SECOND QUARTER 2021 REPORT

ENTERPRISE
WEALTH MANAGEMENT
A division of Enterprise Bank

IN THIS ISSUE

The Battle Over Inflation

Key Developments

Market Review

Market Events

From the Managing Director

The Battle Over Inflation

Debating whether the Federal Reserve (Fed) will "fire" against oncoming inflation is a fitting analogy as America turned 245. Troops defending Bunker Hill* during the early stages of the American Revolutionary War were told not to fire until they saw the "whites of the eyes" of opposing forces. Federal Reserve Chair Jerome Powell has more or less committed to the same on inflation. But some might argue we are, in fact, seeing those eye whites. Inflation, as indicated by the Fed's preferred measure (core personal consumption expenditures), is at 3.4% year-over-year and well above the 2% Fed target. Will the Fed fire? It depends on whether the inflationary forces continue to march or retreat. We review each possibility.

Inflation continues attack? When the pandemic shut down the global economy, demand waned quickly. As the economy reopens, demand snapped back while supply is taking longer, creating a larger supply/demand mismatch. Anecdotes abound. Whether it be restaurants struggling to find wait staff or manufacturers facing part shortages, supply reinforcements (sticking with the battle theme) are in high demand in a number of areas.

Inflationary forces retreat? It's often said the best cure for higher prices are … higher prices, as they incentivize new supply or induce substitutions. Lumber prices surging from mid-March to mid-May have led to those same prices falling below that mid-March starting point as supply has ramped up; rising wages have only led to more kiosks.

Continued inside

Continued from Cover

New rule: Don't fire unless inflation persists. A onetime price jump does not generally elicit a reaction from the Fed. And the Fed has made it clear that it doesn't believe inflationary forces will last. Importantly, it is what the Fed will do — more so than any single analysis of what the Fed should do — that matters when considering Fed policy and the broader financial market outlook.

What does the Fed "firing on inflation" really mean? The Fed is currently engaged on two fronts: 1.) its (nearzero) Fed funds rate; 2.) its ($120 billion-per-month) asset purchase program (buying both Treasurys and mortgage-backed securities). It is unlikely the Fed begins raising the Fed funds rate before it fully removes itself from the bond buying business. Further, the Fed has committed to "tapering" its monthly purchases before it fully stops buying. Even further still, the Fed is committed to alerting the market well in advance of any tapering action. A reasonable "earliest case" timeline would be for the Fed to announce its tapering initiative coming out of its annual Jackson Hole summit in late August; for tapering to occur throughout most of 2022; and for the Fed to be in position for its first rate hike in late 2022. This remains well outside the approximate six-month horizon discounted by markets.

Skirmishes or battles? In recent weeks, inflation as a topic for political skirmishes – and perhaps escalating battles – has emerged, with some legislators actively criticizing the Fed's monthly asset purchase program as cause for significant inflationary concern.

Fighting the battle — and the war. Just as the Fed fights this current inflation "battle", it must also keep its eyes on the longer-term economic "war" — a decade-long war on low economic demand and low inflation. The Fed will not give up hard-fought ground by exiting its easy monetary policy prematurely. Instead accommodation will be removed carefully — so long as the Fed can help it.

*The battle was actually fought mostly on nearby Breed's Hill.

SECOND QUARTER 2021 TOTAL RETURNS (%)

Risk asset momentum continued into the second quarter; U.S. equities came out on top.

	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
	0.0	1.4	1.8	3.2	2.7	3.5	8.5	5.7	5.8	7.3	8.1	2.3
YTD	0.0	1.1	-1.6	1.7	3.6	-3.4	15.3	10.3	8.9	19.9	14.2	5.4

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

KEY DEVELOPMENTS

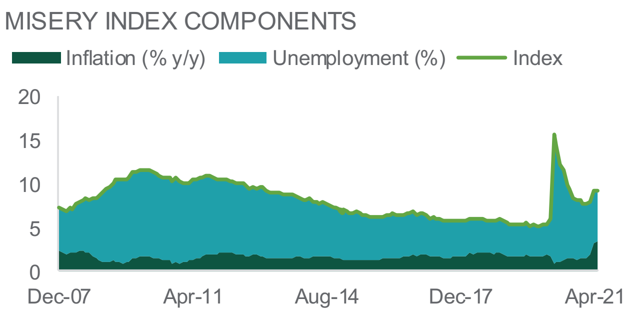
This Too Shall Pass

The misery index, created amid the stagflation of the 1970s, simply sums unemployment and inflation. It has recently been at a decade-high — and more recently driven by higher prices as elevated unemployment only slowly declines. Concerning? Not overly. Plentiful job openings should solve for the unemployment issue in upcoming months. Inflation is proving a bit stickier than many expected, as supply chains are slow to untangle and reset, but we are seeing some rollover in pricing (e.g., lumber prices halved over the past two months).

