



THIRD QUARTER 2024 REPORT

ENTERPRISE

WEALTH MANAGEMENT

A division of Enterprise Bank



From the Managing Director

Dear Clients and Friends,

It was an eventful third quarter for markets and politics. Noteworthy events included President Biden stepping down from his re-election campaign and the Federal Reserve beginning rate cuts with a larger 50 basis point cut (rather than the usual 25 bps). Global headlines included more violence in the Middle East, a rate hike in Japan that rattled interconnected global markets, and the announcement of stimulus in China in response to its sputtering economy. Despite this interim volatility, stocks and bonds both finished net-ahead for the quarter. The “soft landing” narrative remains intact in the US, although recent strong data points put the “no landing” theory back in play which posits that the healthy economy might simply carry on even with higher rates and inflation moderating.

Equities:

The S&P 500 moved to just over 20% total return for the year to date though the underlying drivers of performance favorably broadened out from dependence on the Magnificent Seven stocks. Large capitalization stocks were up but lagged small caps. Growth trailed

value. Some of these rotations have reverted to prior trend to begin the fourth quarter, and large cap growth retains a significant lead for the year. In terms of industry sectors, lower rates spurred a rally in financials (+11%) and real estate (+17). Utilities (+19%) were helped by rates as well as the demand outlook for electricity to run Artificial Intelligence (AI) and related. This rally created the odd pairing of technology and utilities at the top of the sector table, each with +30% total return year to date.

Internationally, the rest of the world produced a rare quarter of outperformance of the US equity indexes. Some of the rotation toward value that is more present overseas helped. A weaker USD added to international performance in USD terms. Stimulus in China at the end of the quarter rallied the emerging market index.

Fixed Income:

US bonds perked up in concert with rate cuts beginning. Credit spreads saw minor volatility but remain low and stable. A strong third quarter drew most investment grade bond segments back near

Continued inside

break-even for the year to date. Notably, yield curve inversion ended (as traditionally measured by the slope of the 2-year and 10-year Treasury bonds) and returned to a slightly positive slope after two years of inversion. However, rate cut expectations have moderated since the enthusiasm touched off by the Fed's 50 basis points cut. Economic data is not universally weaker, and therefore rate cuts are likely to be less fast and less numerous than initially anticipated.

Outlook:

The remainder of the year will be eventful for markets and geopolitics. Economically, consensus interest rate forecasts will shift with each new data point as the debate between "soft landing" and "no landing" continues. ("Hard landing" is no longer part of the debate, at least for now). Earnings expectations in the



US have moderated but remain in healthy, positive territory. Any change in forward guidance will be closely watched in the ongoing earnings season. The Presidential election is fast approaching with possible implications for tariffs, taxes and anti-trust policy, among other issues—although most campaign rhetoric does not become successful legislation, at least not immediately. Hurricanes and related weather disruptions remain an ongoing risk to supply chains and commodities (and tragically to human lives). Globally, the Middle East conflict continues to escalate dangerously.

Our team remains hard at work monitoring markets and thoughtfully managing your portfolio through these uncertainties. We are also prepping and planning for your year-end needs around tax management, gifting/estate management and liquidity/distribution management as needed, depending on client type. Thank you for your continued trust in Enterprise Wealth Management.

