FIRST QUARTER 2020 REPORT

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WEALTH MANAGEMENT
A division of Enterprise Bank

IN THIS ISSUE

A Viral Impact

The coronavirus (Covid-19) has unleashed devastating health consequences and global economic suffering. As of this writing, there have been more than three million documented cases and over 200,000 deaths. To combat the virus spread, entire countries are on lockdown, leading to expectations that economic activity could fall by as much as 10% in the second quarter. Given falling demand and elevated supplies, oil prices have also fallen by 60% on the year to less than $20 per barrel. This has put additional strain on the economy and financial markets given the role the oil industry plays in investment and job creation, as well as an increased likelihood of oil industry bankruptcies.

Broader equity markets fell by over 20% in the first quarter, quickly moving into bear market territory after being at all-time highs just weeks before. In the bond market, credit spreads increased substantially, partly for fundamental reasons (concern over default) but also because of liquidity issues (poorly functioning markets). Even Treasury markets, normally the most liquid market in the world, had stresses, prompting the Federal Reserve (alongside central

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banks around the world) to apply easier monetary policy and a host of liquidity facilities. Global fiscal stimulus has also ramped up.

Beyond the near-term impacts on economic health and financial market functioning, the coronavirus will likely serve as a catalyst for economic changes in the years ahead. Here, we list a few.

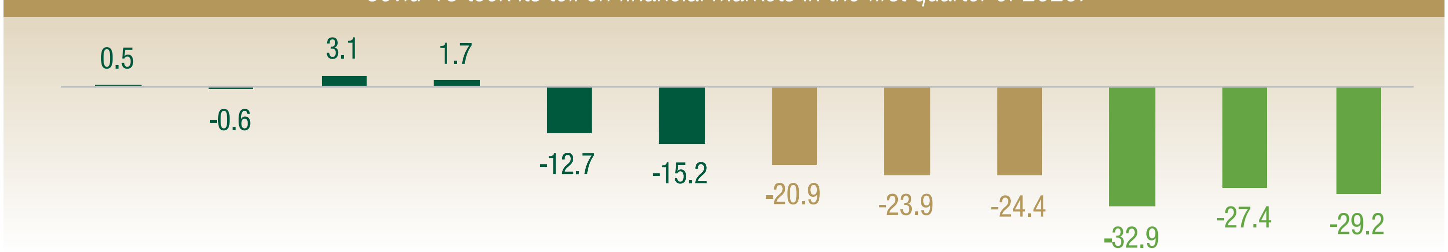
Monetary-Fiscal Policy Coordination. Modern-Monetary Theory (MMT) suggests government spending can be funded by the central bank through money printing, as opposed to the more traditional tax (or borrow) and spend approach so long as it doesn't lead to unacceptable levels of inflation. Given the need to combat the loss of demand caused by the coronavirus — combined with currently high debt levels and muted inflation ––the MMT approach may be tempting. The recent ramp up in Fed bond purchases and coincident $2 trillion stimulus package suggest de facto MMT may already be underway.

Technological Shifts. Technology has been steadily creeping into everyday economic functioning, but may get a boost from the coronavirus crisis. As stay-at-home orders forced companies into work-from-home policies, online meetings have become a facet of everyday life. Available for years, but never fully embraced, a new comfort with online meetings may escalate their use. Ultimately, this may save money on travel as many companies may conduct client and internal meetings virtually.

Deglobalization. The move away from globalization may pick up steam in the post-coronavirus world. Global supply chains combined with "just in time" inventory practices left companies exposed. Going forward, the focus may shift to resiliency over efficiency, possibly a lesson for corporate balance sheets as well.

FIRST QUARTER 2020 TOTAL RETURNS (%)

Covid-19 took its toll on financial markets in the first quarter of 2020.



	RISK CONTROL				RISK ASSETS							
	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
2019	2.2	7.5	8.7	8.4	14.3	13.5	31.1	23.6	18.1	17.2	23.8	27.0

Source: Northern Trust Global Asset Allocation, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure EM = Emerging Markets
TIPS = Treasury Inflation Protected Securities. Indexes are gross of fees and disclosed on last page.

