FOURTH QUARTER 2024 REPORT

ENTERPRISE
WEALTH MANAGEMENT
A division of Enterprise Bank

From the Managing Director

Dear Clients and Friends,

The US stock market rose slightly in the fourth quarter, although the move was less exuberant than the third quarter, and many other markets finished the year with a negative quarter. After the election, there was a “relief rally” in part attributed to the expectation that business-friendly policies will be ushered by the new administration, but a large portion of the initial post-election rally was simply relief that the election result was not going to be delayed or disputed. There has been more caution in recent weeks as the market faces the reality of the difficulty of trying to fund election promises without inadvertently pushing interest rates and inflation higher.

For the full year, the stock market delivered a pleasant surprise with a return of over 20% for the S&P 500 Index. Enthusiasm for artificial intelligence (AI) and the momentum of the Magnificent Seven[1] carried the day. Incremental asset flows still favor US equities. Despite attractive relative valuations, international stocks were not able to take the baton for any length of time, with many having geopolitical, fiscal and economic stresses of their own in addition to having less of the premier technology and growth stocks as compared to US indexes.

Bond markets were mixed, with most investment grade sectors up slightly. However, only the +8% return of the high yield bond segment outpaced the +5% earned by cash. The bond market, typically quiet and less dramatic than the stock market, has seen its influence revive as higher yields and diminished prospects for future interest rate cuts are making stock investors nervous. While cash cushions are tactically attractive, we do recommend reinvestment into a diversified portfolio over time as opportunities arise.

Equities

The S&P 500 finished up over 23% in price terms for the full year. After small capitalization and value stocks perked up in the third quarter, things returned to familiar leadership-- AI themes and large cap growth—to finish the year. The Magnificent Seven was up 48% for the year and the sectors where they dominate benefited with communication services (+39%), technology (+36%) and consumer discretionary (+29%). Financials (+28%) and utilities (+20%) also turned in strong years on the basis of rate cuts, renewed financial/deal-marking activity and the growing demand for electricity to run artificial intelligence (AI), cloud data centers and related.

[1] *The Magnificent Seven refers to the bellwether stocks of Amazon, Microsoft, Apple, Tesla, Nvidia, Alphabet (Google) and Meta (Facebook).*

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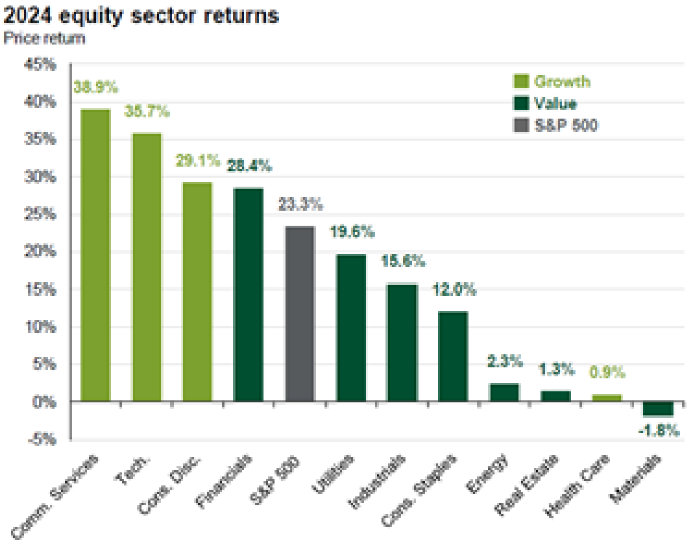
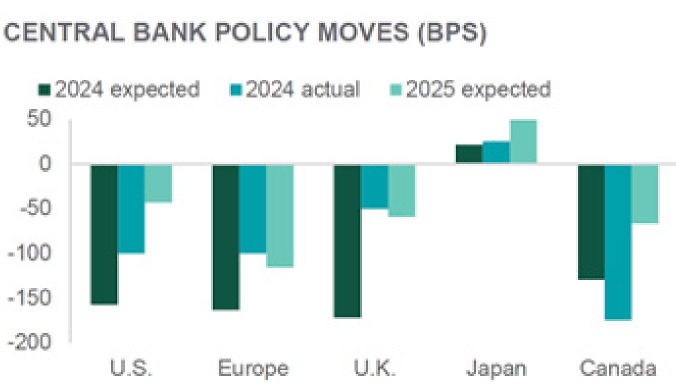