Sincerely,

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



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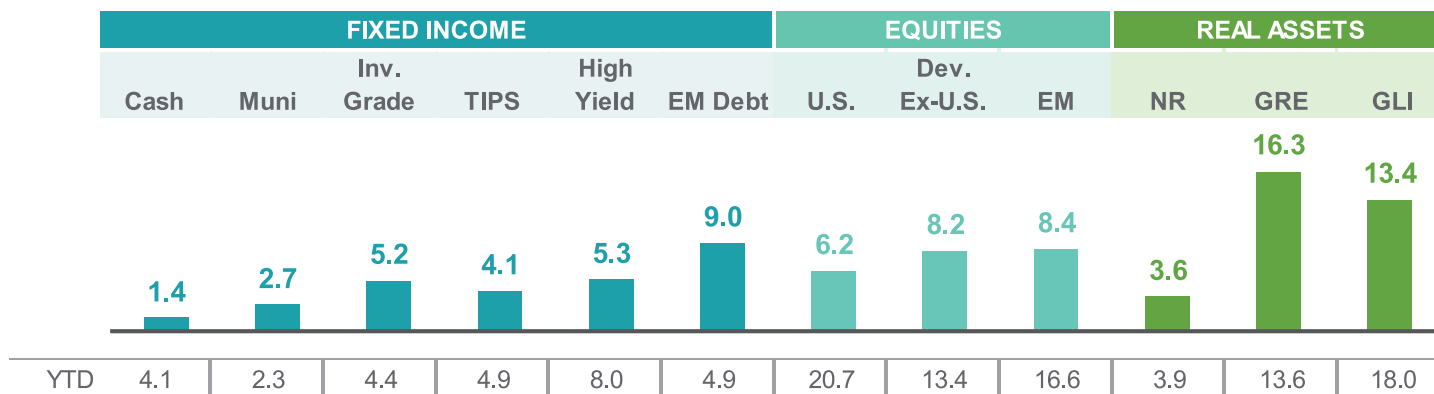
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THIRD QUARTER 2024 TOTAL RETURNS (%)

The 60/40 portfolio's return ranks 25th out of the past 140 quarters due to solid gains across both equities and fixed income.



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.

BROADER GAINS

Positive macro forces prevail.

It was an eventful quarter where the macro backdrop ultimately shaped up positively. A handful of underwhelming U.S. data releases garnered negative investor reactions, including softer U.S. labor and manufacturing data. However, patches of cooler activity appeared to represent no more than speed bumps on the path to a soft landing as growth remained solid overall.

With inflation continuing to approach more normal levels, the Fed kicked off its rate cutting cycle with a 50-basis point cut. The Fed is among many global central banks who have embarked on rate cutting campaigns. Out of 111 central banks across the world, 37 more are cutting their policy rate rather than hiking it. An exception is the Bank of Japan, which raised its policy rate by 15 bps during the quarter. This gave way to an unwind of yen carry trades and an episode of sharp market volatility that ultimately settled.

In China, growth developments underwhelmed until the Politburo announced stronger-than-expected stimulus. While pledged support may not be sufficient for a sustained turnaround, the strong market reaction suggests it is a step in the right direction.

Drowned out in the more positive macro events was risk of a broader conflict in the Middle East. From an economic standpoint, this risk was largely contained during the quarter. However, escalation odds rose heading into quarter-end. The situation will be under close surveillance alongside the U.S. Presidential Election heading into the last quarter of this year.

Strong third quarter for financial markets.

Financial market returns were robust with mid-single-digit gains or higher in a number of major asset classes. Steadily declining interest rates supported fixed income returns in addition to a healthy credit backdrop – leading to roughly similar returns across investment grade and high yield.

Equity markets were helped by wider support across both regions and sectors versus some recent quarters of more narrow U.S. megacap-tech driven gains. The major non-U.S. regions modestly led the U.S. in dollar terms. Emerging markets received a late-September boost from China, while non-U.S. developed market returns benefited from a weaker U.S. dollar with more muted returns on a local currency basis. U.S. equity market breadth improved with a number of pockets of the market performing well.

For instance, small caps outperformed large caps while more defensive sectors led versus cyclical and tech-related sectors. The Magnificent 7 group was still positive – but accounted for less than a tenth of the S&P 500's 3Q gain. The U.S. earnings backdrop remains constructive with less reliance on the Magnificent 7 and more sectors overall posting double-digit earnings growth. Divergence in the real asset space continued with double-digit gains in real estate and listed infrastructure. Both asset classes responded favorably to declining interest rates. This contrasted with a tougher quarter (albeit still positive) for natural resources given a relatively soft commodities backdrop and a nearly 20% decline in crude oil prices.

