IN THIS ISSUE

Preparing for Winter

Brrr…We have had some cold nights recently! Many of us were not quite ready to turn on the heat and bring in the yard furniture as we likely did at the turn of October. The change in temperature this year seems early. A similar analogy can be made with the financial markets. We have already seen the equivalent of stormy weather in the sharp declines in equity and fixed income markets this year. We may also need to prepare for the harsh realities of a cold winter ahead both in our climate and in the economy. High inflation, turmoil in energy markets impacting heating and electricity bills, geopolitical issues centered on the Russia-Ukraine war, and the midterm elections will impact markets in the coming months.

Financial markets enjoyed a historic bull market over the past thirteen years that ran mostly uninterrupted from the end of the global financial crisis to the start of this year. The pandemic only briefly interrupted the historic bull market in 2020. We were overdue for a correction. Has all the bad news been reflected in security prices that are generally 15-30% below the levels of January 1st? We need to get past some or all the above referenced issues before we witness the warmth of spring.

The Chill of Inflation. Financial markets are obsessed with the sharp impact of persistent inflation. The most recent U.S. and European inflation prints came in at 8.2% and 10%, respectively. While supply chains are healing, energy supplies have come under threat. The chronic

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underinvestment in traditional energy sources and of course, the ongoing Russia-Ukraine war will impact energy prices for some time. The issue is the most acute in Europe, where a cold winter may require increased energy rationing, affecting industrial activity. Higher energy bills are pressuring consumer spending. Energy relief packages should be helpful to citizens but only transfer the burden to government budgets, which must be paid back later (one way or another). All the while, there is a risk of further retrenchment of corporate capital expenditures.

The Medicine is Tighter Monetary Policy. The most viable tool against inflation is tighter monetary policy. The Federal Reserve has certainty been using this tool, enacting a total of 3.0% in rate hikes thus far this cycle, doing 0.75% at a time at the last three meetings. Other central banks are also following suit, including the European Central Bank, which has now exited negative interest rate territory. Monetary policy is an effective-but-blunt tool – often causing a recession in the process of bringing price increases back to target. We certainly face this possibility in the coming months.

Winter Storm Watch: Geopolitical Issues. In addition to the ongoing Russia-Ukraine war, other global power struggles are top of mind for investors. These include the ongoing tensions between China and Taiwan, alongside the increasingly aggressive actions from the likes of Iran and North Korea. The upcoming midterm elections will also cause volatility in the markets as investors assess how the results impact tax and spending policy the next two years.

Waiting for Spring. There is no denying the geopolitical challenges and economic concerns. But, with stocks down over 20% year-to-date, and bonds down over 15%, financial markets have greatly adjusted to this new reality. Equity valuations have compressed meaningfully and the 10-year Treasury yield touched 4% for the first time in a decade. Meanwhile, high yield bonds are offering 10% yields against still-low default rates.

As quickly as winter may arrive in New England, signs of spring may also arise in the depths of February and March. Each year we are surprised by a warm day in February and come out of our homes to enjoy a pleasant day. We have seen a few sharp rallies in the equity markets in recent weeks, only to then be slapped with more selling like a 10-degree morning. Financial markets will usually show strength long before the economy has bottomed, thus signs of spring may be nearer than we expect.

THIRD QUARTER 2022 TOTAL RETURNS (%)

It was another difficult quarter for global equities – and again risk-control assets (ex-Cash) provided negligible protection.

	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 2022	0.5	-3.5	-4.8	-5.1	-0.6	-4.7	-4.4	-9.1	-10.6	-4.6	-11.9	-9.6
YTD	0.6	-12.1	-14.6	-13.6	-14.7	-18.6	-24.7	-26.6	-26.5	-5.9	-29.4	-10.1

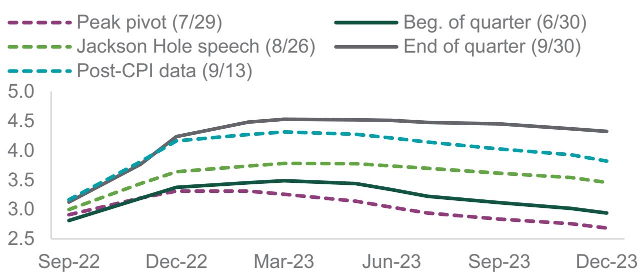
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

Tighter for Longer

U.S. inflation has been more durable than expected, with implications for Fed policy (tighter for longer) and growth (weaker). Investors' dovish read of Fed Chair Powell's July press conference ("peak pivot" in chart) reversed course by the time of his late-August Jackson Hole speech, where he reaffirmed the Fed's laser focus on inflation. Yet another hot August Consumer Price Index (CPI) reading pushed the trajectory even higher. Ultimately, investors exited the quarter with a belief that meaningful Fed relief won't come until 2024 at earliest.