Source: JP Morgan Asset Management, 1/6/2025

Our expectation is for less dramatic outperformance by technology, growth and the Magnificent Seven. Many of these stocks are bona fide high quality investments that can be held for the long term. However, we prefer not to rely solely on these sectors at current valuations. There is opportunity to rotate into less favored sectors currently trading at reasonable valuations alongside a healthy earnings outlook. We also recommend keeping international equity exposure, but underweight relative to US equities.

Fixed Income

Bond markets are gaining attention again as their yields have generally risen despite the Federal Reserve cutting short term rates multiple times in 2024. These yield moves and curve steepening are a result of fewer rate cuts than initially expected in 2024 (and into 2025) due to nervousness that inflation might not be sufficiently contained or that government policy changes might be inflationary or heavily debt-financed. The US is not the only country/region living out this dynamic, as shown in the chart below.



Source: Northern Trust Asset Management, 4Q 2024

Aside from government bond markets, corporate credit spreads remain tight, reflecting strong fundamental credit quality. These low starting spreads offer only muted upside for corporate bonds, but the strong credit quality does allow these bonds to be held for their coupons and overall yield.

Overall, we recommend a small underweight to fixed income, including a small underweight to duration. This stance could change if the yield curve continues to steepen back toward its traditional shape with longer maturity bonds again offering a reasonable term premium of additional yield compensation in consideration for investing in longer-term bonds.

Outlook

We are pleased to have generally outperformed client benchmarks in 2024 by capturing the upside momentum of the stock market, with additional emphasis on growth stocks. However, from these current valuations, the outlook for upside is more limited and therefore we prefer to move back closer to neutral risk exposures. The economy is doing well—though perhaps “too well” which could require higher rates, or at least fewer cuts, to keep inflation in check. Similarly, the policies of the incoming administration should be business and investor friendly—though perhaps “too friendly” if they are not prudently financed and managed. Directionally, we recommend a modest overweight to stocks and non-traditional assets (commodities) in conjunction with a small underweight to fixed income and interest rate duration. Our team has been rebalancing portfolios to reflect this positioning (with careful tax-management in taxable accounts).

Team Update

Organizationally, we are already in active discussion and coordination with our Rockland Trust colleagues to prepare for a smooth merger transition later in 2025. We look forward to our team providing the same great service and insight as always, yet with an even deeper set of resources coming online from Rockland Trust.

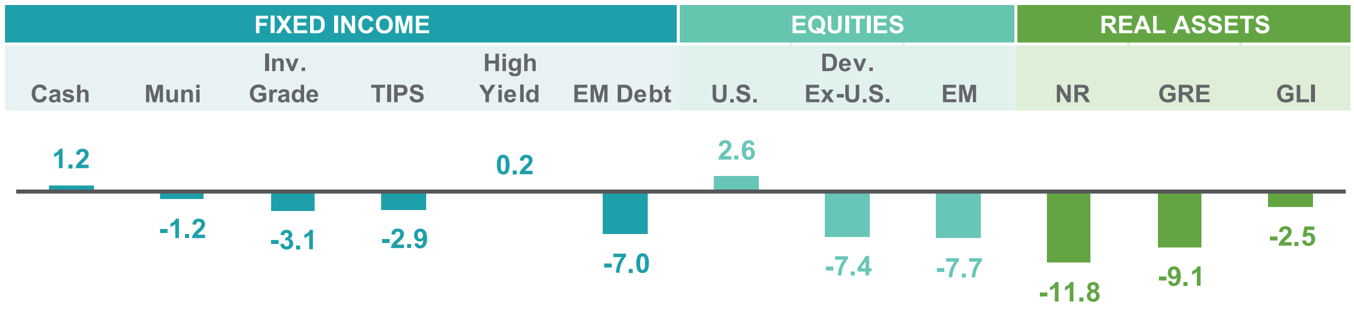
Sincerely,

Dave

David Lynch, CFA
Managing Director
Chief Investment Officer
Enterprise Wealth Management

FOURTH QUARTER 2024 TOTAL RETURNS (%)

U.S. equities capped off a strong year of performance, especially relative to most other major asset classes.