Key Developments

U.S. Economic Resilience Continues

The U.S. economy kept on-track for a soft landing despite some moderation in labor market activity. 2Q GDP growth printed at 3.0% and the overall consumer backdrop remains firm. Outside the U.S., the Europe growth outlook softened with ongoing challenges in core economies such as Germany and France. Amid mounting growth concerns, China announced major monetary and fiscal support for its economy across a number of avenues (rate cuts, mortgage relief, equity market facilities, etc.) in late September.

The Fed Pause is Over

Major developed market central banks remain focused on cutting rates as they balance slowing growth with moderating but still-above target inflation. While most of its peers led off with 25-bp cuts, the Fed opted for a 50-bp move. Investors digested this well – helped by Fed messaging on proactively cutting to help maintain a solid labor market as risks around its dual mandate have come into better balance. Similar to the recent past, the Bank of Japan (BOJ) remains on a different trajectory as it looks to gradually raise rates.

Short-Lived Soft Patches

3Q saw two notable financial market rough patches followed by quick recoveries. In early August, concerns surfaced around U.S. growth and the unwind of yen carry trades following the BOJ's late-July rate hike. This led to a rapid 20%-plus correction in Japan equities and a 6% drawdown for the S&P 500. Additional U.S. growth concerns led to a rough start for U.S. equities (- 4%) in the first week of September. On a more positive note, China equities surged in the last week of September following the stimulus news.

Broader Equity Market Gains

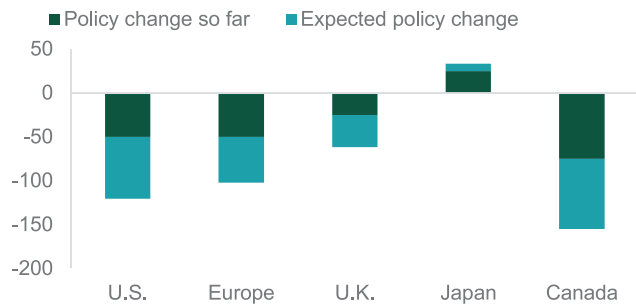
Equity market returns broadened in 3Q with ongoing gains even as market leadership shifted notably versus the first half of 2024. Small caps led large caps and more defensive parts of the market outperformed cyclical and tech-related areas. For the S&P 500, eight out of eleven sectors outperformed the index with utilities and real estate leading the way. Broader earnings growth has been a key pillar of all this with companies outside of the Magnificent 7 contributing nearly half of 2Q S&P 500 earnings growth.

Source: Northern Trust Asset Management, Bloomberg, Citi. Data as of 9/30/2024. Note: in the third chart, index proxies are the Topix (Japan) and the Shanghai Shenzhen CSI 300 (China); E/W = equal-weighted. 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.

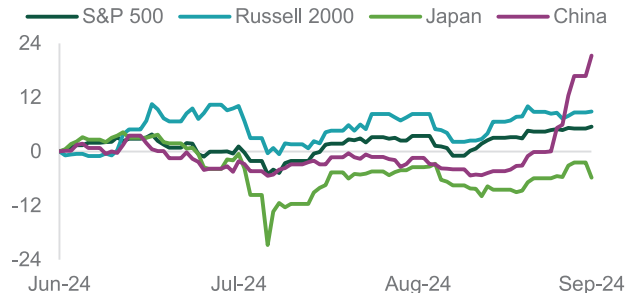
CITI ECONOMIC SURPRISE INDEX



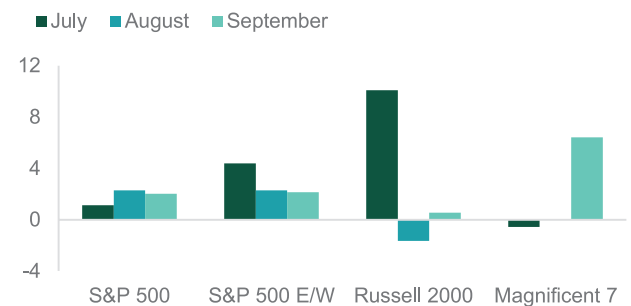
2024 CENTRAL BANK ACTIVITY (BPS)



