THIRD QUARTER 2020 REPORT

ENTERPRISE
WEALTH MANAGEMENT
A division of Enterprise Bank

IN THIS ISSUE

Resilience: The Capacity To Recover Quickly From Difficulties

Many investors have questioned the surprising resilience of the equity markets in recent months, and searching for reasons to explain the strong returns since the spring. Global equity markets gained over 8% in the third quarter and have rallied over 50% from March lows — despite ongoing pandemic fears, U.S. election uncertainty and high geopolitical tensions. After hearing from many clients questioning the health of the market, we thought it fitting to answer the common questions asked during the quarter.

First, what has been behind the six-month rally?

More buyers than sellers. This is a controversial phrase as some rightly note that, for each trade, there is exactly one buyer and one seller. But it is clear that buyer demand has pushed prices higher fairly constantly since March 23.

Where did the buyers — and their money — come from?

Lots of cash on the sidelines. Money market funds sit at $4.4 trillion — down from the May peak of $4.8 trillion but up from $3.6 trillion at the beginning of the year. In large part, the increase came from the Federal Reserve and its creation of $3 trillion in new "money," technically new bank reserves. A chunk of that money initially went into money market funds; but, as the economy stabilized, started to shift into stocks, pushing equity valuations higher. With all this Fed money to support equity markets, isn't the recent pullback a great entry point?

Continued inside

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The easy money has already been made. To be clear, there is no "easy money" to be made. If it were "easy," any mispricing would be immediately removed. Decisions on portfolio allocation are just as "hard" now as they were on March 23. Global equities are now priced at 20 times expected-next-12-month earnings (37% above the average of the past two decades), offering a 2.0% dividend yield. These valuations are cheap compared to the alternative (0.7% 10-year U.S. Treasury yield), but look expensive against the increasingly uncertain outlook. U.S. equities — specifically, tech companies — have recently experienced buyer exhaustion, potentially suggesting the central bank-induced equity market rally is ending. So what are investors to do?

Take a wait and see approach. This is a favorite of the financial industry (because it doesn't require commitment to a specific view), but many investors feel this is all they can do right now. Equity valuations are high, but interest rates are low — providing some justification. The economy is slowing after an impressive rebound, but the market is not the economy. This is best epitomized by technology firms, which seem recession-proof given attractive earnings profiles and piles of cash on hand.

The devil is in the details. The third quarter requires further analysis. We address some of the major developments starting on the next page.

THIRD QUARTER 2020 TOTAL RETURNS (%)

Positive financial market returns continued despite a still-wobbly economic foundation.

	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
Q3	0.0	1.2	0.6	3.0	4.6	0.6	9.2	5.7	9.9	2.1	2.5	1.6
YTD	0.5	3.3	6.8	9.2	0.6	-6.3	5.6	-6.3	-1.0	-17.4	-18.2	-18.1

Source: Northern Trust Asset Management, Bloomberg. NR = Natural Resources; GRE = Global Real Estate; GLI = Global Listed Infrastructure.
Indexes are gross of fees and disclosed on last page.

Key Developments

The Return to "Normalcy"

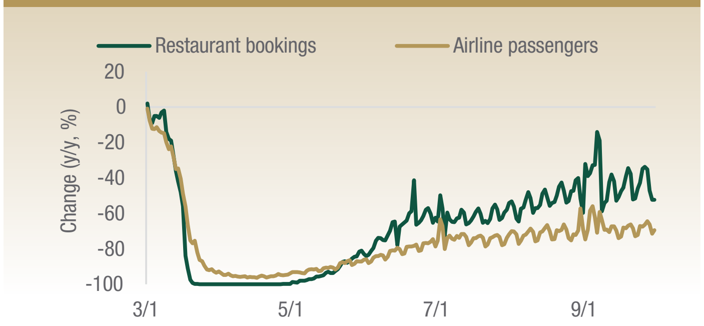
The digital age gives real-time reads on the economic recovery. Two metrics that best describe the current situation are the year-over-year restaurant bookings and airline passengers. The chart reveals a few things: 1) we are nowhere near normal; 2) the pace of the return to normal has slowed; and, 3) what was once normal may be forever changed (less eating out and less business flights). Not only is the timeline for full economic recovery uncertain, but the contours of the post-recovery economy are uncertain as well.

