FIRST QUARTER 2025 REPORT

ENTERPRISE
WEALTH MANAGEMENT
A division of Enterprise Bank

From the Managing Director

Dear Clients and Friends,

For this section of the newsletter, we are republishing our special client note distributed on April 9th as the longer-term themes and strategies remain the same.

Since our letter, a 90-day delay on reciprocal tariffs for every country except China has been announced. Additional carve outs and exemptions are being floated regularly. These moves have calmed markets. However, markets could be back on thin ice at the end of the 90 days, but hopefully without the margin calls and other short-term technical risks that motivated the 90-day reprieve in the first place.

We are optimistic that cooler heads and less severe interventions will prevail, but some damage has been done that is not easily reversed and will likely show up in upcoming data. Meanwhile, first quarter earnings announcements are underway, and it is nearly impossible for companies to give clear forward guidance. We will continue to monitor markets closely. Please reach out with any questions or concerns that you might have.

...As shared in our April 9th letter, with only minor updates to dates and performance references:

In markets, the good news is always simpler and less elegant than the ever-present list of risks. Patient investors who follow a goals-based plan are rewarded in the long run. Equity markets offer a positive risk premium to compensate investors for tolerating periodic drawdowns. Bonds and cash provide diversification and a bridge across short-term equity volatility. We advise sticking to investment plans and resisting the worst of the news headlines. Remember that uncertainty and periodic pullbacks are what set markets up for solid forward returns.

First, the good news: client portfolios generally held up very well in the first quarter. For example, our moderate growth strategy (approximately 60% stocks and 40% bonds) was down less than 1%. Actual client results vary depending on individual investment mix, risk appetite and tax circumstances. In any case, the point is that though the headlines for Q1 were quite scary, overall results held up well with positive performance from bonds, cash, commodities and non-US stocks.

Continued inside

However, now for the news that has been impossible to miss: the announcement of sweeping tariffs on April 2nd triggered a broadening of the global selloff. Client portfolios are still holding up well, but few assets have been immune to the shift in mood and the growing risk of global recession. Non-US equities and commodities remain outperformers but have given back some of their gains for the year to date. Fixed income credit spreads have also widened. Even reliable US Treasury bonds have been volatile depending on the day. For example, April 7th was one of the widest intraday swings ever for the yield on the US 10-year bond. Quantitative trading algorithms and leveraged instruments can exaggerate short-term swings, especially when mixed with margin calls and forced-selling on the downside.

Even after the short-term noise clears, the multi-year and multi-decade asset flows into the US that drove markets to their heights could gradually be repatriated to their home markets. (This is why our portfolios are global and not solely US equities). Similarly, the positive wealth effects that drove households confidently into goods consumption and equity market allocations are also at risk of reversing. (This is why our portfolios recommend some bonds and cash, not just stocks).

With the above summary as the backdrop, the larger question is where markets go next. On the surface, the outlook is gloomy. However, it is difficult to trade or justify any material selling due to the ever-present possibility of a single tweet or rumor reversing mood instantly. The issues at hand are not slow-moving Federal Reserve policy or legislative items such as tax policy, budget debates or resetting the debt ceiling. Much of the current volatility was created by executive order and can equally be suddenly reversed.

It is unlikely the genie will ever go completely back in the bottle even if the tariffs are rescinded. "US exceptionalism" in markets and economic health has taken a hit. Decision-makers of every stripe now have reason to consider other non-US options across trade partnerships, central bank reserves, investment portfolio allocations, supply chains, corporate capital expenditures and even tourism. Also, it is worth remembering the burst of selling in February triggered by the release of the Deep Seek artificial intelligence (AI) model. This current selloff has revived that re-think of what the appropriate valuation level is for AI-related stocks, regardless of tariffs.

