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## An Important Market Update from Enterprise Wealth Management

March 14, 2025

Dear Clients and Friends,

We are writing to share our perspective on the recent market volatility. The year is off to a turbulent start, especially for the high-flying US large capitalization stocks. However, there are noteworthy bright spots and the diversification in our portfolios* is helping to protect assets. Among the highlights offsetting the pain of the 10% correction in the S&P 500 from its February peak are positive year-to-date returns for high grade bonds, international equities and commodities.

While any market drawdown is difficult to experience, they are also to be expected periodically. We have been spoiled by rallying markets over the last two years. Boundless investor optimism in all things US technology and artificial intelligence related has shifted to a more cautious and balanced trading environment. Though the S&P 500 is down overall, certain sectors remain in positive territory year to date as investors adjust. Most investors are staying in the market but rotating assets to relative value opportunities in other sectors and countries.

Recent negative events have also supported high grade US bonds on investor flight to safety and belief that the Federal Reserve now has more reason to cut interest rates later this year. However, multiple rate cuts are uncertain given the ugly possibility of “stagflation” (stagnant economic growth yet rising prices limiting the Fed’s ability to cut rates).

There is certainly a lot of noise crossing the news wires every day. Our mission is to sift through the news to identify signals of material changes in the investment opportunity set. We hope that the budding trade wars will not grow to the full-blown worst case, but we still expect lasting negative ripple effects that put GDP (gross domestic product) at risk for a pullback and raise the odds for a recession. Similarly, the earnings outlook for US stocks likely needs to be marked down. Consumer confidence is vulnerable as layoff announcements start to accumulate and tariff impacts start to work through the economy.

Fortunately, at the end of 2024, we began the process of rebalancing portfolios to less exposure to growth stocks, small cap and mid cap while maintaining international equity positions, high grade fixed income positions and adding dedicated commodities exposure. We expect to continue moving portfolios in these directions. We are comfortable with international equities and commodities for their diversifying properties, and they have also received additional boost from the recent weakening in the US dollar.

To be clear, we are not against the “Magnificent Seven” or other growth stocks—many are quality long term holds through short-term turbulence—but all eggs should not be in that basket and some trimming should be considered after the strong run up these positions have enjoyed. (Due to capital gains, the need and desire for rotating and rebalancing will be carefully managed for taxable accounts).

As we send this letter to print, there is optimism that a government shutdown will be avoided although political issues are far from over. Next week brings more key events including the Federal Reserve’s policy meeting. We will continue to monitor valuations and adjust our outlook accordingly. Our baseline position is to stay close to neutral to your benchmark weightings across stocks/bonds/cash consistent with your targets that were prudently set in place prior to this volatility.

As always, the focus is on the long term and making sure your portfolio aligns with your goals and risk tolerance. Your dedicated Advisor and Portfolio Manager team is here to guide you and address any questions you might have.

Sincerely,

Dave

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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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