

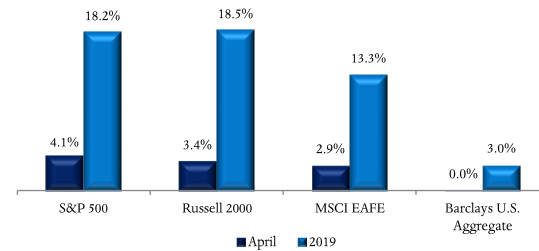


MARKETS

Equities remained on a strong positive trajectory. The S&P 500 index advanced +4.1% in April (+18.2% ytd, the largest such gain since 1987). US technology stocks have once again led the way higher, rising +27% ytd, while the Dow Jones Industrial Average has gained a respectable +14.8%. Better than expected corporate earnings growth, highlighting the sustainability of the US economy, coupled with the Federal Reserve's dovish stance, bolstered investor sentiment. In addition, the expectation of a recovery in Chinese growth, and the anticipation of a positive outcome from Sino-American trade negotiations, provided further support. Overseas stocks were also in favor, as seen by the MSCI EAFE index which rallied +2.9% in April (+13.4% ytd). European equities held their own, with the Stoxx 600 rising +3.9% last month (+17.7% ytd). In Asia, markets were bifurcated, as Japan's Nikkei 225 index jumped +5.0% in April (+12.2% ytd) while Shanghai stocks retraced -0.4% during the month (+23.5% ytd). Meanwhile, emerging market equities continued their steady monthly gains during 2019, adding +2.1% in April (+12.3% ytd).

Fixed income markets responded to an improving global growth picture, accommodative central bank policy, and positive investor fund flows, leading to an ongoing rally. High yielding bonds, sensitive to equity prices, returned +1.4% for the month of April (+8.9% ytd). Conversely, the risk-on sentiment, prevalent in the financial markets, led to a higher yield on the 10-year U.S. Treasury, rising 9 basis points from 2.41% to 2.50%, amidst a steepening of the yield curve. In all, the benchmark Bloomberg Barclays US Aggregate index rose by 3 basis points during the month (+3.0% ytd).

Energy commodities continued to surge in April, adding +5.4% to March's +3.3% increase. Crude oil has been on a steady rise, while coal and natural gas have seen



sharp falls in price. Brent crude ended April at \$72.80 per barrel, up sharply from \$53.80 at the start of the year. Metals and minerals gained +0.6% during the month, while precious metals fell -1.1%.

GEOPOLITICS

The EU granted the UK a flexible Brexit extension until October 31, postponing the threat of a disorderly departure. The UK is now obliged to hold elections for the European Parliament on 23 May, if it has not ratified the Withdrawal Agreement by that point. Brexit fatigue is clearly setting in as seen by the local election setbacks suffered by both the ruling Conservative Party and the main opposition Labour Party, where upstart pro- and anti-Brexit groups appeared to gain traction.

US-China trade negotiations appear to have reached somewhat of an impasse after months of seemingly solid progress. Over the past weekend President Trump "tweeted" that talks were occurring "too slowly" and suggested that China was attempting to "renegotiate." As a result, he declared the intention to increase tariffs, from 10% to 25% on \$200 billion worth of goods, commencing on May 10. Further, he said that \$285 billion worth of additional Chinese imports, which aren't subject to tariffs, would soon be taxed at 25%. While the reasoning for the more aggressive US posture is unclear, there have been indications that the progress made may not sufficiently change the economic dynamic between the two countries.

UNITED STATES

The first reading of US Q1 GDP came in at 3.2%, well above-trend. However, 0.7% of the growth came from rising inventories and 1.0% came from improving trade, which can be considered one-time boosts. Meanwhile, real domestic final demand decelerated. The latest PMI manufacturing survey came in at 52.8%, a slight increase from March's reading, but the second softest expansion in factory activity since June 2017. Similarly, US services data came in at a 21-month low. It is also important to note that the tailwind from fiscal stimulus is set to fade starting next quarter. In all, while US economic growth has been losing momentum, it does not appear headed into recession.