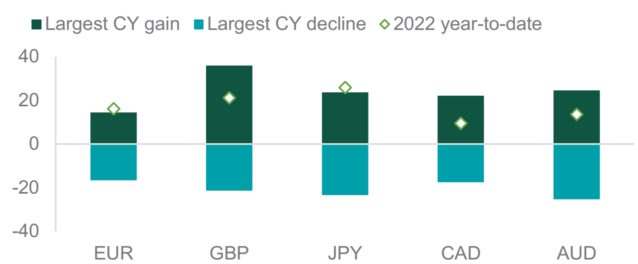
EXPECTED FED POLICY TRAJECTORY (%)



Long Live the U.S. Dollar

Fed tightening has led to a stronger U.S. dollar against currencies across the world, with 2022 showing record calendar year (CY) appreciation in some cases (see chart). Weaker currencies can help domestic company earnings but also challenge non-U.S. central bankers in an already-tough inflation backdrop. Most recently, in the U.K., this dynamic (in addition to poorly-timed fiscal stimulus plans) has dropped the British pound to levels not seen in more than 30 years. Meanwhile, the euro hit parity with the U.S. dollar for the first time since 2002.

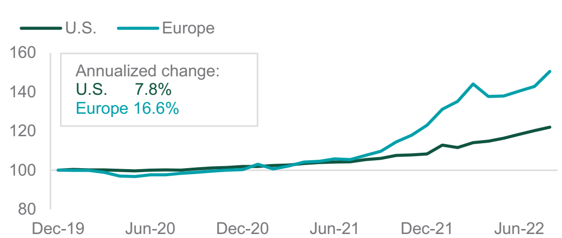
U.S. DOLLAR CURRENCY MOVES (%) VERSUS…



Energy Pains

Energy bills have been painful for many – but nowhere more so than in Europe. Russia reduced natural gas supply due to "maintenance" closures before shuttering the Nord Stream 1 pipeline completely in September. Concerns escalated later on as pipeline leaks were discovered – likely the result of sabotage. Massively elevated natural gas prices have led to consumer and industrial energy bills that are multiples higher than previous years. Storage reserves have been built but are still at risk of depletion in the event of a cold winter.

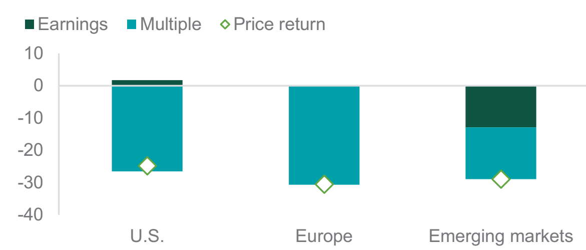
ELECTRICITY INFLATION – INDEXED TO 100



Resilient Earnings

Durable inflation, tighter monetary policy and geopolitical uncertainty have led to large losses in both equities and bonds year-to-date. Despite the volatility, developed market earnings expectations have proved resilient with 2022 earnings revisions still slightly above zero across the U.S. and Europe. Most of the negative returns have been driven by multiple compression (see chart). Emerging markets are a different story, where a deteriorating earnings outlook has accounted for roughly half of the year-to-date decline.

YEAR-TO-DATE RETURN BREAKDOWN (%)



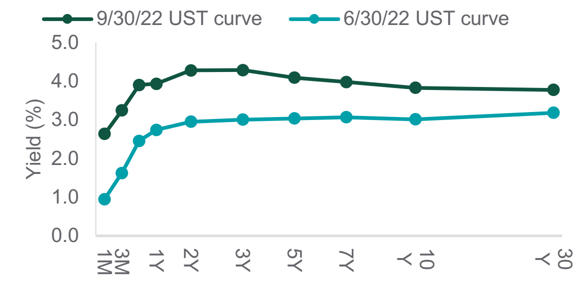
Source: Northern Trust Asset Management, Bloomberg. CY = calendar year. Data as of 9/30/2022.