In terms of fixed income prospects, despite tightening liquidity and growing US reputational risks, short-term US Treasury bonds remain a relative safe haven. Additionally, it seems that the Federal Reserve now has more reason to cut interest rates. However, the Fed needs to wait and see if we are softening into a recession and deflation that would justify rate cuts, or if we are heading for "stagflation" (stagnant economic growth yet inflation) that would limit the Fed's ability to cut rates.

Another risk is that consumers generate a self-fulfilling downturn as consumer confidence, inflation expectations, employment expectations and small business optimism indexes all struggle. As a result, US GDP and forecasts are moving lower. It is not clear that either of these two major data points will turn negative, but they certainly warrant recalibration.

Importantly though, there are counterpoints to the negativity, at least in the context of staying invested for the long term. The US economy, though softening, was relatively strong heading into this turmoil—unemployment was low and inflation under control. Similarly, corporations and individuals started the year in a place of relative strength with low debt levels and/or sufficient cash cushions on hand. While certain prices are likely to rise, lower oil prices help offset some of the pain for consumers. For much of the stock market, profit margins were strong and have room to absorb some tariff pressures. In other words, most companies are not under existential threat despite the sharp decline in their share prices. They remain viable long term wealth compounders and appropriate for long term investors. Furthermore, their valuations are now more reasonable and offer better forward return prospects from these levels.

Politics, policy and markets are all moving very rapidly. Client portfolios are well positioned to manage through this volatile period. As always, your Enterprise Wealth team is here to serve you, and we look forward to connecting at your next meeting. In the interim, please contact your team with any concerns or questions. Thank you.

Sincerely,

Dave

David Lynch, CFA
Head of Wealth Management
Chief Investment Officer
Enterprise Wealth Management

Navigating Uncertainty

Policy spillovers.

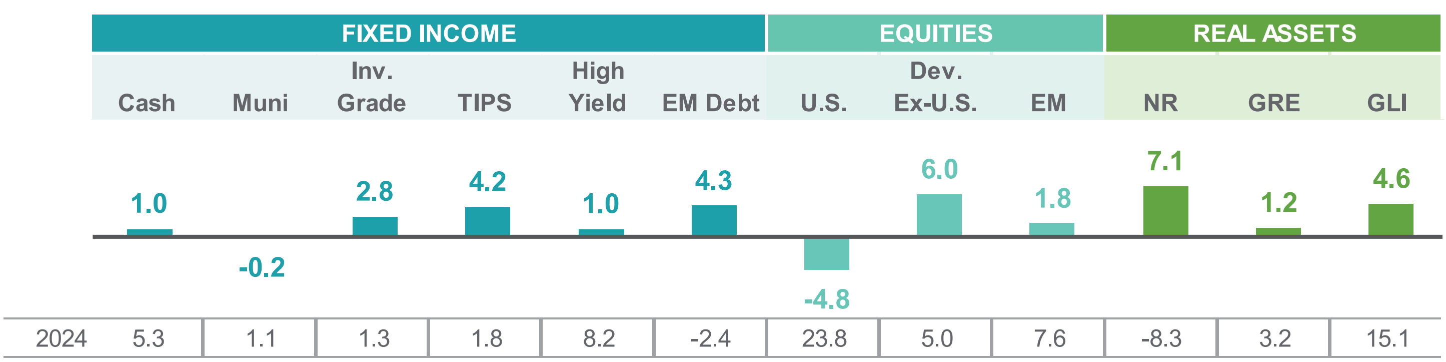
One of the key known unknowns heading into this year was the extent to which U.S. government policies would shape the macroeconomic landscape. Unfortunately, the policies perceived to be less economically-supportive dominated the narrative in the first quarter, while the potentially more growth-additive policies (e.g., tax cuts, deregulation) were put on the backburner. Specifically, there remains an elevated amount of uncertainty surrounding the outcome of trade policy. In addition to the uncertainty drag, consensus tariff expectations have repriced to levels that resemble the risk case scenario of some initial forecasts. Beyond trade, policy risk from federal layoffs and reduced immigration have added to growth concerns. The net result has been an unfavorable mix of lower growth and higher inflation expectations incorporated into U.S. consensus estimates. Nonetheless, forecasts for real growth in 2025 exited the quarter around 1.5% and included an expectation for continued easing from the Fed. While the policy spillover into U.S. forecasts was incrementally negative, more positive developments resulted abroad. At risk of less support from the U.S., Germany executed unexpected fiscal reform that lifts the debt brake for defense spending and includes a €500 billion infrastructure fund. At the same time, China has taken a more proactive approach toward stimulating domestic demand as well as more positively engaging with the private sector. While risk of negative tariff shocks remain high, Europe and China made incrementally positive strides during the quarter.