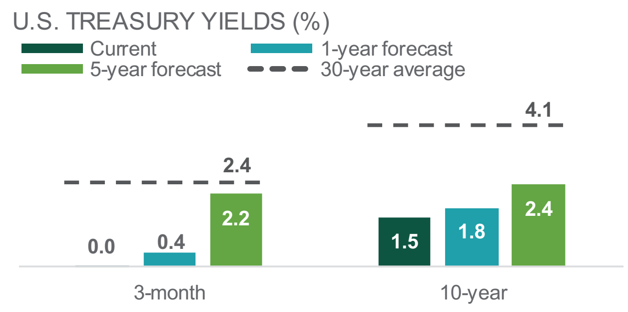
Monetary Policy: Keeping Calm

It is important to keep in mind that central banks remain committed to easy money. Investors don't fear inflation as much as they fear central bankers overreacting to inflation — in a way that pushes interest rates higher and growth trajectories lower. That prospect is not the base case. Brief market volatility arose after the Fed's most recent meetings as officials showed some hint at a potential end game to current accommodation. But — keeping it all in perspective — below-average interest rates should continue for the next five years (see chart).

MISERY INDEX: UNEMPLOYMENT AND INFLATION



MARKET-BASED INTEREST RATE EXPECTATIONS



Market Review

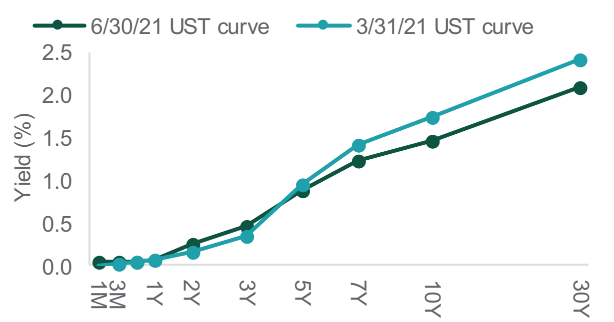
Interest Rates

The Fed was forced to choose between: 1.) tighter policy in response to building inflationary pressures and economic improvement; and 2.) stay-the-course easy policy in aim of its dual goals-based policy approach, transitory inflation and lingering economic headwinds. It sided with the latter, but short-term yields rose on more optimistic economic forecasts and initial tapering talks. Longer-term yields stalled as waning growth momentum weighed on real rates and market inflation expectations retreated from highs, resulting in a flatter yield curve.

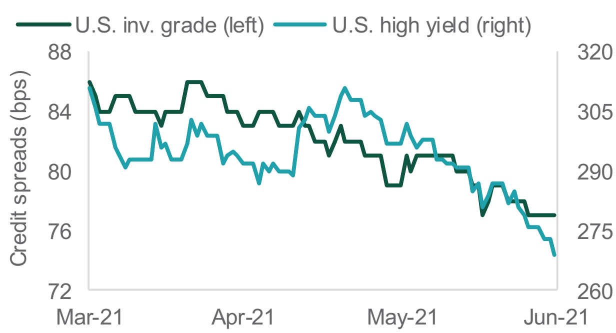
Credit Markets

Helped by the reopening of the global economy, strong corporate earnings fed into improving recovery rates and overall better corporate fundamentals. Credit flows were very supportive as the low interest rate backdrop left investors eager to pick up yield. Investment grade and high yield spreads fell 9 and 42 basis points to levels not reached in over 10 years. Companies have taken advantage of high demand for yield by pushing out maturities. This and the low interest rate backdrop leaves corporations in a fundamentally healthy position.

U.S. TREASURY YIELD CURVE



CREDIT SPREADS

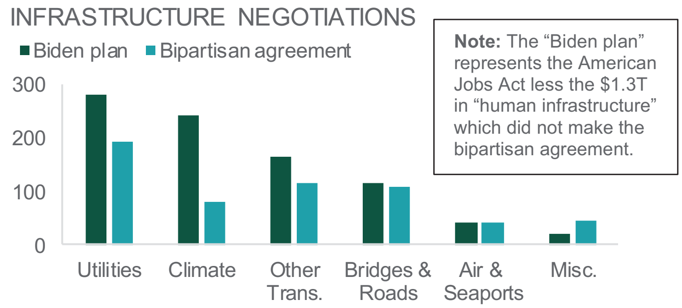


ENTERPRISE WEALTH MANAGEMENT

Fiscal Policy: Carrying On

While monetary policy remains easy and on hold, politicians have been busy attempting to find bipartisan agreement on the first half of the Biden administration's infrastructure plan. The announcement of a $1.2 trillion deal (with $0.6 trillion in "new money", outlined in chart) quickly ran into confusion as to whether the deal was tied to a broader reconciliation bill. At any rate, the bill still faces a tough road through the legislative process. History advises investors to not get too optimistic over the prospects of sweeping infrastructure spending.