Market Review

Interest Rates

Higher and flatter: two key descriptors of global yield curve movements during the quarter. Two outsized (75) basis point (bp) hikes, updated projections indicative of "higher-for-longer" rates, and hawkish commentary made clear that the Fed is laser-focused on containing inflation. Global bond yields surged, mainly driven by higher real yields, as investor expectations for policy tightening adjusted upward. Growth concerns – a byproduct of tighter monetary policy – tempered the rise in longer-term yields, leading to flatter curves overall.

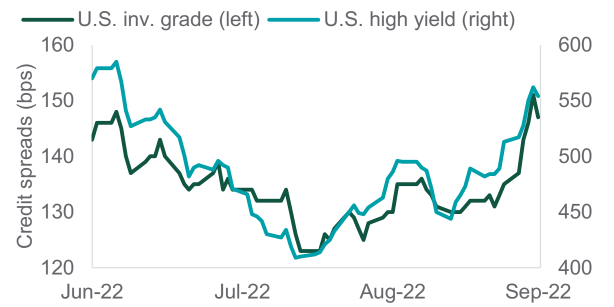
U.S. TREASURY YIELD CURVE



Credit Markets

Coming off of a period of massive spread widening, credit spreads contracted throughout July. There was some hope that peak inflation would soon allow central banks to ease tightening, thereby lowering the risk of policy-induced recession. As this narrative proved misguided, and policy-induced recession concerns restrengthened, credit spreads widened to near-to-just above beginning of quarter levels. High yield (-0.6%) outperformed investment grade fixed income (-4.8%), helped by less exposure to interest rate volatility.

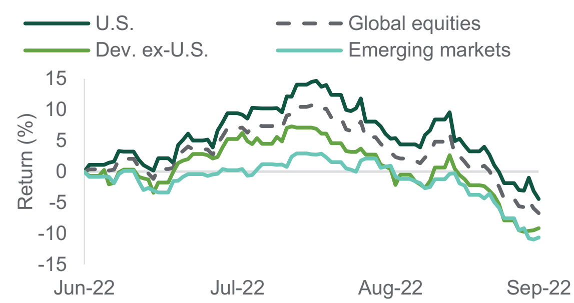
CREDIT SPREADS



Equities

Global equities initially rebounded on the back of better-than-expected earnings, a fall in inflation expectations and very depressed investor sentiment. However, equities ultimately ended the quarter with a 6.7% loss as rising interest rates weighed on valuations. U.S. equities, down 4.4%, performed the best of the major regions, followed by developed ex-U.S. equities (-9.1%) and emerging market equities (-10.6%). Non-U.S. equities more acutely suffered from energy headwinds (Europe), China struggles and U.S. dollar strength.

REGIONAL EQUITY INDICES



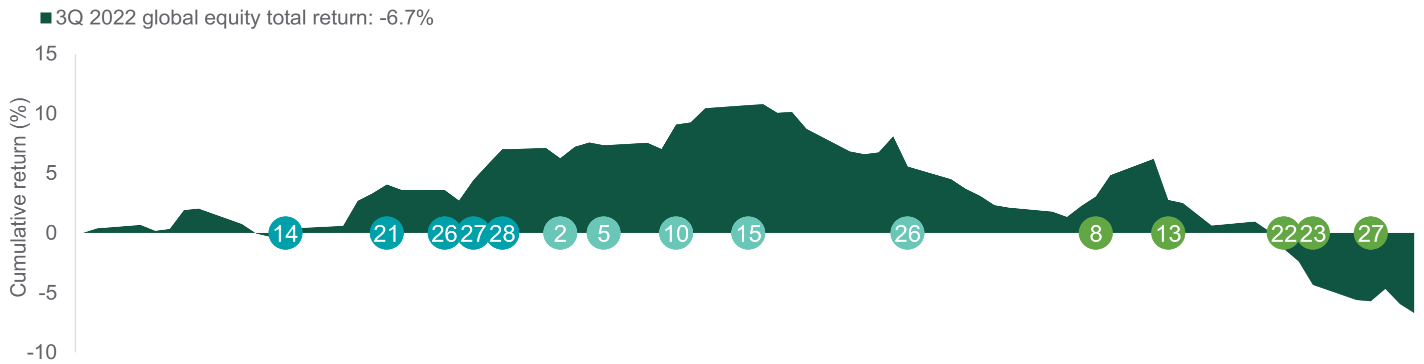
Real Assets

Natural resources (NR, -4.6%) outperformed global equities despite concern that restrictive monetary policy may suppress commodity demand. NR found some support from ongoing energy shortages and outperformed the other two real assets we track: global listed infrastructure (GLI, -9.6%) and global real estate (GRE, -11.9%). GLI returns were weighed down by interest rate volatility, though it did hold up better than GRE during the equity downturn. GRE lagged given rate volatility and elevated economic concerns.