Good quarter for diversification.

First quarter financial market returns were generally positive aside from losses in U.S. equities. The market backdrop at the onset of the quarter looked quite different from February and March as late-January DeepSeek AI news jolted markets followed by policy uncertainty taking center stage by early February. These impacts were most pronounced in U.S. equities as the S&P 500 quickly corrected by 10% from mid-February through mid-March. Underlying equity market dynamics shifted with the Magnificent 7 group a large drag (six of the seven were down more than 10%) and more defensive parts of the market leading the way. Despite Mag 7 weakness, broader U.S. equities held up reasonably well with the equal-weighted S&P 500 down only 1% and defensive sectors posting mid-single-digit gains. More notable was the strong performance in Europe and to a lesser extent, emerging markets. Europe equities outpaced the U.S. by about 15% in dollar terms. Both regions benefited from a rebound off a weaker starting point versus the U.S. The historic pivot in German fiscal policy was a major boost for Europe with aerospace & defense companies up 30%-plus for the quarter. For emerging markets, China was a key driver, as heavyweight tech companies were a key source of strength. On the fixed income side, after rising early on, interest rates moved lower for the quarter while credit spreads widened. This led to modest positive total returns for broader fixed income indexes. Real assets generally outperformed global equities, with stronger performance in natural resources and global listed infrastructure.

FIRST QUARTER 2025 TOTAL RETURNS (%)

Most asset classes ended the quarter modestly higher despite losses in the U.S. equity markets.



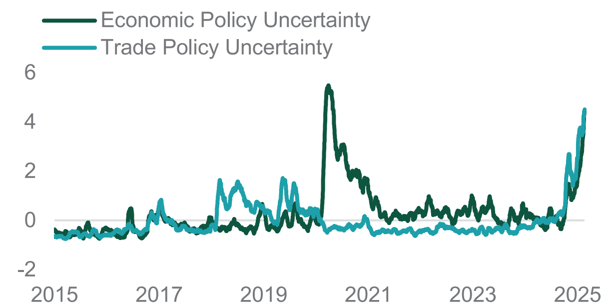
Source: Northern Trust Asset Management, Bloomberg. NR: Natural Resources; GRE: Global Real Estate; GLI: Global Listed Infrastructure. Indexes are gross of fees. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

Key Developments

Uncertainty is the Word of the Day

Policy uncertainty was the main surprise for the investor community in the first quarter. Trade policy was the focal point with potential widespread implications for both global trade and geopolitical relations. Trade policy announcements were more severe than expected and multiples of magnitude higher than the 2018 trade episode in Trump's first term. Adding to complexity, the uncertainty has been multi-layered with regard to the timing, exact policy details, how long policies will remain in place and their ultimate expected economic impact.