Pandemic Resiliency

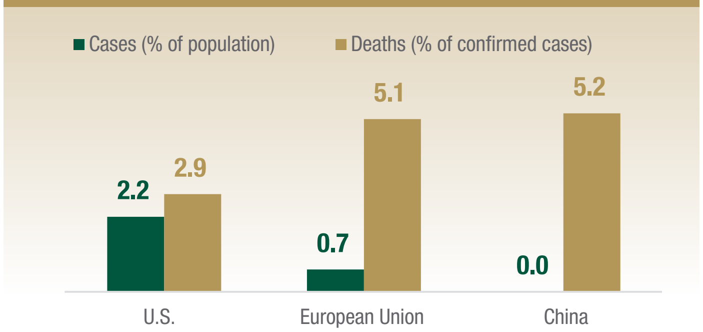
The pandemic has proven resilient and COVID-19 cases are on the rise again. Thankfully, deaths have not been showing a commensurate rise*; meanwhile, social distancing policies are better balancing the need for pandemic control with the need for economic activity. The chart provides the up-to-date statistics — with the caveat that death rates are likely overstated due to underreported cases and cross-region comparisons are complicated by varying data collection procedures.

**most likely driven by a combination of more/better testing; increased understanding of the virus; and hospital bed availability*

REAL-TIME READS ON THE ECONOMY



CURRENT COVID STATISTICS

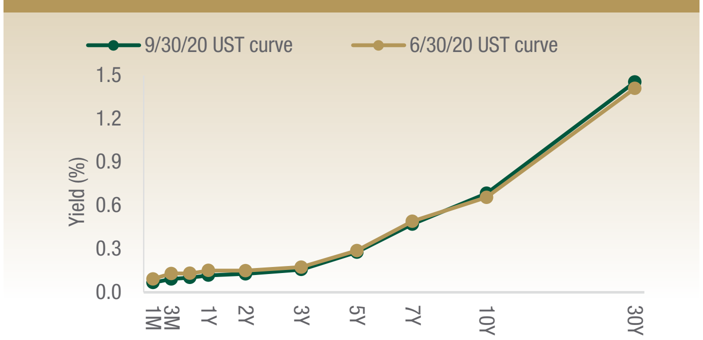


Market Review

Interest Rates

The Fed adopted a soft inflation averaging strategy and vowed not to raise interest rates solely because the economy is at maximum employment. Fed members repeatedly called for more government aid, noting downside risks to the growth outlook without continued fiscal support. The U.S. yield curve barely moved from historically low levels. Market participants question the central bank's ability to spur 2% inflation given virus-driven growth disruptions, structural disinflationary forces and Congress' reluctance to agree on further aid.

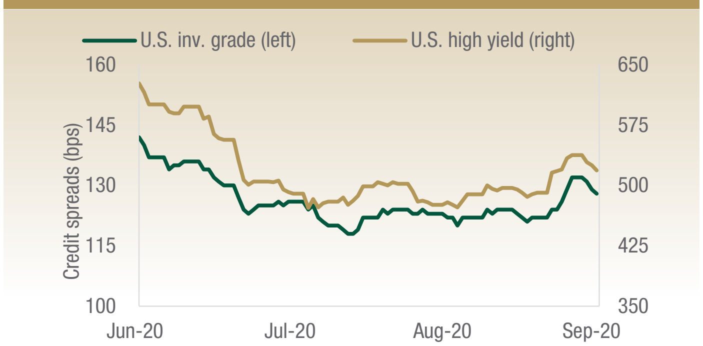
U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads continued to tighten as investment grade and high yield spreads fell 14 basis points (bps) and 108 bps, respectively. Investor demand for credit was strong given a search for yield and confidence in continued Fed support. Reduced levels of distressed bonds alongside improved corporate fundamentals also aided demand. High demand has been helpful in balancing record levels of supply. Still, credit spreads remain above early-2020 levels and crept up late in the quarter as virus outbreaks clouded corporate outlooks.