Key Developments

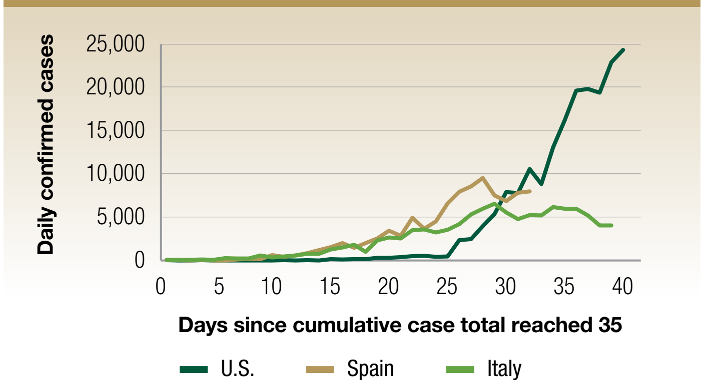
Coronavirus Contagion

What started as an epidemic largely centered in China slowly, and then very quickly, became a global pandemic. South Korea was the first hotspot outside of China, but was able to deal with the spread relatively efficiently through robust testing procedures. Italy, Spain and the U.S. have been recent focal points. Italy and Spain have started to show a peak in new cases, serving as potential templates for the course of the virus in the U.S. The sooner U.S. cases peak, the sooner investors may envision a return to normalcy.

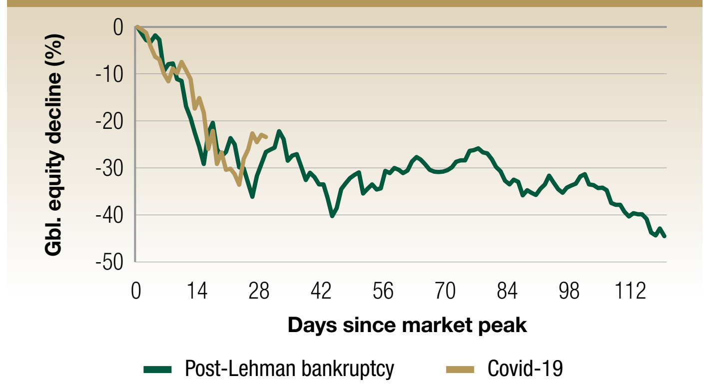
The Financial Market Damage

Investors were slow to appreciate the potential global economic impacts, believing the virus to be mostly contained to China. But once it became clear that the shift from epidemic to pandemic would transform a concentrated supply shock into a global demand shock, equity markets turned negative in a hurry — going from record highs to bear market territory (defined as a 20% fall) at a record pace. We believe more market volatility may be ahead.

CORONAVIRUS SPREAD ACROSS KEY COUNTRIES



GLOBAL EQUITY DRAWDOWNS

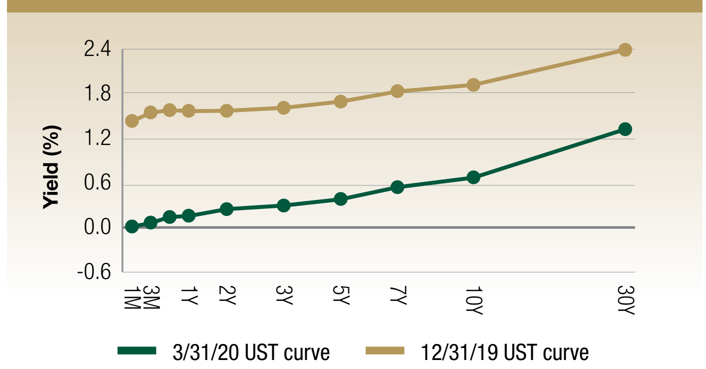


Market Review

Interest Rates

The U.S. yield curve shifted to historic lows as the Fed introduced an unprecedented level of policy support in response to the Covid-19 economic fallout. The central bank cut rates 150 basis points to near zero, announced unlimited quantitative easing and created a barrage of other liquidity programs. Lower expectations for global growth and a flight to safety also put downward pressure on the curve. Though yields sit at the low end of historical ranges, virus-driven uncertainty will weigh on the curve as long as the virus persists.