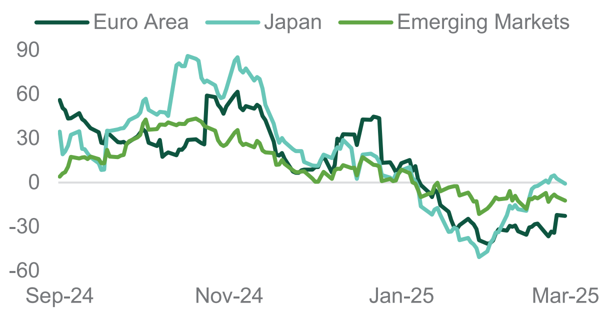
DAILY UNCERTAINTY MEASURES: Z-SCORES



U.S. Economy Gives Up Some Ground

The U.S. economy remained on decent footing in 1Q. However, policy uncertainty weighed on survey-related economic data, with perceived risks around lower growth and higher inflation. This helped lead to fading U.S. economic momentum versus non-U.S. peers – an advantage over the better part of the last two years. While soft data can be overly influenced by recent events and is not necessarily predictive, key questions remain around how lower confidence translates to economic activity via consumer and corporate behavior.

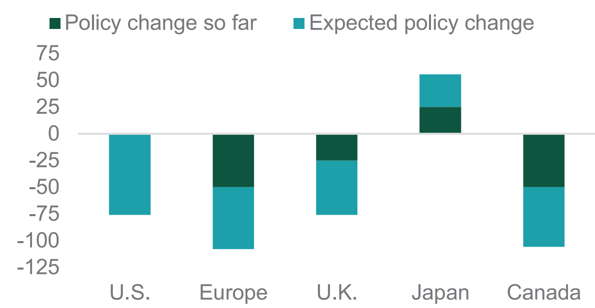
CITI ECONOMIC SURPRISE INDEX: U.S. VERSUS...



Central Banks Still Cutting Rates

The central bank reaction functions have varied somewhat globally though with most major developed market central banks still on course to gradually ease policy aside from the Bank of Japan. Central banks have largely shied away from offering direct guidance in relation to rising uncertainty, while generally placing more emphasis on downside growth risks relative to upside inflation risks. The Federal Reserve left policy unchanged in the quarter, while the European Central Bank cut twice and the Bank of England cut once.

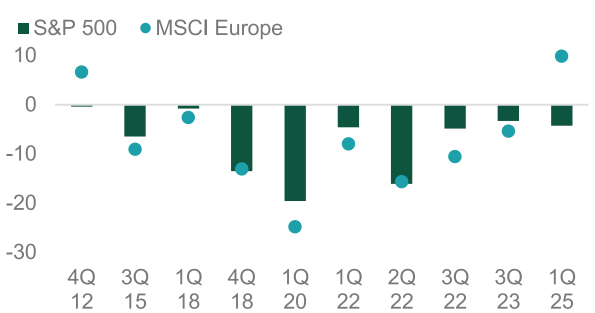
2025 CENTRAL BANK ACTIVITY (BPS)



U.S. Equities Lag in the Quarter

The biggest shift in the market backdrop was the underperformance of the U.S. equity markets versus the rest of the world. The confluence of a less-positive outlook for U.S. megacap tech following DeepSeek AI news and broader U.S. policy uncertainty led to notable headwinds for U.S. indexes. U.S. equities reached a 10% correction from mid-February through mid-March while non-U.S. equities were closer to flat. European equities outpaced the U.S. by 15% in the quarter – one of the largest quarters of outperformance on record.

LAST TEN QUARTERS WITH S&P 500 LOSSES (%)



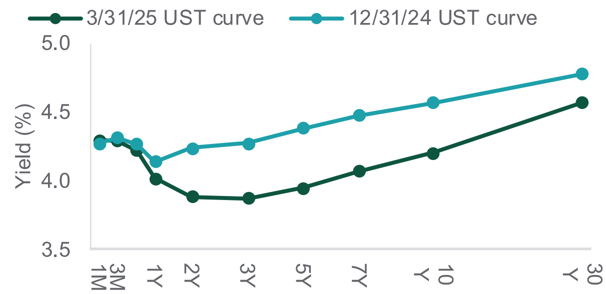
Source: Bloomberg, Macrobond, Citi, Economic Policy Uncertainty, Matteo Iacoviello. Data as of 3/31/2025. First chart: one-month smoothed measures using daily data. Fourth chart: USD total returns. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