CREDIT SPREADS



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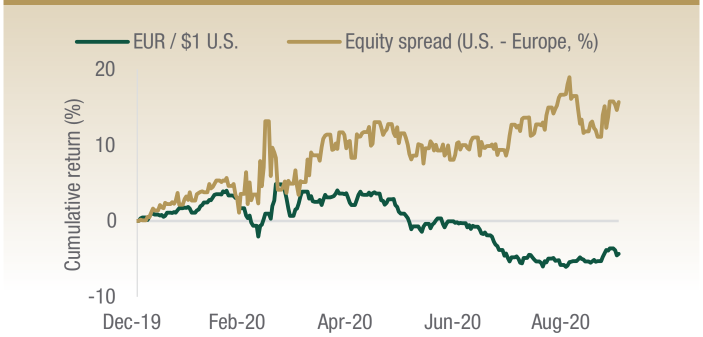
Market/Economy Dichotomy

The U.S. consumer has been hit harder by the pandemic than the European consumer — for both pandemic-related (increased U.S. cases) and structural (bigger European safety net) reasons. But the market is not the economy. U.S. equities (led by tech stocks) continued to outpace European equities in the quarter. This outperformance occurred despite dollar weakness against the euro (a potential signal of relative economic weakness). Separately, it has given a boost to the "euro project," strengthening Europe's hand in Brexit talks.

Gold Bugs Are Back

Aggressive actions by central banks globally have led some to fear U.S. dollar debasement and speculate that higher inflation is on its way — increasing demand for gold. Interestingly, fixed income investors couldn't agree less, signaling faith in the dollar and that inflation will remain low. The result is that both gold and long-term government bonds have returned over 20% on the year. Meanwhile, bitcoin — the digital alternative to "paper money" — has also seen increased demand, up 50% this year but still down 44% from all-time highs.

U.S. EQUITIES UP, DOLLAR DOWN



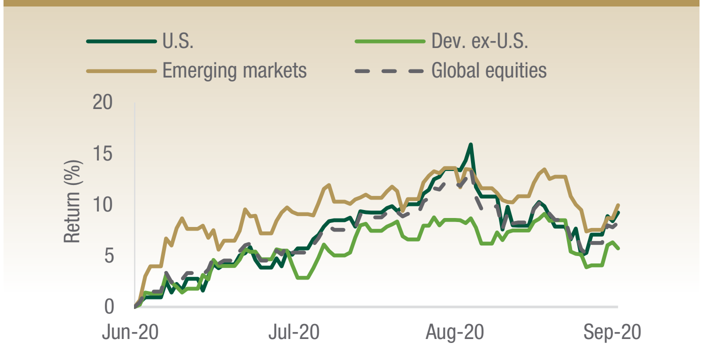
2020 RETURNS FOR VARIOUS 'CURRENCIES'

Source: Northern Trust Asset Management, Bloomberg. Chart 2 COVID-19 data as of 9/30/2020. Population: U.S. & China 12/31/2019, Europe 12/31/2018.

Equities

The path of least resistance was mostly higher as sharp economic gains drove global equities up 8.3%. Despite vaccine progress, the stock market advance lost steam in the latter stages of the quarter. Global equities finished 5.3% below the quarter's high largely due to accelerating virus cases and dwindling policy stimulus amid signs of slowing economic gains. Despite political uncertainty and a swift correction in tech stocks, U.S. equities outpaced all major regions. Developed ex-U.S. equities struggled to keep up amid virus troubles.

REGIONAL EQUITY INDICES



Real Assets

Of the real assets we follow, global real estate (GRE) performed the best, gaining 2.5% (notably below the 8.3% return from global equities). Natural resources trended above GRE and global listed infrastructure for much of the quarter, but later fell from pressure on the oil and gas industry as U.S. election uncertainty and pandemic pressures grew. A vaccine is likely needed for real assets to narrow their performance gap with global equities, as low interest rates and valuations have failed to be a catalyst for strong gains this year.