REAL ASSET INDICES

Source: Northern Trust Asset Management, Bloomberg. Bp(s) = basis point(s). Returns in U.S. dollar terms. UST = U.S. Treasury. Indexes are gross of fees.

Market Events



JULY	AUGUST	SEPTEMBER
14 Second quarter earnings season unofficially kicks off. Earnings and revenue eventually prove resilient, beating expectations by about 3% each.	**2** U.S. Speaker of the House, Nancy Pelosi, arrives in Taiwan. China responds with unprecedented military exercises near the island, though direct conflict is avoided.	**8** ECB hikes interest rates by 75 bps and communicates it is likely to continue tightening policy.
21 European Central Bank (ECB) exits negative rate regime via a 50-basis point (bp) rate hike and approves spread protection tool for activation if needed.	**5** Huge U.S. jobs report – 528k jobs added versus 250k expected – and accelerating wage growth raise Fed tightening expectations.	**13** U.S. CPI bucks downward trend, with the core reading accelerating 0.6% m/m, triggering one of the steepest one-day losses of the year for U.S. equities.
26 U.S. Senate reaches an agreement on the Inflation Reduction Act (signed into law on 8/16), a $700+ billion health care, tax and climate bill.	**10** U.S. headline and core Consumer Price Index (CPI) decelerate from the prior month, raising hope that "peak inflation" has arrived.	**22** Fed hikes rates by 75 bps; revised Summary of Economic Projections shows higher-for-longer rate expectations.
27 Federal Reserve raises its policy rate by 75 bps; equities respond favorably to Chair Powell's comments on data-dependent approach.	**15** China begins to deliver a string of policy easing measures, but there's a relatively muted financial market reaction given China's ongoing COVID and property sector headwinds.	**23** U.K. announces fiscal plans that include unfunded tax cuts that could cost up to 10% of U.K. GDP, leading to a surge in global bond yields led by gilts.
28 U.S. GDP contracts for a second straight quarter, marking a technical recession, but the labor market remains solid and corporate profits resilient.	**26** At Jackson Hole, Chair Powell notes restoring price stability may require a restrictive policy stance for some time and that history cautions against premature policy loosening.	**27** Following recent Ukrainian success, Nord Stream pipelines risk permanent closure due to "unprecedented" damage; Russia annexes parts of Ukraine.

Prepared by Northern Trust Asset Management for Enterprise Wealth Management.

Indexes used: Bloomberg (BBG) 1-3 Month UST (Cash); BBG Municipal (Muni); BBG Aggregate (Inv. Grade); BBG TIPS (TIPS); BBG 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,

Autumn greetings from everyone at Enterprise Wealth Management. The modernization of our new wealth management platform is complete. We have migrated to the new platform and look forward to you experiencing the upgrades to the systems we use to manage your investments, provide custody for your assets, complete transactions, and deliver comprehensive wealth management services and reporting.

Investment markets continued to be volatile and declined during the third quarter. Stock and bonds both have negative returns for the year. The most conservative investors and the most aggressive are all experiencing negative returns in 2022. It is not often that stock and bond prices move in the same direction, and it is never sustained for extended periods. The primary cause for this correlation between the decline in stock and bond values is inflation. As long as inflation remains at current high levels, we can expect that investment returns will be low compared to long term averages. The Federal Reserve is acting aggressively to dampen inflationary forces in the economy by raising short-term interest rates and it is possible that the U.S. Congress might reduce federal spending in the future to support the inflation fighting effort. Some of the inflationary impact has been priced into forward-looking investment markets. We expect continued market volatility until the inflation outlook becomes clearer and also expect the historical relationship between stock and bond markets to return.

Enterprise Wealth Management's investment approach, emphasizing diversification, risk management, and long-term strategic goalsetting is particularly valuable in volatile and negative market environments. Although declining markets are discomforting, the reliability of long-term investment results is important to remember. We have made refinements to strategy throughout the year, primarily to increase diversification into non-traditional areas such as natural resources and floating rate bonds, and to reduce the risk profile of portfolios incrementally, as appropriate given your specific goals and objectives.

We appreciate your relationship with us. Please contact a member of your team if you have questions or comments – or if we can assist you in any way.

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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