Market Review

Interest Rates

Policy uncertainty weighed on U.S. interest rates. Most of the move in longer-end Treasury yields was driven by lower real yields as market-based inflation expectations were mostly stable. These moves were not consistent globally. In fact, fiscal reform pushed up longer-end real yields in the Euro Area, while yields in Japan continued to rise. Globally, uncertainty was a consistent theme across central bank communications. The Fed slowed the pace of quantitative tightening while opting to leave rates unchanged with a dovish forward-looking posture.

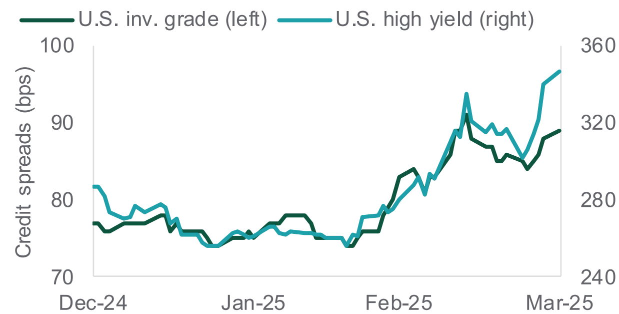
U.S. TREASURY YIELD CURVE



Credit Markets

Investment grade (IG) spreads widened 12 bps to 0.89%. High yield (HY) spreads widened 60 bps to 3.47%. Weakness within HY was led by lower-rated credits, which marks a reversal from recent years in which lower-quality credits outperformed. However, overall credit fundamentals were mostly unchanged and spreads still remain below long-term averages. From a return lens, both IG and HY fixed income were positive with support from income yields. For diversified investors, most bonds helped buffer U.S. stock losses.

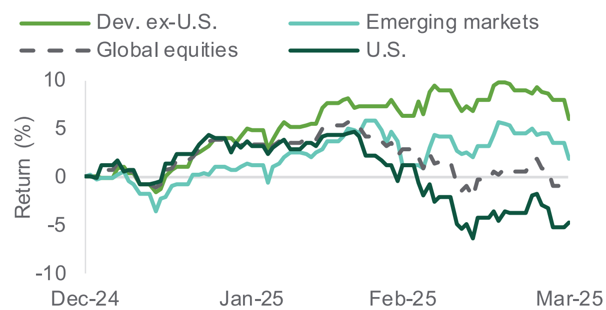
CREDIT SPREADS



Equities

A significant shift in regional leadership trends left global equities down a percent. In dollar terms, Europe returned around 15% more than the U.S., while local currency returns were lower but still strong. China outperformed the U.S. by around 20% on fiscal support and a tech sector revival. U.S. exceptionalism is under pressure after the S&P 500 Index lost 4% and entered a 10% correction. Tech, growth and cyclical stocks produced outsized drag on overall index returns. The equal-weighted S&P index was down about 1%.

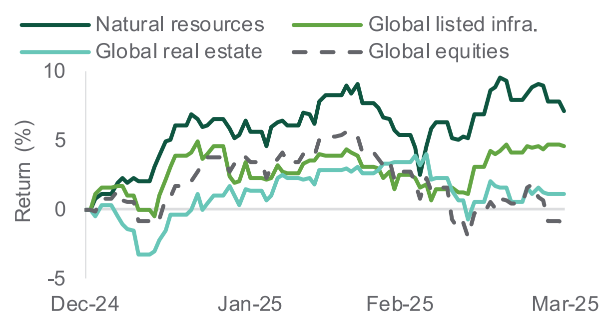
REGIONAL EQUITY INDICES



Real Assets

Real assets were another area of the market that provided diversification from U.S. equity market losses. Natural resources led the way with a 7% gain during the quarter, followed by listed infrastructure (+5%) and positive performance from global real estate (+1%) that was sensitive to interest rate movements. Gold made new highs with a 19% gain in the quarter, which brings its trailing one-year return to 40%. Inflation, a weaker U.S. dollar, economic uncertainty and central banks continuing to add to gold reserves were key supports.

