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Mission Accomplished?

Entering 2024, the Federal Reserve appears set to proclaim inflationary mission accomplished—and in soft-landing fashion. Investors welcomed the Fed’s evolving message on monetary policy, with global equity markets up 11% (12% in the U.S.) in the quarter. The strong finish to an already strong year was largely driven by the reversal of rising interest rates. After peaking at 4.99% on October 19, 10-year U.S. Treasury yields ended 2023 at 3.88%—interestingly, right near where they started the year. As we progress into 2024, investor attention may shift from the mission to tame inflation to the mission to calm geopolitical tensions.

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Is the inflation mission fully accomplished yet?

The Fed's preferred measure of inflation—Core Personal Consumption Expenditures (PCE)—has fallen to 3.2% from a cycle high of 5.6% while the six-month annualized inflation level actually sits below the Fed's 2% inflation target at 1.9%. The shift in inflation trends has been accompanied by a shift in “Fedspeak”—with Fed Chair Jerome Powell's cheerful holiday message after the December 13 Fed meeting receiving only modest pushback in subsequent speaking appearances from other Fed officials. Investors are now expecting six rate cuts in 2024, starting in March. That said, the Fed—per its Summary of Economic Projections—is collectively only calling for three cuts this year, while continuing to provide assurance they will see their mission through if inflation shows signs of moving higher again.

Geopolitics: Mission Impossible?

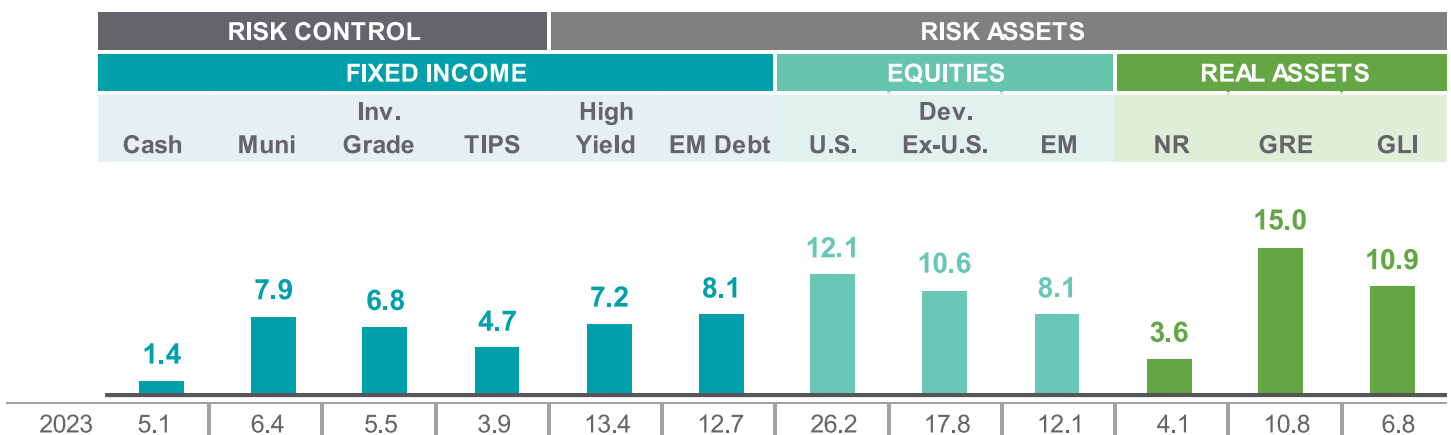
Should inflation maintain its current trajectory lower, investor attention will stray from monetary policy to focus more directly on ongoing

geopolitical tensions—for which near-term resolution appears difficult. Most pressing at the moment is the free movement of goods through the Red Sea, which carries about 12% of global trade. As Iranian-backed Houthi rebels ramp up their attacks on Red Sea-faring vessels, companies (over concern for their employees) are re-routing ships and insurance providers (over concern for their capital) are declining to provide standard coverage. Should the conflict jump the Arabian Peninsula to the Strait of Hormuz in the Persian Gulf—where around 20% of global oil passes—the geopolitical challenges will likely become much more acute.