3Q2024 RETURNS IN LOCAL CURRENCY (%)



3Q2024 RETURNS BY MONTH (%)

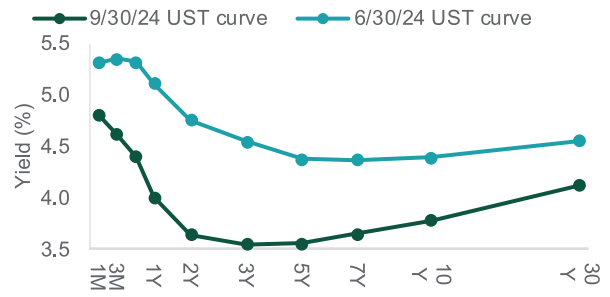


Market Review

Interest Rates

The 2-year and 10-year Treasury yield finished down 111 and 62 basis points (bps), respectively. The more sizable moves on the front end of the curve were enough to bring the 10-year / 2-year spread out of negative territory. The curve had been inverted for over two years – the longest stretch in over 40 years. The balance of easing inflation and softer employment data prompted the Fed to initiate its rate cutting campaign with a 50-bp rate cut. Most central banks are now cutting rates, with markets expecting more to come.

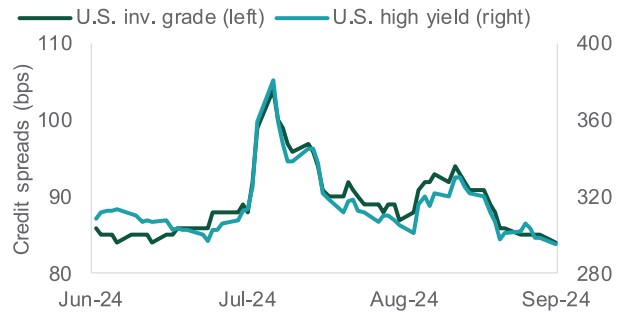
U.S. TREASURY YIELD CURVE



Credit Markets

Credit spreads sharply widened surrounding the unwind of yen carry trades and disappointing U.S. jobs data. They widened again in early September amid additional U.S. growth concerns. Both instances were short-lived. Periods of spread widening were generally followed by more sizable reversions back toward historical lows. Investment grade (IG) spreads ended 2 bps tighter and high yield (HY) spreads tightened 14 bps. HY (+5.3%) returned slightly more than IG (+5.2%) with lower quality credits outperforming within both segments.

CREDIT SPREADS



Equities

Bouts of equity weakness ended the quarter as no more than temporary corrections typically experienced in bull markets. Underpinned by positive economic growth and solid corporate fundamentals, global equities tacked on another 6.7%, bringing their year-to-date gain to 18.2%. There was a reversal of year-to-date leadership trends across regions, styles and sizes. For example, the U.S. trailed international, growth trailed value, and large caps trailed small. However, even said laggards posted solid returns – an ode to the broader nature of equity gains.

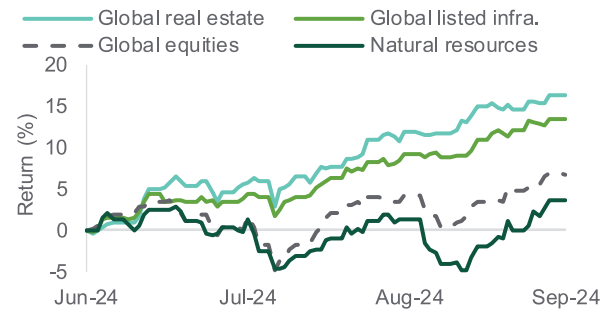
REGIONAL EQUITY INDICES



Real Assets

It was a very strong quarter for global real estate (+16.3%) and listed infrastructure (+13.4%). Real estate was down on the year heading into the quarter. The asset class enjoyed a strong reversal with tailwinds from slowing-but-intact economic growth and lower interest rates. The office sector was particularly strong. Infrastructure benefited from similar tailwinds and continued to build on momentum from potential AI-driven demand. Natural resources increased 3.6% but continued to lag with oil prices down around 17%.