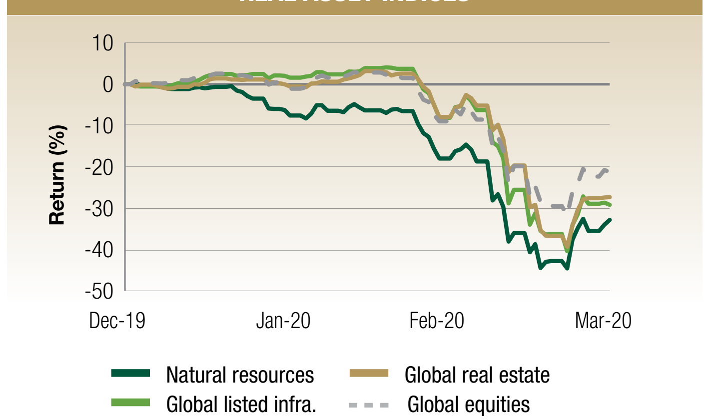
U.S. TREASURY YIELD CURVE



Real Assets

Natural resources plummeted as a Saudi-Russo oil price war compounded weakened demand from Covid-19 and oil prices collapsed. Global real estate and global listed infrastructure initially held up well in the face of the virus, but notably dropped as the virus intensified. Credit concerns drove losses as investors questioned the ability of tenants to satisfy mortgage and lease payments. Throughout the quarter, all three of the aforementioned asset classes notably underperformed global equities despite support from low interest rates.

REAL ASSET INDICES



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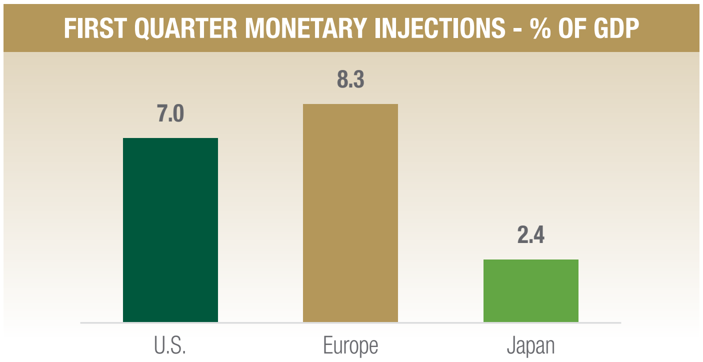
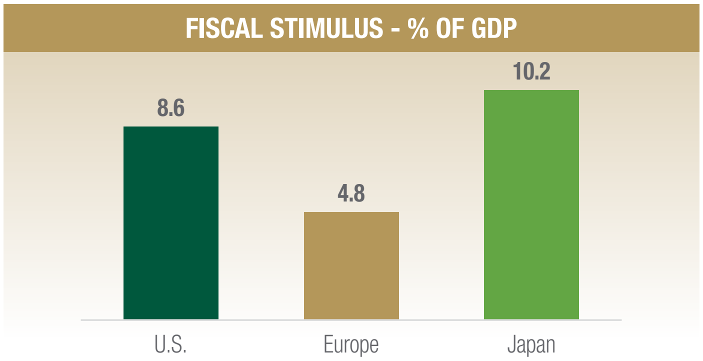
The Monetary Solution

Central bankers were the first out of the gates to attack the financial fallout from Covid-19. Their arsenal includes policy rate cuts, new quantitative easing (QE) programs to add liquidity directly into the economy and other liquidity facilities aimed at specific areas within the financial markets that were not functioning properly. The chart shows estimates for first quarter liquidity injections across the major economic regions. These numbers could grow substantially depending on how long the QE programs last and to what degree the various liquidity facilities are tapped.

The Fiscal Solution

Fiscal stimulus has been deployed to help offset lost economic output. The U.S. set the tone with a $2+ trillion package to provide worker income replacement and stressed industry assistance. This is a much larger and more quickly deployed package than that crafted during the financial crisis. Europe's stimulus is smaller thanks to already in place "automatic stabilizers", including a better social safety net, while Japan is relying more heavily on the fiscal lever. As with monetary policy, these numbers are likely to grow.

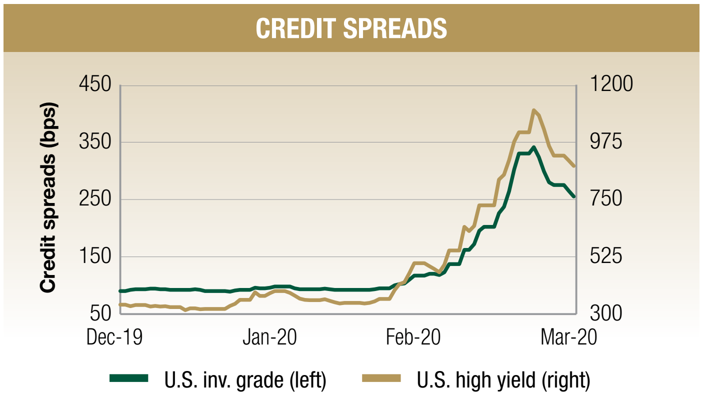




Source: Northern Trust Asset Management Bloomberg, Cornerstone Macro, BCA, IMF. Lehman start date: 9/19/2008. Fiscal totals exclude loan guarantees and automatic stabilizers. Totals calculated in USD using spot exchange rates on 3/19/2020.