Complicating matters further, almost half of the world's 7.9 billion people will have an election in 2024, with the election slate headlined by the U.S. presidential cycle. Ramifications from the Taiwan presidential election and the ongoing federal election process in the U.S. are hard to predict. In an environment of heightened geopolitical tensions, they represent an additional area of investor concern—certainly with respect to the longer-term financial market outlook, but also regarding potential volatility in the coming months.

FOURTH QUARTER 2023 TOTAL RETURNS (%)

The reversal of rising interest rates led most asset classes to finish out 2023 in strong fashion.

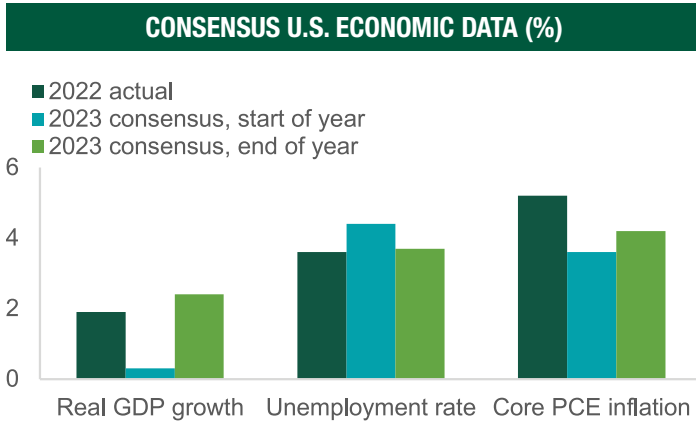


Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI Global Listed Infrastructure. Indexes are gross of fees.

KEY DEVELOPMENTS

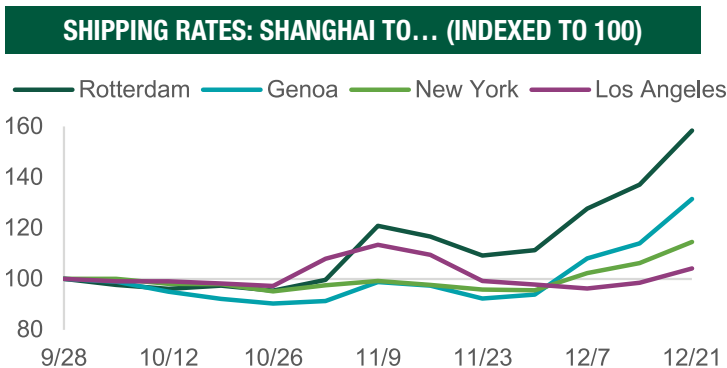
Soft Landing in Sight?

U.S. economic resilience remained on center stage in 4Q with 2023 real GDP growth set to finish near 2.5%—a far cry from early-year fears of a recession. Much of the resilience ties back to the U.S. consumer—insulated to a degree from higher rates and supported by a firm labor market. Core inflation continued to move lower with goods deflation helping offset more sticky services inflation. Housing-related inflation is still elevated but it operates on a lag and future moderation is expected given trends in rent over the last year.



Rising Geopolitical Risk

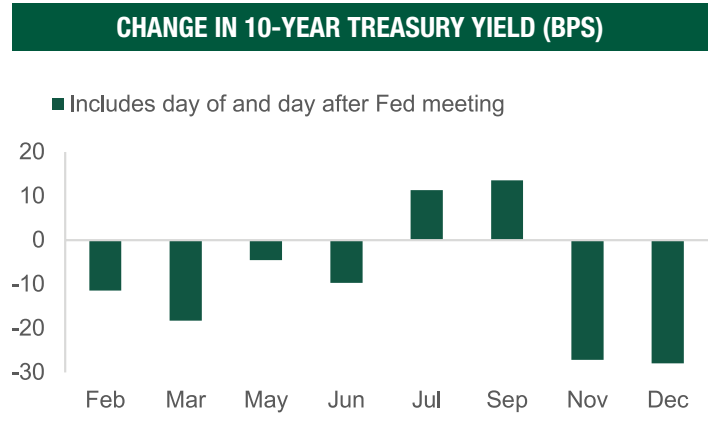
The brutal Hamas attack on Israel led to risk of a broad Middle East conflict and oil supply disruption. The war has been largely contained so far. But the Iranian-aligned Houthis picked up attacks on shipping vessels in December, causing re-routing away from the Red Sea. Roughly 30% of container shipping flows through the Suez Canal, including many Asia to Europe routes. Although not unusual to see higher prices from Asia in 4Q given holiday trade flows, shipping rates on Asia to Europe routes surged, reflecting rising geopolitical risk.