	Cash	Muni	Inv. Grade	TIPS	High Yield	EM Debt	U.S.	Dev. Ex-U.S.	EM	NR	GRE	GLI
2024	5.3	1.1	1.3	1.8	8.2	-2.4	23.8	5.0	7.6	-8.3	3.2	15.1

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.

RIDING THE MOMENTUM

Supportive macro fundamentals.

From an economic lens, the fourth quarter held some key similarities to the rest of 2024. The U.S. continued to grow at a solid pace that beat expectations, activity in Europe remained weak with dispersion across countries, and China's challenges persisted. Meanwhile, most major central banks continued cutting policy rates.

Despite the aspects of resemblance to recent quarters, there were also some notable shifts with lasting implications. After an eventful race, Donald Trump was elected the 47th president of the U.S. The change in government is in store for early 2025, but markets have already started to discount the implications. During the quarter, investors started to more seriously consider inflation risks from potential policies of the incoming administration.

Amid these risks, a resilient economy and slower progress in inflation data, the Federal Reserve signaled a more cautious approach to rate cuts moving forward. The December dot plot estimated just two rate cuts in 2025 versus four previously. In regions where the balance of economic risks appears more skewed to the downside, such as Europe and China, there is still a fair degree of expected policy loosening. Hamstrung by low economic growth and political challenges in France and Germany, the European Central Bank is expected to deliver roughly five more rate cuts in 2025. In China, the Politburo issued additional changes to its policy language and signaled more stimulus is on tap in the year ahead.

Weaker quarter outside of U.S. equities.

Fourth quarter asset class returns were mostly negative though this was overshadowed to a degree by ongoing optimism around U.S. equities. Interest rates moved up across the curve most notably in the leadup to the U.S. election and after the December Fed meeting. This left broader fixed income indexes in negative territory for the quarter.

High yield fixed income benefited from a constructive credit backdrop – leaving it slightly higher overall in 4Q. U.S. equities drifted slightly upwards in October before reacting favorably to the cleaner-than-expected GOP sweep U.S. election outcome. Areas like small cap equities, cyclical sectors and regional banks saw the strongest reaction. However, equities began to fade in December with a step lower following the December Fed meeting.

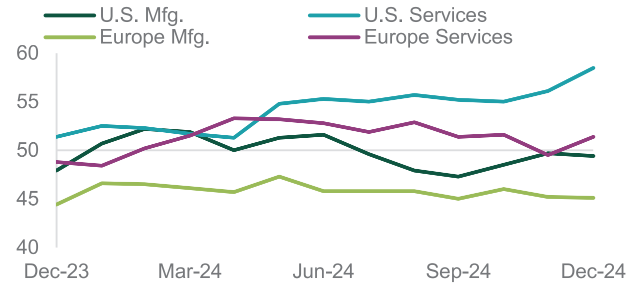
The Magnificent Seven group held up well while many other parts of the market faded in a weak finish to a strong year for U.S. equities. The Magnificent Seven accounted for more than all of the S&P 500's 4Q gain and over half of the index's 25% gain in 2024. Outside the U.S., equities struggled with headwinds from a less-robust economic backdrop, some political uncertainty and additional policy risk (e.g., tariffs) from the U.S. election outcome – on top of drag from dollar strength. Both emerging markets and non-U.S. developed market equities trailed the U.S. by around 10% in 4Q. Real assets also lagged with more weakness in natural resources and global real estate while global listed infrastructure fared better given its favorable exposure towards increased power demand.

Key Developments

U.S. Resilience on Repeat

U.S. economic resilience continued in 4Q, bolstered by a solid consumer and labor market backdrop. Investor concerns tilted more towards upside inflation risk versus downside growth risk. Europe's growth outlook was more muted with drag from weaker conditions and political uncertainty in core economies (e.g., Germany, France) outweighing more robust activity in peripheral countries. China's economic environment showed some signs of improvement while policymakers indicated more monetary and fiscal policy support in December.