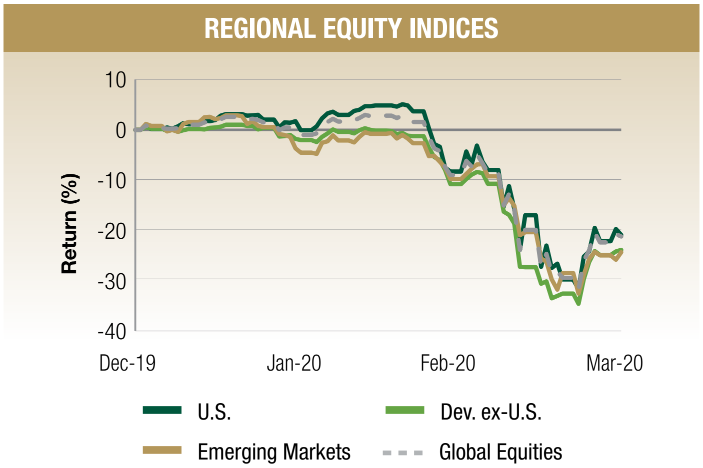
Credit Markets

Credit markets deteriorated throughout the quarter as spreads widened to levels not seen since the financial crisis. Spread widening partially reflected concern about the growth outlook, but it largely derived from challenged liquidity. We estimate fundamental concerns drove 30% of the spike in spreads, with the majority of the selloff being liquidity-driven (70%). After the Fed's significant efforts to restore proper functioning in credit markets, spreads should narrow some as liquidity improves and fundamentals become the primary driver.



Equities

Global equities fell 21.3%, the largest quarterly decline since the financial crisis, as investors struggled with the virus's unpredictable course. While all regions were vulnerable to the pandemic's global nature, U.S. equities declined the least (-20.9%) as a stable economy leading into the virus and greater room for policy action provided support. Non-U.S. equities trailed U.S. equities early on in the quarter, but performed better in the initial stages of the drawdown before losing ground again as markets stabilized in late March.



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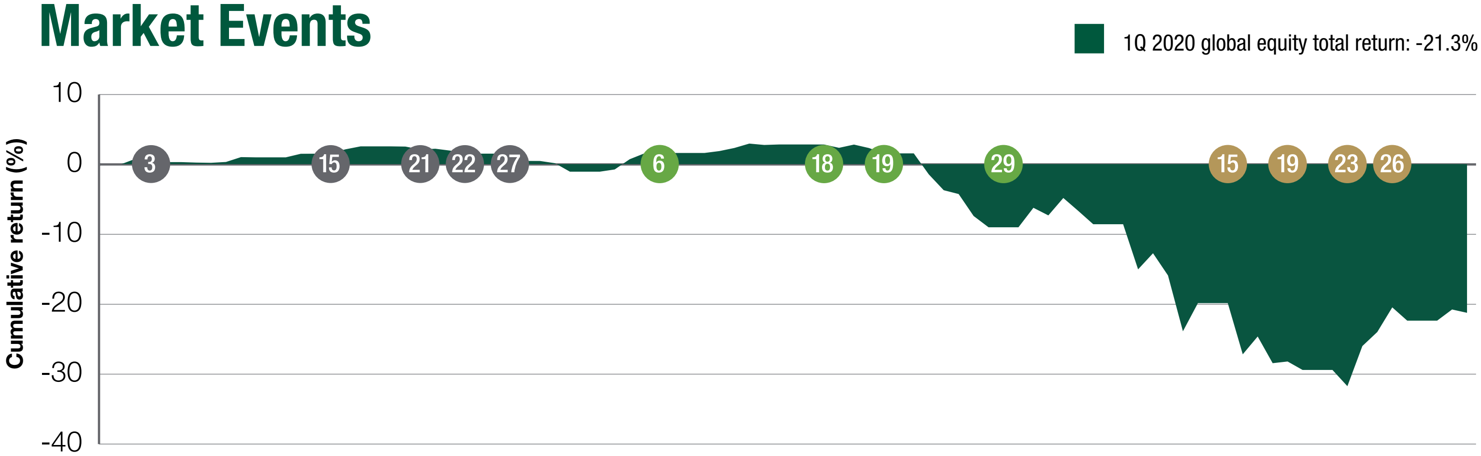
Market Events