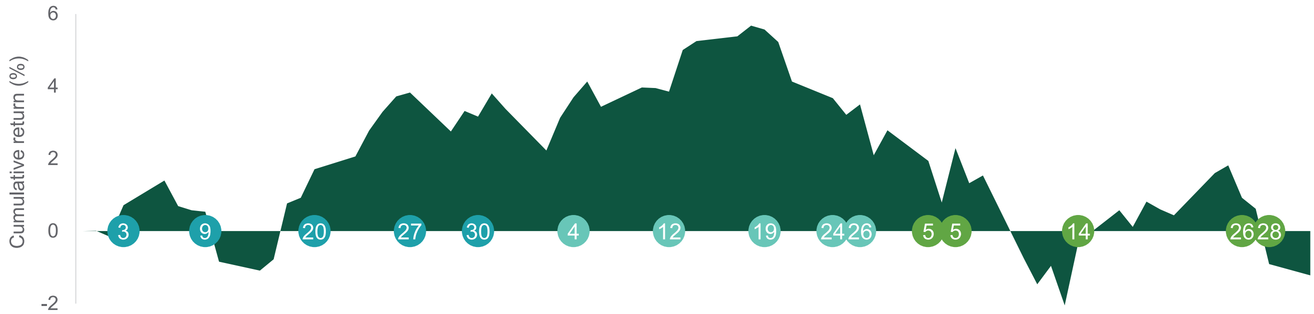
REAL ASSET INDICES



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.

MARKET EVENTS

■ 1Q 2025 global equity total return: -1.2%



JANUARY	FEBRUARY	MARCH
3 Republican representative Mike Johnson is reelected as House speaker during the first round of ballots.	**4** President Trump agrees to postpone U.S. tariffs on Mexican and Canadian imports until March to allow more time for negotiations. This comes days after Trump signed the executive order to impose the tariffs.	**5** Germany announces a massive fiscal spending program that allows defense spending to circumvent Germany's debt brake and also includes a €500 billion infrastructure fund over 10 years.
9 U.K. bond and currency markets weaken on fiscal concerns. Longer dated gilt yields are now higher than the 2022 mini-budget crisis period.	**12** The U.S. Consumer Price Index prints hotter-than-expected, underscoring the bumpy nature of inflation.	**5** China announced more fiscal stimulus to support domestic consumption and cushion against the impact of an escalating trade war.
20 Donald Trump is inaugurated as U.S. President for his second term. He signs a flurry of executive orders and mentions that tariffs are forthcoming.	**19** In the January FOMC meeting minutes, the Fed communicates that it wants to see further progress on inflation before cutting. Trade and immigration policies are mentioned as risks.	**14** The preliminary March University of Michigan consumer survey suggests consumers are more pessimistic and more worried about inflation.
27 DeepSeek launches its low-cost AI model, sparking ranging discussion about the extent of U.S. tech spending on AI-related capex.	**24** The opposition conservatives led by Friedrich Merz win a lackluster victory in Germany's election, with Merz set to become the next Chancellor.	**26** U.S. President Donald Trump announces a 25% tariff on foreign auto imports scheduled to take effect on April 3.
30 The European Central Bank (ECB) implements a widely expected 25-basis-point (bp) rate cut to its three key interest rates, lowering the deposit rate to 2.75%.	**26** Nvidia (NVDA) beats analysts' earnings and revenue estimates. However, guidance and ongoing tariff risk fail to inspire investors.	**28** The core Personal Consumption Expenditures Price Index is hotter-than-expected and rises to 2.8% year-over-year.

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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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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