



## Entrust Financial LLC® Market Commentary—Second Quarter, 2023

### Sweet Summertime

The second quarter of 2023 brought welcome rays of sunshine for investors around the world, as the capital markets continued to move in a positive direction.

Good news abounded during the quarter, with many factors contributing to the overall positive results. The Information Technology sector continued to dominate the equity markets in the U.S., helped in large part by exciting advances in artificial intelligence. Encouraging economic data also contributed to positive performance across sectors. Though still above the Federal Reserve's target level of 2 percent, inflation continues to recede and unemployment remains historically low.

The Federal Reserve decision to pause their rate hiking campaign during their June meeting added to investor enthusiasm in the second quarter. While this was widely expected by analysts, the move was a welcome break from the monthly raises that have been implemented continuously since March 2022. Federal Reserve Chair Jerome Powell was clear in his remarks announcing the move that we may still be in for further hikes later this year. However, the fact that the board had enough confidence in the economic data to test a pause was enough to encourage investors and aid in the capital markets moving upwards.

Other highlights from the second quarter include:

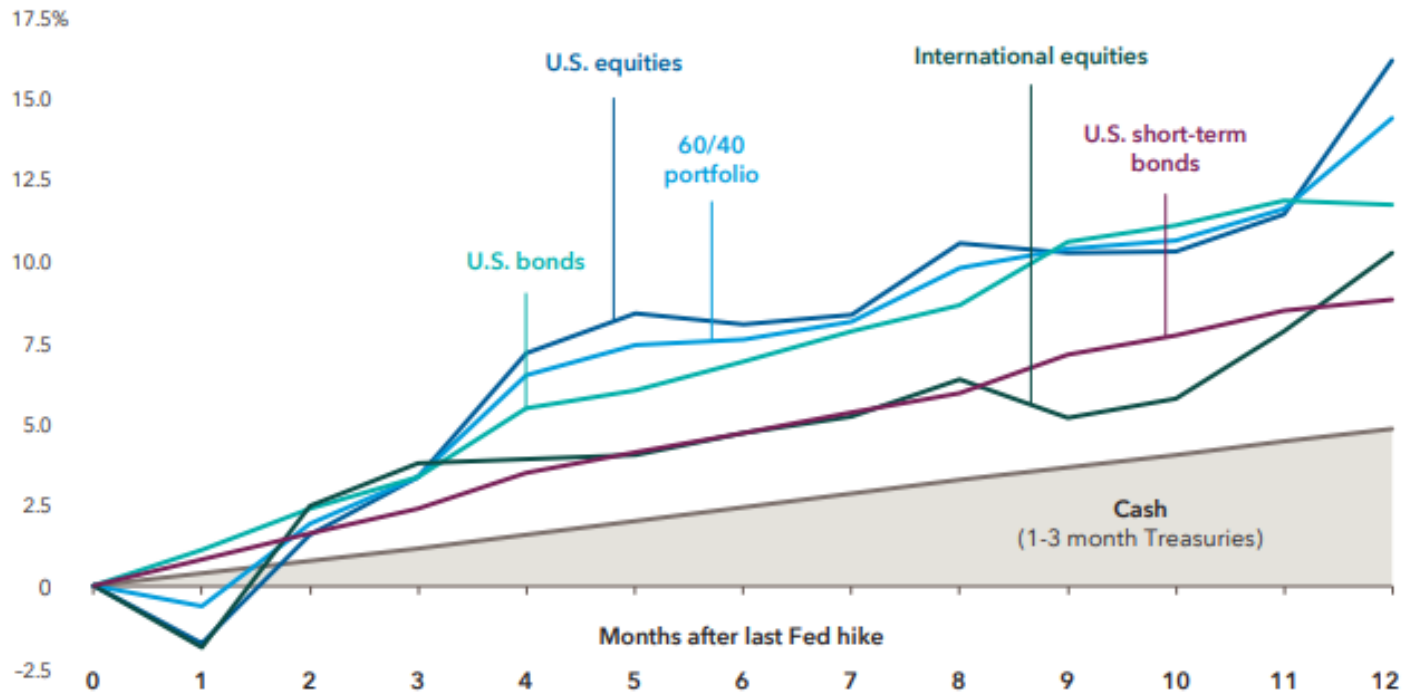
- U.S. equities continued to strengthen across most sectors, with the S&P 500 index ending the quarter up by 9%
- Inflation continued to slow, down from 5% in March to 3% in June, as measured by the Consumer Price Index
- The Federal Reserve paused their rate hiking activity in June, following ten consecutive increases
- Shares of pharmaceutical giant Eli Lilly climbed an impressive 37% due to optimism for its drug pipeline, which includes unprecedented treatments for early-stage Alzheimer's and obesity
- U.S. bond markets fell overall, with the U.S. Aggregate Index returning -0.8% for the quarter

As we look ahead to the second half of the year, the Entrust Investment Committee believes the Federal Reserve will continue its battle against inflation with at least one more rate increase following the current pause. If inflation is successfully tamed to more palatable long-term levels, investors will likely be pleased with their portfolio results—even though economic headlines may be less than favorable. This typically occurs because the stock market is a future-focused machine, while economic data looks backwards.

Fortunately, as the chart that follows illustrates, there tends to be great cause for optimism as the end of a rising interest rate environment draws near.

## Stocks and bonds have outpaced cash after a Fed hiking cycle

Average returns following the last Fed hike – Prior four hiking cycles



SOURCES: Capital Group, Bloomberg Index Services Ltd., MSCI, Refinitiv Datastream, Standard & Poor's. Returns reflect the average cumulative return over each of the first 12 months immediately following the last increase in the target U.S. federal funds rate ("last Fed hike") over the prior four hiking cycles. The specific start months for the periods included in the average calculations are: February 1995, May 2000, June 2006, and December 2018. U.S. bonds are represented by the total return of the Bloomberg U.S. Aggregate Index; U.S. equities are represented by the total return for the S&P 500 Index; the 60/40 portfolio is represented as the weighted average return using 60% of the total return for the S&P 500 Index and 40% of the total return in U.S. dollars for the Bloomberg U.S. Aggregate Index, with no rebalancing for the first 12 months. International equities are represented by the total return in U.S. dollars for the MSCI EAFE Index; U.S. short-term bonds are represented by the total return for the Bloomberg 1-3 Year U.S. Government/Credit Index; cash is represented by change in the Bloomberg U.S. Treasury Bill 1-3 Months Index. As of May 31, 2023. Past results are not predictive of results in future periods.



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

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

### Asset Class Review

	Q2 2023	2023 Year to Date	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing
US Large Cap Equity	8.58%	16.68%	19.36%	14.09%	11.92%	12.64%
US Small Cap Equity	5.21%	8.09%	12.31%	10.82%	4.21%	8.26%
International Equity	2.95%	11.67%	18.77%	8.93%	4.39%	5.41%
Emerging Market Equity	0.90%	4.89%	1.75%	2.32%	0.93%	2.95%
Global Real Estate	1.03%	2.70%	-1.92%	6.38%	2.41%	4.90%
US Corporate Bond	-0.29%	3.21%	1.55%	-3.44%	1.76%	2.63%
US Government Bond	-1.38%	1.59%	-2.13%	-4.80%	0.44%	0.96%
International Bond	-2.16%	0.83%	-1.83%	-5.87%	-2.65%	-0.90%

*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 6/30/2023.*

*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. 7/17/2023*