



IN THIS ISSUE

Onward and Upward?

Key Developments

Market Review

Market Events

From the Managing Director



Onward and Upward?

The U.S. economy continues its post-pandemic expansion – resisting the growth-dampening intentions of restrictive monetary policy. The Federal Reserve (Fed) has hiked interest rates by a cumulative 5% the past five quarters (a brisk 1% per quarter pace); in response, the labor market has added nearly five million jobs over that timeframe. Interestingly, the U.S. economy regained pre-pandemic employment levels exactly one year ago – meaning the bulk of the jobs created during the current Fed rate hiking campaign (roughly five million) aren't just refilling the pandemic hole, but instead represent true growth in the U.S. employment base. This has kept the U.S. consumer in spending mode, averaging 2.1% real growth (above and beyond inflation) the past five quarters. Put another way, the party has not slowed as the Fed had hoped.

Closing time. While the Fed has been hiking interest rates since March of 2022, only since (approximately) last September has the Fed been in restrictive territory – that is, above the neutral (not inflationary nor disinflationary) policy rate, thought to be near 2.5%. The Fed effectively announced “last call” nine months ago – so why has the economic party continued? Milton Friedman famously noted the “long and variable lags” of monetary policy. Today those long lags are being further lengthened by the continued shift to a service economy (requires less investment capital and shows less interest rate sensitivity) and the large number of homeowners still enjoying 3% mortgages (and spending the saved money elsewhere).

Continued inside



Continued from Cover

Economic hangover? A potential problem is that the longer the economy resists the Fed's proverbial calls to go home, the more likely financial markets may regret it in the proverbial morning. Continued strong labor demand raises the specter of continued wage pressures (still stubbornly above 4% after mostly staying below 3% during the post-global financial crisis, pre-pandemic era). This, in turn, increases the risk of a sustained price-wage spiral (higher prices lead to higher wage demands that lead to even higher prices) and may force the Fed to refocus its inflation-fighting efforts. At present, the Fed is telegraphing two more rate hikes (though investors expect only one more hike) to 5.75% before an elongated pause. The longer the

Fed must enforce restrictive policy, the greater the risk of eventual investment portfolio pain.

Portfolio painkillers. A possible outcome would be for labor supply relief (early AI job applications or late-to-the-party jobs entrants aiming to offset restarted student loan payments?) to sustain the economic expansion without high inflation, paving the way for further equity market gains. Short of that outcome, a few portfolio painkillers may be in order. Natural resource exposure and lower-duration bonds help with new inflationary risks – especially should those risks arise from oil or other commodity supply shocks (a growing risk in this new geopolitical climate). High yield bonds (and their 8.5% yield) could offer a similar return to equity markets, but with historically lower risk.

SECOND QUARTER 2023 TOTAL RETURNS (%)

U.S. equities posted their best quarter since 2021 as the perceived odds of a soft landing increased.

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	
1.2	-0.1	-0.8	-1.4	1.8	2.5	8.4	2.9	1.8	-3.7	0.7	-0.1	
YTD	2.3	2.7	2.1	1.9	5.4	7.8	16.4	10.9	5.8	-3.1	1.4	3.8

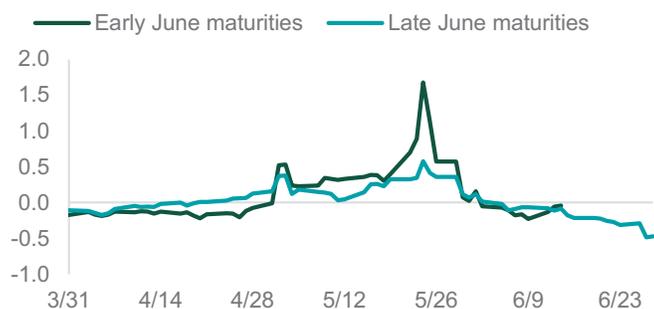
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

Debt Dislocations Resolved

Investors digested two major risks broadly related to debt in 2Q: the debt ceiling and bank sector stability. The former did not lead to much market concern other than in short-dated Treasury yields (see chart) – the “low-probability, high-impact” U.S. default risk case was removed after a deal in D.C. took the debt ceiling off the table until early 2025. The latter risk has also faded. While First Republic failed in early May, bank stress eased through May and June. The amelioration of both risks, overall, was supportive of equity markets.