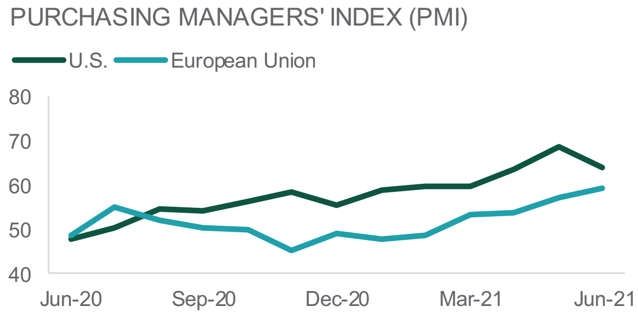
INFRASTRUCTURE BILL NEGOTIATION UPDATE



Growth: Passing the Baton

A strong global recovery has taken place as economies reopen and fiscal spending kicks in. This growth has been fairly well-sequenced — a baton that has been passed first from China to the U.S., and now from the U.S. to Europe. As judged by purchasing manager indices (see chart), we have seen the U.S. growth trajectory come off the boil (though still very strong) while Europe sees continued momentum. This, alongside Europe's more economically-leveraged stock market, may provide near-term European stock support.

U.S. AND EUROPE GROWTH ENVIRONMENT

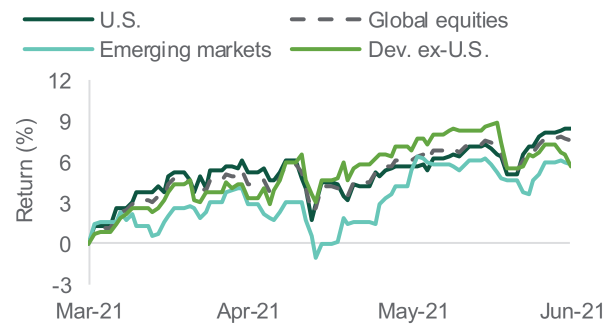


Source: Northern Trust Asset Management, Bloomberg, Strategas. Yield forecasts from Treasury forward curves. Markit PMIs; flash PMIs for June 2021. Data as of 6/30/2021.

Equities

Global equities gained 7.5% as improving economic growth, policy support and strong earnings overcame peak growth, excess inflation and policy mistake fears. U.S. equities outpaced global equities with an 8.5% return. As government bond yields settled, U.S. equities — and growth stocks in particular — rebounded from mid-quarter pressure. Emerging market equities trailed global equities as policymakers carefully navigated a credit slowdown. Economic reopening has not been trouble-free, but it has underpinned risk asset growth.