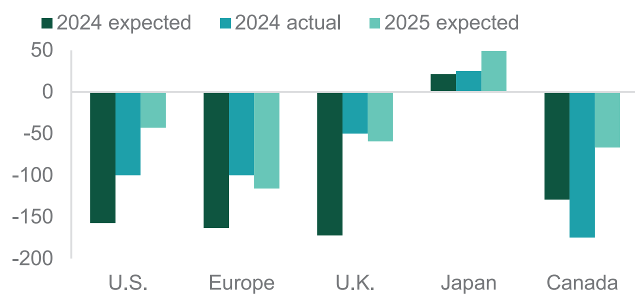
PURCHASING MANAGER INDEXES



Monetary Easing Continues

Rate cuts from major developed market central banks continued in 4Q. The policy paths have not been uniform with the Fed looking to slow the pace of cuts, the Bank of England pursuing a more gradual pace of cuts and the European Central Bank considering accelerated easing. This reflects how policymakers are choosing to balance considerations around some degree of slowing growth and still-elevated inflation. Overall, central banks cut noticeably less than investors were anticipating heading into 2024.

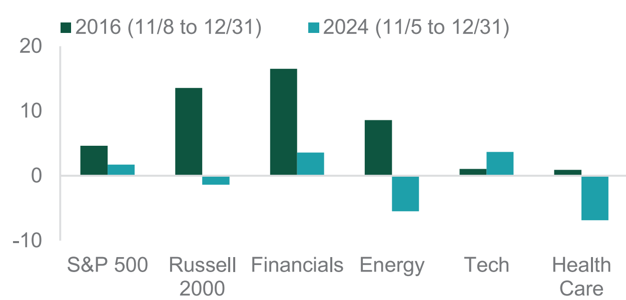
CENTRAL BANK POLICY MOVES (BPS)



U.S. Election Caps a Busy Year of Voting

Wrapping up a tough year at the polls for incumbent parties, the U.S. election results were clearer than many expected with a GOP sweep outcome. Cyclical areas of the market (e.g., small caps, regional banks) performed well initially post-election. Relative to 2016, the financial market reaction was directionally similar but of a lower magnitude and less sustained across the rest of the year. This reflects a number of factors with a key one being how the U.S. growth and inflation mix is quite different from 2016.

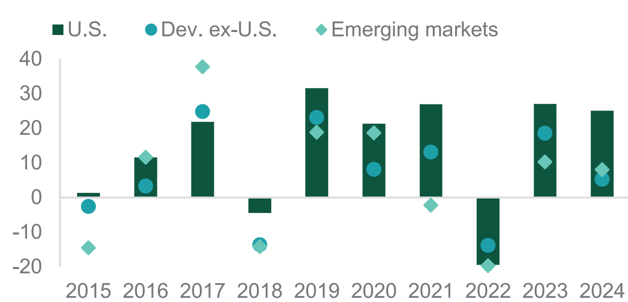
POST-ELECTION EQUITY RETURNS (%)



Ongoing Optimism on U.S. Equities

4Q intensified divergence in regional returns observed earlier in 2024. U.S. equities outpaced their non-U.S. peers by double digits in 4Q, leaving them with a ~20% advantage in 2024 in dollar terms. This was aided by a combination of more favorable economic and corporate fundamentals, continued strength in megacap tech and dollar strength as well as less risk from the U.S. election outcome. 2024's U.S. equities return marks the fifth out of the past six years of both strong double-digit gains and outperformance versus the major non-U.S. regions.