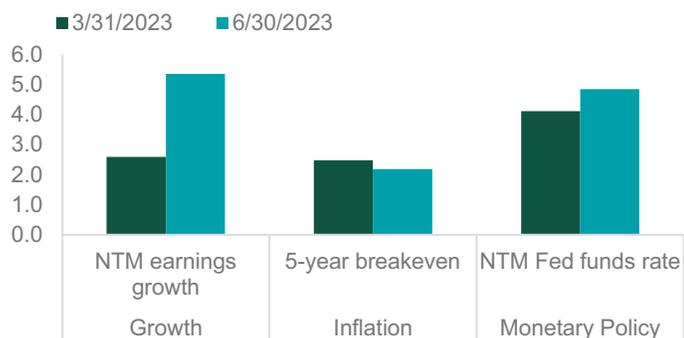
TREASURY BILL YIELDS MINUS FED FUNDS RATE (%)



Growing Soft Landing Hopes

Hopes of a soft landing remain as the U.S. growth outlook followed a narrative of continued resilience (via a solid labor market) with signs of softening. Inflation expectations dropped yet the pace and magnitude of the decline in core inflation remains a key question. Finally, investor Federal Reserve policy expectations moved up to reflect one (or two) more rate hikes beyond the current 5.1% level in addition to phasing out the possibility of a large rate cut – a sharply negative scenario that would not have been helpful for equities.

MARKET EXPECTATIONS AS OF... (%)

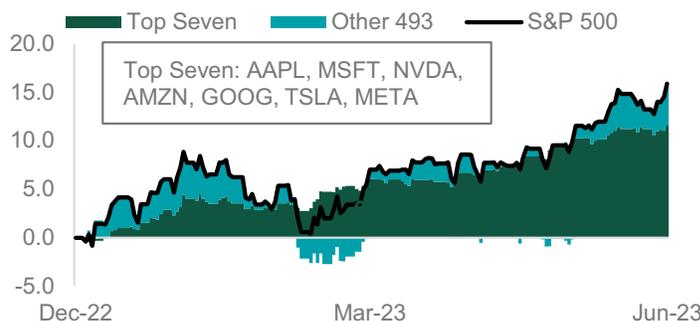


Source: Northern Trust Asset Management, Bloomberg. Data as of 6/30/2023. Note: early June (6/1 to 6/15); late June (6/16 to 6/30); NTM = next-twelve-months; Average goes back to 1940. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

Artificial Intelligence, Artificial Up Market?

AI saw heavy investor interest, leading to strong returns for large tech-related companies. An improved fundamental outlook helped these stocks outperform during a time of rising interest rates – often considered a headwind for the group. By late May, the S&P 500 was up ~10% year-to-date, but all of that gain was driven by the seven largest stocks and the contribution from the other companies was slightly negative. While the market gains broadened in June, the “Top Seven” continue to account for a majority of 2023’s return.

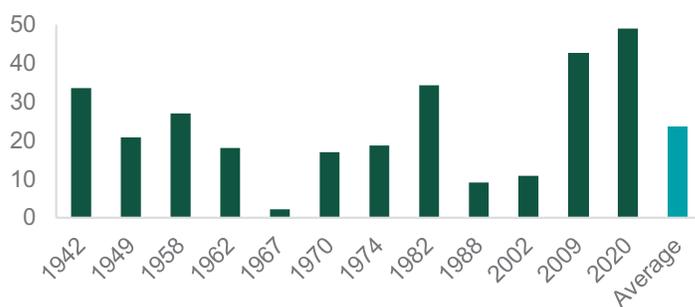
S&P 500 2023 RETURN BREAKDOWN (%)



Can Bears Become Bulls?

The S&P 500 exited bear market territory on June 8 by a commonly used convention (20% off the low). The bear market stretched back to early January of 2022 with the low falling in mid-October. Equity returns have typically been positive in the year following the exit from a bear market. However, this time could be different as equity market rebounds have often been accompanied by a recovering economy and/or a reversal to a more accommodative monetary policy stance – neither of which are particularly likely over the next 6-12 months.

1-YEAR RETURNS AFTER BEAR MARKET EXITS (%)



Market Review

Interest Rates

The U.S. debt ceiling was resolved with a short-lived and contained impact on Treasury yields. Meanwhile, the Fed decided to hold its policy rate in June, but the “pause” was more of a “skip” as it projected two more rate hikes this year. Disinflation was embraced, but core prices remain high while employment is still solid. The Fed was among a crowd of major global central banks, with China as a notable exception, suggesting more tightening needs to occur. The Treasury curve bear flattened with the 2-year yield up 87 basis points (bps).

Credit Markets

After First Republic Bank entered receivership the banking system found its footing and credit spreads retraced almost all of the widening that had occurred since March due to regional bank strains. Investment grade (IG) and high yield (HY) spreads narrowed 15 and 65 bps, respectively, on the quarter. Default activity ticked up but stayed fairly benign and lower-quality credits outperformed. Credit risk was favorable to duration with the more interest rate-sensitive IG Fixed Income (-0.8%) trailing HY Fixed Income (+1.8%).