REGIONAL EQUITY INDICES



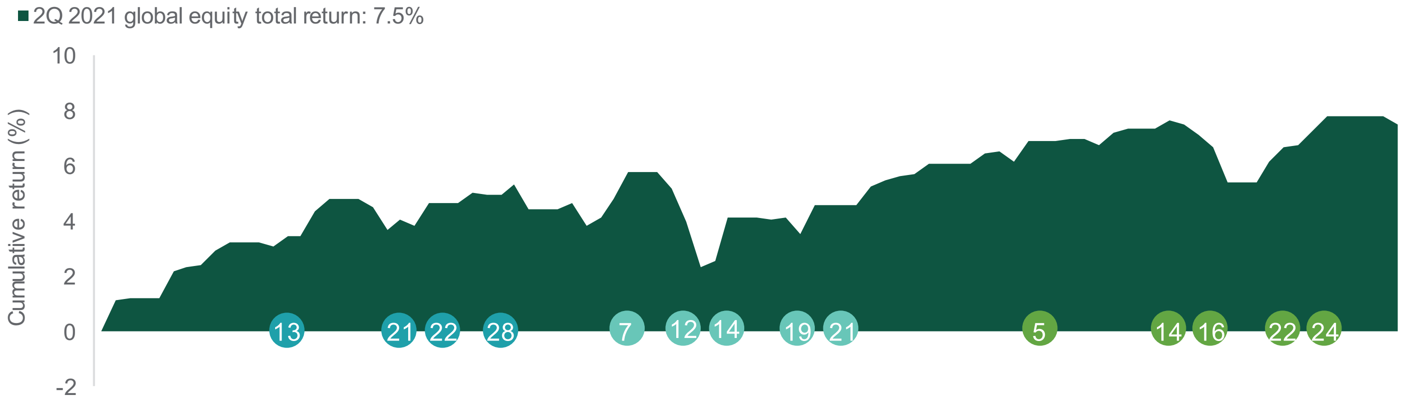
Real Assets

Global real estate advanced 8.1% as investors sought exposure to the cyclical recovery and interest rates settled at the low ends of recent ranges. Global natural resources benefitted from rising inflation risks; however, it ultimately slightly underperformed global equities as investors became more at ease that inflation will be transitory and the Fed hinted at a possible end to easy policy down the road. As expected in a risk-on environment, global listed infrastructure posted a positive but somewhat underwhelming return (2.3%).

REAL ASSET INDICES

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

Market Events



APRIL	MAY	JUNE
13 U.S. pauses Johnson & Johnson vaccine administration to investigate safety issues involving blood clots.	**7** U.S. jobs report significantly disappoints expectations with only 266k jobs added and a 0.1% tick up in the unemployment rate to 6.1%.	**5** The G-7 agrees to back minimum global tax rate of at least 15% — though much work remains to be done to effect such a global policy change.
21 Bank of Canada becomes the first major central bank to announce it will begin tapering.	**12** U.S. core CPI reaches 3.0% year-over-year and 0.9% month-over-month — the highest monthly increase since 1982.	**14** U.K. delays lifting virus restrictions by four weeks amid new cases tied to the more-contagious Delta variant.
21 ECB leaves policy unchanged, insists it's premature to talk about tapering and emphasizes its readiness to provide ongoing support.	**14** The Centers for Disease Control and Prevention (CDC) lifts most mask mandates for fully vaccinated individuals.	**16** Fed further "talks about talking about" tapering; Summary of Economic Projections show median forecast of two rate hikes by late-2023.
22 News leaks that the Biden administration seeks to raise capital gains tax for wealthy investors to 39.6%.	**19** Fed meeting minutes reveal appetite amongst some members to begin discussing tapering upon further economic improvement.	**22** In a speech to Congress, Fed Chair Powell emphasizes the transitory nature of inflation and need for policy patience in order to achieve employment goals.
28 President Biden officially announces details of part two of his infrastructure agenda — the $1.8 trillion American Families Plan.	**21** With most S&P 500 companies having reported, first quarter earnings growth is expected to finish around 50% y/y (highest growth rate since 2010).	**24** Biden administration agrees on a $1.2 trillion bipartisan infrastructure bill ($0.6 trillion in new spending) over eight years — still faces tough legislative path.

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:

The team at Enterprise Wealth hopes you are well and enjoying the summer with family and friends. Since I last wrote to you through this update, many of us have significantly expanded the circle of people we visit in-person, many for the first time in more than a year. Members of the Wealth Management team are continuing to meet with clients in the way that works best for you: by video meeting, telephone discussion, and increasingly, face-to-face. We are observing safety protocols and are very grateful to be together.

The financial markets have calmed in recent months and stocks continue to perform remarkably well, accompanied by some volatility. The ability of our economy and our populace to withstand the many burdens of the past year is extraordinary. The cumulative impact of a stock market surge, a booming housing market, a higher savings rate coupled with more manageable debt levels has given consumers a significant boost. We are seeing the economic boost amid still-disrupted supply chains lead to higher inflation as the economy recovers. We have all witnessed higher food and energy prices, sharply rising travel costs, and increasing prices for home repair, clothing, cars, and many other goods and services. We expect the strong economic growth seen in the first half of this year will moderate in the second half as we normalize our daily activities. Price inflation is likely to come down as the global supply chain bottlenecks unwind, and wages are more controlled as workers return to employment in the fall. Our investment strategy continues to reflect a modest overweight to equities and a preference for domestic companies. The investment climate, which may be uneven in the short term, increases our focus on risk management, diversification, and manager cost. Lower return expectations make these factors key determinants of performance. Fixed income securities provide risk mitigation despite their comparatively low return opportunity.

While a few of our team members have been onsite steadily during the pandemic, many have recently begun to return to the office with regularity. In the coming weeks, the full team will be onsite at least a few days each week and will remain closely connected with you. As you enjoy these summer days, and hopefully more sunshine than rain in August, please let us know if there is anything we can do to help you manage your financial life. We look forward to seeing many of you soon and wish you health and happiness during this time when many traditionally gather for vacation and days with loved ones.

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

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.

EnterpriseBanking.com/Wealth-Management