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An Important Market Update from Enterprise Wealth Management

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Dear Clients and Friends,

It has been only three weeks since our last letter, but the market volatility compels us to send another update. Apologies for the density of this letter-- it is a complicated and nuanced picture right now.

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.

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 have fallen back to nearly unchanged or slightly down for the year. Fixed income credit spreads have also widened and moved to slightly negative returns. 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 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.

First quarter earnings announcements begin on Friday, and it will be 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. We will be releasing our quarterly newsletter next week. It will mostly reiterate the themes of this letter while adding in the usual data and charts of our typical newsletter.

Sincerely,

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*The commentary in this letter applies to the majority of client portfolios and the directional adjustments being made. However, your portfolio may differ according to your investment policy, your specific circumstances and the customized care taken by your portfolio manager and advisor.

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