EXPERIENCE.

Entrust Financial LLC® Market Commentary – Fourth Quarter, 2019

Snowball Effect in the Fourth Quarter

Investors went on a shopping spree in the fourth quarter of 2019, and not only for holiday gifts. Their enthusiastic purchase of equities drove the capital markets to a series of historic highs. Much like a snowball that gathers momentum as it rolls downhill, investor exuberance accelerated with each new market high. In direct contrast to the results for U.S. large cap domestic equities at the close of 2018—*down* almost 14%—U.S. large cap domestic equities closed out the fourth quarter of 2019 with gains of about 9%, resulting in impressive cumulative appreciation for the year.

Here are some highlights from the fourth quarter:

- The U.S. is set to sign a "phase one" trade deal with China in January, easing anxiety over tariffs
- After 3 cuts to interest rates in 2019, the Federal Reserve signaled in December that it would pause before further action
- The unemployment rate was 3.5% in November, the lowest level in nearly 50 years
- Technology was the leading sector during the quarter, with a 14% gain

The fourth quarter results cited above, for 2018 and for 2019, are great examples of emotion driving investor decisions. The inclination to jump on the bandwagon when things are "hot" led to excessive buying at historic highs. This is the downfall of many investors for the simple reason that they are overlooking a fundamental equity purchase tenet: *Buy Low*. At Entrust, we avoid the snowball effect by maintaining a disciplined approach to investment selection and purchase decisions. A time-tested strategy we utilize, to implement the *Buy Low* tenet, is our intentional portfolio rebalancing—a strategy which also aims to manage investment risk.

With the accelerated enthusiasm of 2019 behind us, we anticipate a different paradigm ahead in 2020. For instance, election years tend to be characterized by a flurry of alarmist headlines; these, in turn, increase volatility in the capital markets. A common contributor to this increased volatility is uncertainty. No one will be surprised by the reminder that neither investors nor capital markets like uncertainty. Therefore, market activity during election years may feel unsettled, indeed.

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

Asset Class Review

	Q4 2019	2019 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	9.04%	31.43%	31.43%	15.05%	11.48%	13.54%
US Small Cap Equity	9.94%	25.52%	25.52%	8.59%	8.23%	11.83%
International Equity	8.17%	22.01%	22.01%	9.56%	5.67%	5.50%
Emerging Market Equity	11.84%	18.42%	18.42%	11.57%	5.61%	3.68%
Global Real Estate	1.07%	24.49%	24.49%	8.80%	6.73%	10.51%
US Corporate Bond	1.18%	14.54%	14.54%	5.92%	4.60%	5.54%
US Government Bond	-0.79%	6.86%	6.86%	3.31%	2.36%	3.13%
International Bond	0.67%	5.09%	5.09%	4.36%	1.62%	1.50%

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 12/31/2019.

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

Results in North America

- U.S. Large Cap Equities continued to rise, resulting in a 31.43% return year to date
- The Manufacturing sector continued to show weakness, despite easing tensions on trade
- Cash levels dropped to their lowest since 2013, showing the continued optimism of U.S. investors
- The U.S. dollar declined versus the Euro but rose slightly versus the Yen
- Boeing shares declined 14% following continued struggles with the 737 MAX and the removal of its CEO

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International Results

- International stocks across geographies advanced on the news of improved U.S-China relations
- Emerging Market stocks benefitted dramatically from the planned rollback of tariffs between the U.S. and China, posting their strongest gains in over 2 years
- Voters in the U.K. gave the Conservative Party a large majority in their December elections, increasing the likelihood of a negotiated Brexit deal being approved
- The British pound had its best performance in a decade, rising 7.5% against the U.S. dollar
- Political unrest continued to erode the Hong Kong economy, pushing the country into its first recession in a decade

Fixed Income

- The U.S. Federal Reserve cut interest rates by 0.25% in October, prior to signaling a pause in December
- Mirroring the U.S. Federal Reserve, the European Central Bank chose to pause from further action
- The 10-year U.S. Treasury spread ended at 1.92%, up 24 basis points in the quarter
- Australia's central bank cut its target interest rate further, to a record low of 0.75%
- Demand for corporate debt remained strong, with AbbVie issuing one of the largest deals in history to finance its acquisition of Allergan

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.