CALENDAR YEAR EQUITY RETURNS (%)



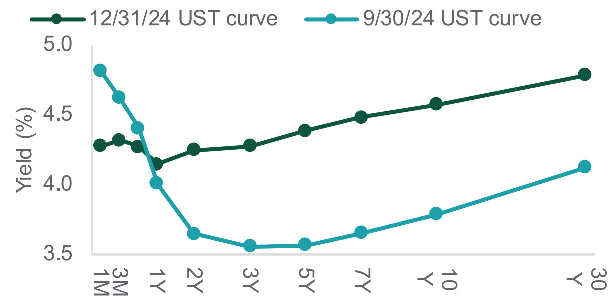
Source: Northern Trust Asset Managemen t, Bloomberg, S&P Global. Data as of 12/31/2024. Note: sectors shown are S&P 500 sectors in third chart; fourth chart: indexes shown are MSCI indexes for each region. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

Market Review

Interest Rates

The Treasury curve regained a more normal upward-sloping shape as most interest rates notably increased during the quarter. The Fed lowered its policy rate by 50 bps total, but it also signaled a more cautious approach to future rate cuts and raised its estimate of the long-run neutral rate. Rising bond yields coincided with a mix of healthy economic growth, slightly firmer inflation prints and higher risk premiums that materialized around the outcome of the U.S. Presidential election. The 10-year yield is now about 40 bps below last year's high of 5%.

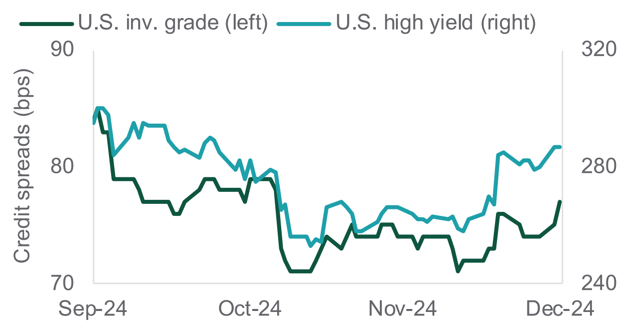
U.S. TREASURY YIELD CURVE



Credit Markets

Investment grade spreads tightened 7 bps to 0.77%, which marks one of the lowest end-of-quarter levels in decades. High yield spreads tightened 8 bps to 2.87%, which is also very tight by historical standards. The December Fed meeting led to some volatility, however, overall, credit markets remained consistent with a sound financial market backdrop. In terms of returns, investment grade fixed income lost 3.1% versus a 0.2% gain for high yield as the increase in interest rates weighed on higher duration asset classes.

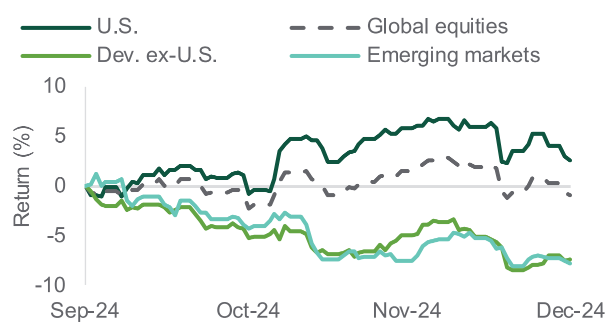
CREDIT SPREADS



Equities

U.S. equities exhibited strong regional leadership with a 2.6% gain versus a 7.4% loss for developed ex-U.S. equities and 7.7% loss for emerging markets. Economic and corporate earnings growth underpinned another solid quarter for the U.S. that was threatened at times by rising bond yields and episodes of sharp volatility. The tech rally persisted alongside strong performance for higher-beta cyclical stocks versus defensives. The non-U.S. regions struggled with headwinds from a strong U.S. dollar and shaky economic momentum.