Source: Northern Trust Asset Management, Bloomberg, Drewry. Data as of 12/31/2023. BPS = basis points; EW = equal-weighted; BBG = Bloomberg; Tsy = Treasury. 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.

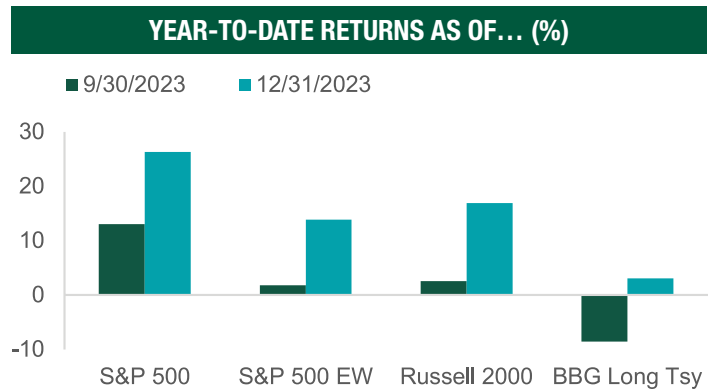
Season's Greetings from the Fed

The Fed did little to dampen soft landing hopes and the easing in financial conditions. Fed officials expressed more optimism on inflation normalizing without major labor market disruption. In December, Fed Chair Powell implied the Fed is done hiking and offered an optimistic take on inflation progress—leading to sharp further declines in Treasury yields. Outside the U.S., the European Central Bank and the Bank of England are also likely done hiking, but face a more delicate situation with weaker growth and higher inflation versus the U.S.



Sprint to the Finish Line

Equity market gains broadened in the last two months of 2023 with help from lower interest rates. The average U.S. stock performed well while previously lagging areas (e.g. small caps, regional banks, real estate, unprofitable tech companies) rebounded nicely. The “Magnificent Seven” stocks still held their ground, capping a fantastic run in 2023. This group accounted for roughly 60% of the S&P 500's 26% gain in 2023. Meanwhile, the sharp decline in rates helped long term Treasuries avoid a third consecutive year of losses.



Market Review

Interest Rates

Treasury yields moved sharply lower across the quarter after peaking at cycle highs in October. The 2-year yield declined ~80 basis points (bps), with the 10-year yield down ~70 bps. Investors pulled forward expectations for the first Fed rate cut to March (from July), with six cuts expected in 2024 (up from three). The Fed held its policy rate but its broader messaging indicated policy members expect a pivot to lower rates in 2024 as well. Specifically, its latest economic projections call for three rate cuts and a soft-landing backdrop in 2024.

Credit Markets

It was a solid quarter for spread products with help from both lower government bond yields and tighter credit spreads. Investment grade (IG) and high yield (HY) credit spreads widened alongside summing interest rates before spreads firmly tightened alongside the rate reprieve. IG and HY credit spreads narrowed 19 and 73 bps, respectively, with both finishing at levels tighter than long-term averages. From a return standpoint, IG fixed income produced an abnormally robust return of 6.8%. HY also delivered an outsized gain at 7.2%.

Equities

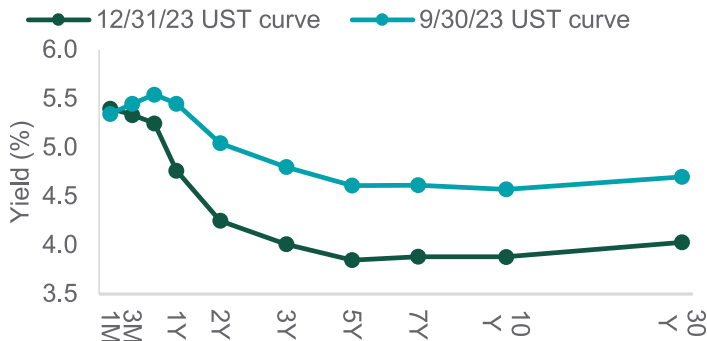
Global equities finished the quarter with an 11.1% gain after surging 15% across November and December. All major regions partook in the rally as growing investor belief in benign inflation led to a dovish repricing in expectations for central bank activity. U.S. equities led the charge amid a durable macro backdrop that allowed for better market breadth. 2024 earnings expectations moved up, but most of the gains were valuation driven. U.S. valuations sit well above the long-term median, while non-U.S. prices are closer to historical norms.