Equities

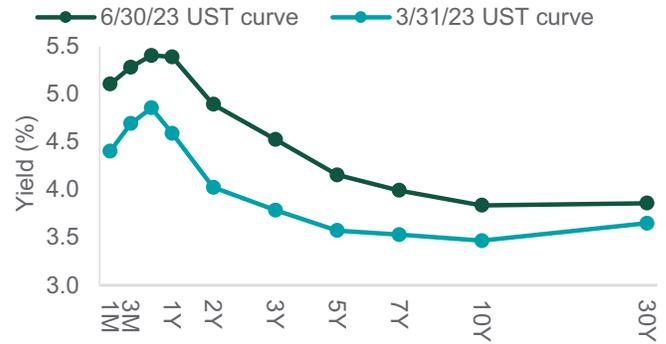
It was a strong quarter for global equities (+6.4%). Declining inflation and upside economic surprises underpinned an 8.4% gain in the U.S., while optimism on artificial intelligence drove robust returns in a narrow set of mega cap tech stocks. Valuations offered most of the support, though for the first time in eight months forward earnings estimates increased. European equities were bogged down by economic recession and tight policy. China’s slow recovery dragged on, but near the end of the quarter policymakers started to step in.

Real Assets

It was an underwhelming quarter for real assets as global real estate (+0.7%), listed infrastructure (-0.1%), and natural resources (-3.7%) lagged global equities. Higher interest rates were a headwind for real estate (RE) and infrastructure, but RE was helped by a more favorable credit backdrop and saw some improvement in lagging sectors like office. Global growth concerns continued to weigh on commodity prices with metals particularly soft on weak manufacturing activity. That said, late-quarter China stimulus offered some support.

Source: Bloomberg. Returns in U.S. dollars. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