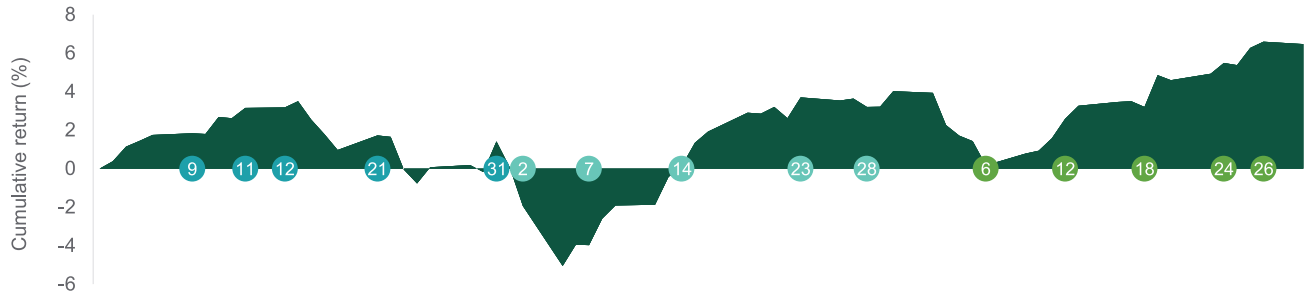
REAL ASSET INDICES



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

■ 3Q 2024 global equity total return: 6.7%



JULY	AUGUST	SEPTEMBER
<p>9 Fed Chair Powell refrains from delivering major guidance in his Congressional testimonies, but he does signal a bit more attentiveness to downside growth risks.</p>	<p>2 The U.S. unemployment rate rises to 4.3% and triggers the Sahm Rule. The softer than expected labor report adds to equity market weakness coinciding with the carry trade unwind.</p>	<p>6 In the August U.S. jobs report, nonfarm payroll gains come in below consensus again. However, the unemployment rate ticks down to 4.2%.</p>
<p>11 U.S. core Consumer Price Index (CPI) eases more than expected. The month-over-month (m/m) increase is 0.1% versus 0.2% the prior month and 0.3% the month before that.</p>	<p>7 The Bank of Japan (BOJ) seemingly seeks to reassure markets as deputy governor Uchida says the BOJ will not raise rates in unstable markets.</p>	<p>12 The European Central Bank cuts its key policy rate by 25 bps. This is its second rate cut of the year.</p>
<p>12 Second quarter earnings season kicks off with JPMorgan (JPM), Wells Fargo (WFC) and Citigroup (C). S&P 500 earnings growth finishes slightly better than expected on a y/y basis.</p>	<p>14 U.S. core CPI decelerates to 3.2% y/y from 3.3%. Excluding shelter, core CPI is flat for the third month in a row.</p>	<p>18 The Fed lowers its policy rate by 50 bps. Fed messaging focuses on more confidence in moderating inflation and proactively adjusting policy to help maintain a solid labor market.</p>
<p>21 Four months prior to the 2024 presidential election, U.S. President Joe Biden drops out of the race and endorses Vice President Kamala Harris.</p>	<p>23 At Jackson Hole, Chair Powell's speech notes that "the time has come for policy to adjust" and points to higher downside labor market risks.</p>	<p>24 The People's Bank of China announces that it will increase stimulus in a broad manner. China equities gain 5.2% on the day.</p>
<p>31 The Bank of Japan delivers a 15-basis point (bp) rate hike and outlines a tapering plan, leading to an unwind of yen carry trades and equity volatility.</p>	<p>28 Despite Nvidia (NVDA) beating earnings expectations, its results are not as impressive as recent quarters and NVDA declines 6.4% on the day after.</p>	<p>26 The Politburo holds a surprise meeting to announce further fiscal support in China. China equities rise another 6.2% on the day.</p>

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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