Real Assets

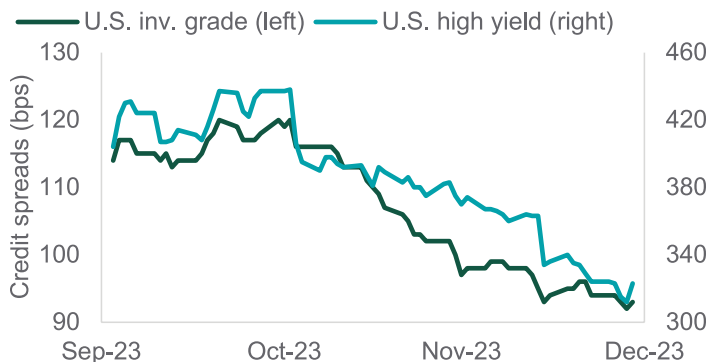
Real estate was a standout performer with a 15% gain. The interest rate rollover amid non-recessionary growth conditions were tailwinds for the asset class, which had lagged global equities the prior six consecutive quarters. With interest rate support, global infrastructure kept pace with global equities—a respectable outcome given its lower risk profile. Natural resources registered an underwhelming 3.6% gain, with weakness mainly within energy. War-related risk premiums were seemingly overpowered by future demand uncertainty.

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.