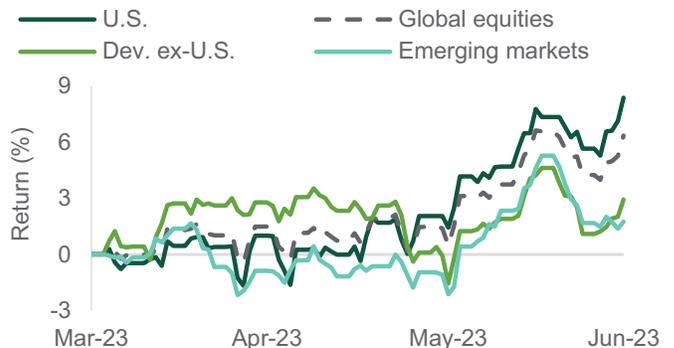
U.S. TREASURY YIELD CURVE



CREDIT SPREADS



REGIONAL EQUITY INDICES

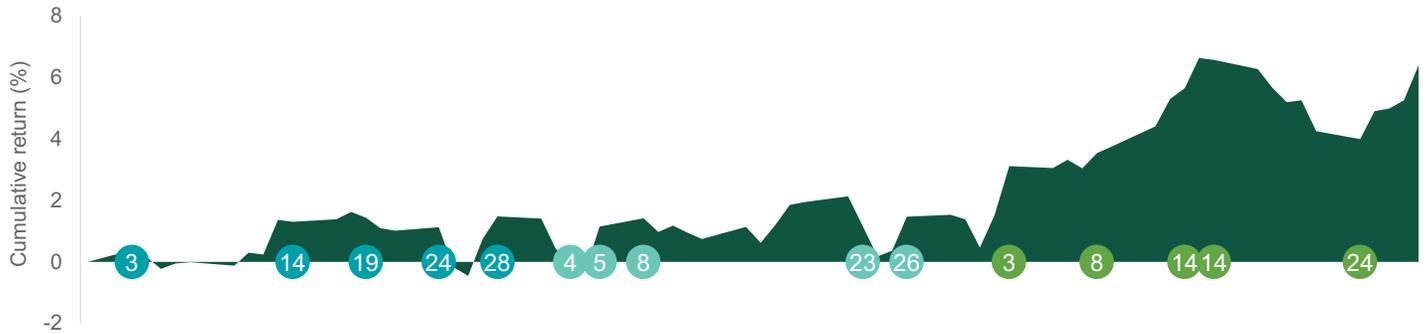


REAL ASSET INDICES



Market Events

■ 2Q 2023 global equity total return: 6.4%



APRIL	MAY	JUNE
<p>3 Oil prices increase following a surprise OPEC-plus announcement of a meaningful supply reduction.</p>	<p>4 The European Central Bank (ECB) delivers a 25-basis point (bp) rate hike and indicates more are on the horizon.</p>	<p>3 Markets price out U.S. default risks after Congress extends the debt ceiling past the 2024 Presidential Elections.</p>
<p>14 1Q23 earnings season unofficially begins; aggregate year-over-year (y/y) earnings growth finishes slightly negative but tops expectations of a larger decline.</p>	<p>5 Regional bank stocks decline ~10% for the week, but the banking system proceeds to find its footing over the next several weeks as deposit outflows slow.</p>	<p>8 The S&P 500 Index pushes into a new bull market after it crosses the 20% threshold above its October 2022 low.</p>
<p>19 U.K. inflation is notably hotter-than-expected, prompting an upward repricing of investor expectations for Bank of England policy tightening.</p>	<p>8 Senior Loan Officer Opinion Survey shows that U.S. banks tightened lending standards and plan to continue to do so.</p>	<p>14 The People's Bank of China cuts two of its key policy rates by 10 bps, a move that could signal a willingness to provide more support moving forward.</p>
<p>24 First Republic Bank (FRC) reveals steep deposit outflows and later becomes the third U.S. regional bank to fail since March, but a subsidized sale to JPMorgan helps contain broader fallout.</p>	<p>23 Developed market Purchasing Managers' Index data shows services activity continues to expand, supporting growth but also pushing up investor expectations for central bank tightening.</p>	<p>14 The Fed unanimously votes to hold its policy rate after 5% of cumulative tightening, but the updated Summary of Economic Projections indicates two more hikes to come in 2023.</p>
<p>28 U.S. core Personal Consumption Expenditures tops estimates at 4.6% y/y – a mere improvement from the prior level (4.7%).</p>	<p>26 Artificial Intelligence (AI) optimism boosts Technology stocks, including a 20% weekly gain for NVIDIA (NVDA) after its AI projections drive a stunning increase in its revenue guidance.</p>	<p>24 A deal between Russia President Putin and Wagner Group head Prigozhin ends Prigozhin's advance toward Moscow with little immediate impact but likely longer-term implications.</p>

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).

IMPORTANT INFORMATION. For Asia-Pacific and Europe markets, this information is directed to institutional, professional and wholesale clients or investors only and should not be relied upon by retail clients or investors. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor. Opinions and forecasts discussed are those of the author, do not necessarily reflect the views of Northern Trust and are subject to change without notice.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors.

Past performance is no guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by Northern Trust. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

From the Managing Director

Dear Clients and Friends,

Best summertime wishes from your team at Enterprise Wealth Management! We hope you can take time during these beautiful long days to enjoy the company of family and friends.

Stock and bond returns across the globe have been universally positive through the first half of the year. That is a favorable change from where we were last summer. Equity markets, in particular, have been surprisingly strong despite headwinds and several bouts of volatility this year. Bank failures in the spring were disruptive and shook the markets. As concerns about possible contagion to other banks and financial companies subsided, market fears have largely abated. Corporate earnings forecasts, ongoing inflation pressures, and global frictions are all cause for potential concern. But so far this year, market prices have been resilient. The strong performance is, in itself, an indicator of the confidence people have in the economy despite the potentially negative influences which currently exist. Bond returns have also been positive, though lower than stock returns, and we are enjoying better real yields for the first time in more than a decade. Credit quality is stable and still strong. Inflation seems to be cooling a bit overall. Expectations of a pending recession in the US have been pushed out, reduced, or even eliminated by some economists.

We remain committed to helping you attain your long-term goals. It is our pleasure and privilege to serve your investment management and

planning needs. We have a strong (and growing!) team at Enterprise Wealth Management and we all look forward to helping you for many years into the future.

With our warm wishes for a wonderful summer,

Mary Beth Haut, CFP®
*Managing Director,
Enterprise Wealth Management*



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.

EnterpriseWealth.com

The information provided is general in nature and is not intended to be, and should not be construed as, investment, legal or tax advice. Enterprise Wealth Management makes no warranties with regard to the information or results obtained by its use and disclaims any liability arising out of your use of, or reliance on, the information. The information is subject to change and,

although based upon information that Enterprise Wealth Management considers reliable, is not guaranteed as to accuracy or completeness. Enterprise Wealth Management expresses its appreciation to Northern Trust for providing the information contained in this newsletter. Certified Financial Planner Board of Standards, Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™

which is awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

Investment products are not a Deposit, not guaranteed by Enterprise Bank, not FDIC Insured, not Insured by any government agency, and may lose value.