REAL ASSET INDICES

Source: Northern Trust Asset Management, Bloomberg. UST = U.S. Treasury. Indexes are gross of fees.

Market Events

JULY	AUGUST	SEPTEMBER
14 U.S. President Donald Trump removes Hong Kong's special trading status in response to China's new Hong Kong security law.	8 Trump signs executive order to extend unemployment benefits and defer payroll tax.	15 U.S. House of Representatives Speaker Nancy Pelosi announces the House will remain in session until another fiscal support package passes.
20 Oxford-AstraZeneca vaccine trial results in positive preliminary data.	12 Democratic presidential candidate Joe Biden selects Senator Kamala Harris as running mate.	16 The Fed — through committee member projections — suggests policy rates will remain near 0% through 2023.
20 The European Union agrees to €750 billion stimulus package to support countries damaged by COVID-19.	13 Israel and UAE reach agreement to work towards fully normalized relations.	23 The U.S. House of Representatives passes short-term spending bill to keep the government funded through Dec. 11.
28 The Fed extends the emergency lending programs through the end of 2020.	26 China practices military drills in the South China Sea, heightening tensions with the U.S.	29 The COVID-19 pandemic death toll reaches 1 million globally.
30 Second quarter U.S. economic GDP data is published — the 33% contraction sets post-WWII record.	27 The Fed updates its inflation-targeting policy and rate hiking criteria at Jackson Hole symposium.	29 In one of the biggest layoffs of the COVID-19 era, Disney announces employee cuts of 28,000.

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 Clients and Friends:

I write to you as part of our Third Quarter Report and have recently updated this brief letter, recognizing it will arrive in your mailboxes close to election day. This is a time punctuated by uncertainty regarding many national and global issues, yet one in which our collective resilience is also remarkable. We hope you are well and have been enjoying the crisp autumn air and fall foliage – as well as the early snow many of us have seen today. Autumn is one of the things that makes New England such a wonderful place to live. Some days are very warm, others quite cold, but overall, a very agreeable season. The market has been following a fairly similar pattern in recent weeks. Some good days and some very challenging ones. As we've commented over time, your financial goals can be best achieved by maintaining a long-term investment perspective and making strategic changes when there is a change in your circumstance, rather than based on emotions that are often intensified during difficult times. This may be a good time to review your asset allocation and tolerance and capacity for risk, as highlighted in the commentary written by Dan LaPlante, CFA®, Enterprise Wealth Management's Chief Investment Officer, which we are sharing along with this Q3 Report. Please see Dan's additional comments about capital gains, the election, the stimulus, and the pandemic – all current sources of uncertainty. As Dan concludes in his piece "While the uncertainty around presidential elections can cause some short-term volatility in the stock market, the key for investors remains the same in the long term, regardless of who sits in the White House. Focusing on your personal goals, rebalancing your portfolio, and diversifying are solid strategies now to be prepared for all potential outcomes."

Your team at Enterprise Wealth Management continues to focus on ways to strengthen your digital and overall experience with us and I'm pleased to let you know we are beginning to roll out a new portal and account aggregation resource called Wealth Access. In its most basic form, Wealth Access is an enhanced portal for clients and members of your Enterprise Wealth Management team to view your investment management accounts with us. It is also a powerful personal financial management tool enabling you to easily view your accounts with other financial institutions. With a secure, single sign-on, you can now have access on mobile devices and your desktop to a current and comprehensive view of your total wealth picture, including all of your assets and liabilities. If you would like us to expedite your access to this new resource, please let your Financial Advisor or another member of your wealth management team know.

We appreciate and enjoy our interactions with you very much and will continue to stay connected. As I won't be writing through this quarterly report until early in the new year, along with the full team, I wish you and your loved ones a happy Thanksgiving and health and wellness as we celebrate the December holidays and begin 2021.

Sincerely,

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

ENTERPRISE
WEALTH MANAGEMENT
A division of Enterprise Bank

222 Merrimack Street
Lowell, MA 01852

877-325-3778

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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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