JANUARY	FEBRUARY	MARCH
3 President Donald Trump orders a drone strike that kills Iranian Major General Qassem Soleimani.	6 China halves the tariff rate on $75 billion worth of imports.	15 In the second off-schedule move of the month, the Federal Reserve cuts rates by 100 basis points placing the main policy rate in the 0%-0.25% range.
15 The U.S. and China sign phase one of their trade deal focusing on technology trade secrets, trade imbalance and currency manipulation.	18 Global yield curves flatten as investors seek refuge in bonds after Apple announces the negative impact on its supply chain from Covid-19.	19 Following up on an inadequate amount of bond purchases in the week prior, the European Central Bank announces €750 billion quantitative easing expansion.
21 Covid-19 begins to make headlines as cases start to spread in China.	19 Equity markets begin sharp decline into bear market; marking the end of the post-global financial crisis bull market.	23 To act as lender of last resort and inject liquidity into the markets, the Federal Reserve announces a number of vehicles and programs to support the economy and the functioning of the capital markets.
22 Tech stocks rally after France agrees to delay a tax on digital companies.	29 Joe Biden wins South Carolina Democratic primary; mainstream Democratic candidates start to drop out to consolidate votes for Biden.	26 The Senate passes a $2.2 trillion fiscal stimulus package to support individuals and companies impacted by Covid-19, known as the CARES Act.
27 U.S. equity benchmarks fall more than 1% for the first time this year due to concerns over Covid-19.	29 China's non-manufacturing PMI falls deep into contractionary territory at 29.6; previously 54.1.	26 The U.S. initial jobless claims figure surges to historic high of 3.3 million due to Covid-19 related business closings.

Indexes used: Bloomberg Barclays (BBC) 1-3 Month UST (Cash); BBC Municipal (Muni); BBC Aggregate (Inv. Grade); BBC TIPS (TIPS); BBC High Yield 2% Capped (High Yield); JP Morgan GBI-EM Global Diversified (Em. Markets Fixed Income); MSCI U.S. Equities IMI (U.S. Equities); MSCI World ex-U.S. IMI (Dev. ex-U.S. Equities); MSCI Emerging Market Equities IMI (Em. Markets Equities); S&P Global Natural Resources (Natural Resources); MSCI ACWI IMI Core Real Estate (Global Real Estate); S&P Global Infrastructure (Global Listed Infrastructure).

From the Managing Director

Dear Friends and Clients,

During the first quarter of 2020, we moved from the euphoria of a record bull market to the depths of an extraordinary health care pandemic. The markets began 2020 with a rally and U.S. equity markets reached record levels. Economic growth for much of the first quarter was solid and consumers were confident spending due to good wage growth and low unemployment. As the spread of the coronavirus moved from east to west, we saw the economy would not be immune to the disease, and markets had their quickest descent ever into a bear market. The global economy has likely entered a recession and many individuals and families are struggling to meet basic needs. When the worst of the pandemic passes, we envision a tepid recovery as people may slowly return to work and find a normal schedule.

Ample evidence suggests the spread of the pandemic is slowing across Europe and many states. We cannot be sure when the "all-clear" sign will be given for Americans to resume normal activities. The market has seen stronger returns in April, and the broad U.S. indices have gained over 25% from the low on March 23rd.

We hope you and your loved ones are safe and take some comfort knowing your team at Enterprise Wealth Management is working at full capacity to serve you. I am very pleased to let you know that we are continuing to build the team and have recently welcomed Daniel J. LaPlante, CFA as our Director of Investments and Chief Investment Officer. Dan brings more than 30 years of investment management experience to our clients, joining us from Citizens Bank where he served in senior positions for 18 years, including roles as Director of Investments and Chief Investment Officer. Dan is involved in a variety of volunteer and charitable activities, including serving on the Independent Investment Committee for the New Hampshire Retirement System by gubernatorial appointment.

We will continue to stay connected with you and encourage you to reach out to a member of your team if there is anything you'd like to discuss with us.

Please be well and know we are here for you during these challenging times.

Sincerely,

Stephen J. Irish, CFP®, CPA
Managing Director, Enterprise Wealth Management
Chief Operating Officer, Enterprise Bank

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At Enterprise Wealth Management, our mission is to help clients achieve their financial goals by providing professional investment management, extensive resources, and independent, objective advice that you can trust. Enterprise Wealth Management was established in 1992.

Our clients are successful executives, professionals, entrepreneurs, non-profit organizations, private foundations, and retirees who desire a financial partnership that can provide access to investment opportunities and alternative strategies.

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