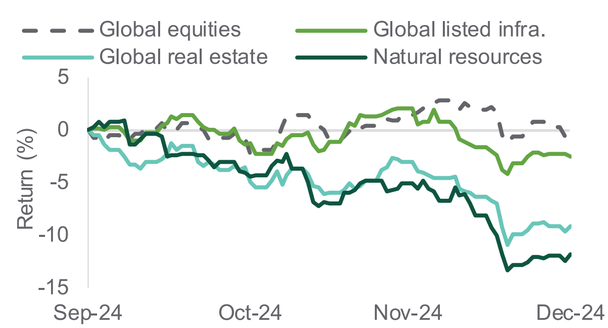
REGIONAL EQUITY INDICES



Real Assets

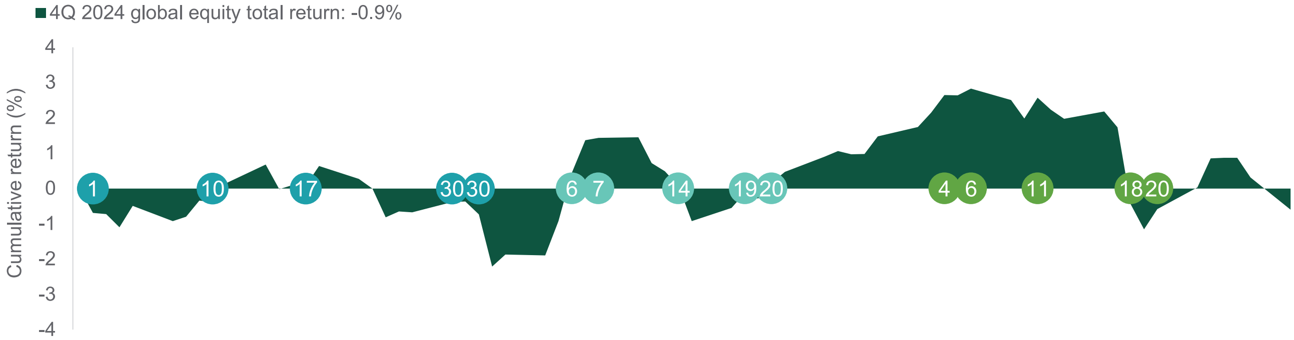
It was a weak quarter for real assets with listed infrastructure (-2.5%), real estate (-9.1%) and natural resources (-11.8%) all lagging global equities (-0.9%). Despite the pickup in bond yields, listed infrastructure showed some resilience as energy infrastructure performed well in response to potential policies of the incoming Trump Administration. Real estate traded lower with higher interest rates. Natural resources saw broad-based weakness at the sector level given a tepid global growth backdrop and ongoing struggles in China.

REAL ASSET INDICES



Source: Bloomberg. Returns in U.S. dolla rs. 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



OCTOBER	NOVEMBER	DECEMBER
1 Tensions between Israel and Iran ratchet up, including Israel's ground invasion in Lebanon targeted at Hezbollah. Oil prices temporarily surge in response.	**6** Donald Trump wins the U.S. presidential election. The initial market reaction suggests relief from incremental policy clarity and limited concern on the broader economic growth picture.	**4** French prime minister Michel Barnier loses a vote of no confidence in the National Assembly, the first time a French premier has been forced out since 1962.
10 U.S. inflation surprises to the upside and initial claims jump to 258,000 from 225,000, likely reflecting an impact by Hurricane Helene.	**7** The Fed cuts its policy rate by 25 bps as broadly anticipated for the second cut of the year. Fed messaging points to no change in the near-term policy outlook.	**6** The November U.S. employment data bounces back from temporarily distorted levels in October.
17 Strong September retail sales leads to an upgrade in third quarter U.S. economic growth estimates.	**14** Fed Chair Powell states that "the economy is not sending any signals that we need to be in a hurry to lower rates".	**11** U.S. Core CPI increases 0.3% m/m or 3.3% year-over-year (y/y). Over the past three months, core CPI increased at an annualized rate of 3.7%.
30 The U.S. economy expands at a healthy pace of 2.8% in the third quarter. The composition of growth is strong.	**19** The Biden administration lifts restrictions to allow Ukraine to use U.S.-provided long-range missiles to strike targets deep into Russian territory. Russian attacks on Ukraine intensify.	**18** The Fed delivers a hawkish rate cut. The median projection in the Fed's updated Summary of Economic Projections (SEP) shows two rate cuts in 2025 versus four previously.
30 Microsoft (MFST) beats earnings estimates but provides disappointing guidance.	**20** Nvidia (NVDA) beats revenue and earnings expectations. Guidance for the current quarter is in-line with expectations.	**20** The Brazilian real and equity markets suffer significant losses over growing concerns of the country's debt.

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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