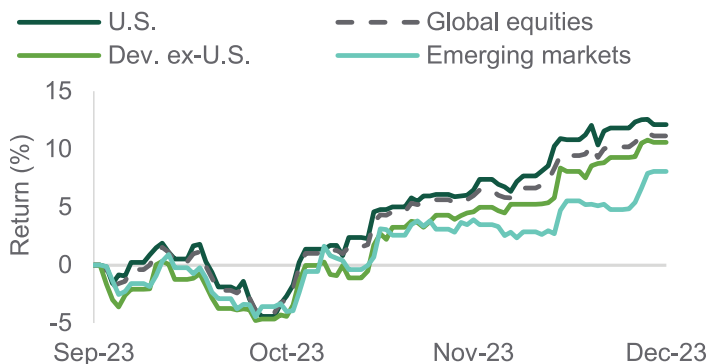
U.S. TREASURY YIELD CURVE



CREDIT SPREADS



REGIONAL EQUITY INDICES

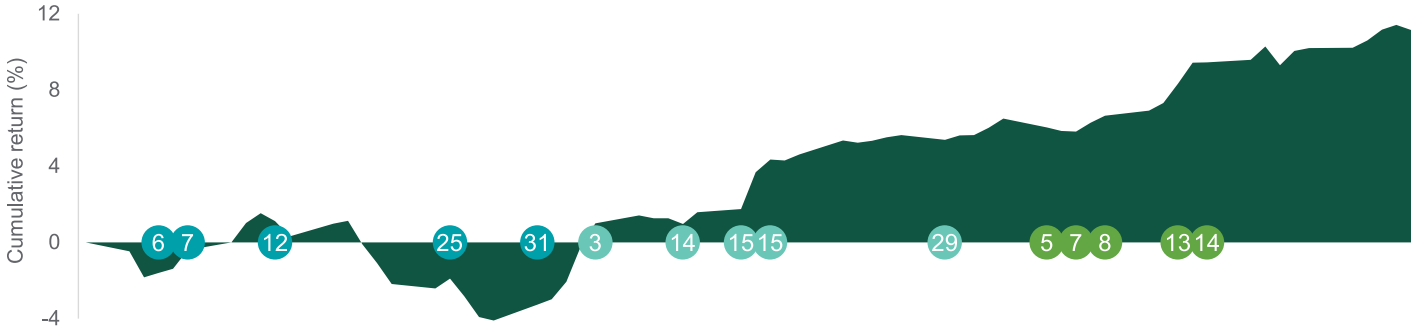


REAL ASSET INDICES



Market Events

■ 4Q 2023 global equity total return: 11.1%



OCTOBER	NOVEMBER	DECEMBER
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| <p>6 A blowout increase in U.S. jobs contributes to intermediate-to-longer term Treasury yields rising to levels last reached in 2007.</p> | <p>3 U.S. equities post a 6% weekly gain and interest rates move sharply lower as the Fed stays on hold and U.S. hiring slows.</p> | <p>5 Moody's lowers its outlook for China's credit rating to negative on debt concerns. Toward the end of the week, Politburo indicates more proactive fiscal policy in 2024.</p> |
| <p>7 Markets contend with new geopolitical risks after Hamas' surprise attack on Israel; broader escalation risks are contained during the quarter.</p> | <p>14 U.S. inflation decelerates and is milder than expected, especially when accounting for upward impacts due to changes in health care accounting.</p> | <p>7 Comments from BOJ Governor Ueda raise suspicion that the central bank may exit negative interest rates sooner than expected.</p> |
| <p>12 U.S. headline inflation rises more than expected as the 'super core' measure (core services ex-housing) posts a strong 0.6% monthly increase.</p> | <p>15 President Xi and President Biden meeting is de-escalatory, though it gives little reason to believe that the longer-term strategic rivalry will change course.</p> | <p>8 U.S. jobs report underscores ongoing strength while job openings data released the day before show a declining supply shortfall.</p> |
| <p>25 The United Auto Workers (UAW) reaches tentative agreements with Ford Motors and Stellantis that include 25% wage hikes over roughly four years.</p> | <p>15 The U.S. passes a short-term funding bill excluding wartime aid to keep the government funded for roughly two more months.</p> | <p>13 Fed communication suggests rate hikes are done and rate cuts are expected in 2024.</p> |
| <p>31 The Bank of Japan (BOJ) introduces flexibility around yield curve control, now referring to a 1% yield as a "reference" rather than a "ceiling" for 10-year government bonds.</p> | <p>29 Third quarter U.S. Gross Domestic Product is upwardly revised from 4.9% to 5.2% – the fastest pace in almost two years.</p> | <p>14 The European Central Bank pushes against rate cut expectations; the Bank of England leaves its policy rate unchanged, though three of nine members vote for a rate hike.</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).

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From the Managing Director

Dear Clients and Friends,

The team at Enterprise Wealth Management sends our best wishes for an enjoyable and prosperous 2024! We are grateful for the confidence you have placed in us, and we look forward to providing you with wealth management services for years to come. Helping clients realize their dreams and aspirations is our guiding motivation and our source of professional satisfaction. Enterprise Wealth Management has been serving clients for more than three decades and we are enthusiastic about our continued journey together.

Goals-based planning and a long-term perspective are the foundation of financial success. Over time, changes in estate and tax law, cyclical and episodic movements in global investment markets, and everyone's evolving needs through life's stages require vigilance and foresight. Investment markets have been a good example of the volatility we face as we work to attain our life goals. When both equity and bond markets declined significantly in 2022, it was an outlier year for broad investment returns compared to anything we had seen in the last century. 2023 was almost a mirror image. Global equity returns exceeded 20%. Bond markets also produced positive returns and, significantly, a return to more normal interest rate levels. To attain long-term goals, a consistent, objective, and risk-conscious focus is essential.

As 2024 begins, we can envision any number of factors that could impact planning and investment management. National elections later this year might produce a changed focus for legislative initiatives regarding spending, taxes, and global engagement. We have seen momentous shifts in government policy with almost every new Washington administration in recent decades. At Enterprise Wealth Management, we provide advice and counsel to our clients over the course of long periods of time rather than the inevitable cycles of economic activity and government actions. Our core beliefs in strategic asset allocation and broad diversification provide the highest probability of meeting your goals despite the many sources of volatility along the way.

May this new year bring health, happiness, and fulfillment to you and your loved ones. We are enthusiastic about the future. We will always strive to be a consistent and valuable partner in helping you successfully manage your journey.

With our warm regards,

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



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