American employers picked up the pace of hiring in April, adding a seasonally adjusted 263,000 jobs. The unemployment rate fell to 3.6%, a half-century low, adding to signs of healthy U.S. economic growth as the expansion approaches a decade in length. Private-sector workers saw solid wage gains, with average hourly earnings up 3.2% in April from a year earlier, matching the prior month's increase. The decline in the unemployment rate, however, wasn't entirely positive, as 500,000 fewer Americans were looking for jobs (62.8% labor participation rate). These conditions should be supportive of real wage growth and therefore consumption, but not sufficiently to raise concerns about rising inflationary pressure. This was corroborated by the core CPI for which the latest reading was a lower than expected 2.0%, continuing its trend down since the high of 2.4% in July 2018. Puzzlingly, the relationship between inflation and employment appears to be broken.

EUROPE

Growth in Italy and Spain surprised to the upside and helped lift eurozone Q1 GDP to an annualized 1.5% pace, which is close to trend. Manufacturing continues to be the region's weak spot, with the latest PMI survey only slightly improving to 47.8%, still in contractionary mode. The services PMI, however, expanded,

April 2019 Economic Statistics

	Apr-19	Dec-17	Dec-16
Federal Funds Target Rate	2.25 - 2.50%	1.25-1.50%	0.50 - 0.75%
Consumer Confidence Index	129.2	122.1	113.7
Manufacturing PMI Index	52.8%	59.7%	54.7%
Unemployment Rate	3.6%	4.1%	4.7%
JPY / USD	111.41	112.67	116.87
USD / EUR	1.1215	1.1996	1.0513
Gold / oz.	\$1,283.35	\$1,302.45	\$1,151.46
Oil (WTI)/bbl	\$63.91	\$60.42	\$53.72

to 52.5%, as did the employment component (50.8%), indicating that poor factory data has not yet had a negative impact on the labor market. The unemployment rate fell slightly to 7.7% in March, consistent with relatively stable data from the service sector and the consumer. Regional consumer confidence has deteriorated since peaking at -3.7 in late 2017. However, the latest reading of -7.9 still remains better than the long term average of -10.6.

At their April meeting, the governing council of the European Central Bank (ECB) left interest rates unchanged, as expected. The ECB expects rates to remain at their present levels at least through the end of 2019, given the outlook for tepid growth for the remainder of the year. The eurozone bank lending survey for the first quarter of 2019 suggests that overall conditions remained favorable. This is, in part, thanks to the new series of targeted longer-term refinancing operations (TLTROs) that the ECB announced in March. On the inflation front, the eurozone's March flash CPI bounced up to 1.7% from 1.4% and core CPI rebounded to 1.2% from 0.8% (which had been its lowest level of the past year). The ECB is justifiably concerned and is expected to remain accommodative until their inflation target of approximately 2.0% is achieved.

Despite the political uncertainties, UK economic data was generally ahead of expectations last month. The manufacturing PMI jumped to 55.1, its highest reading in a year, and retail sales increased for a third consecutive month. The consumer is largely supported by a robust labor market, with unemployment steady at

3.9%, the lowest rate since 1975, while basic wages rose by a brisk 3.4%.

ASIA

China's GDP grew 6.4% during the first quarter, above economists' consensus, and level with Q4 2018. The manufacturing PMI, however, did not meet expectations, falling back to 50.2% in April, but remained above the multi-year low of 48.3% reached in January. Industrial production growth rose to 8.5% from 5.3% according to the latest reading, and retail sales climbed marginally, thanks to fiscal and monetary stimulus feeding through the economy. It is interesting to note that China has introduced new measures to reduce taxes and raise its citizens' wages, ramping up an already ambitious plan to boost domestic demand. Monetary conditions also showed signs of improvement. Yuan loans rose well above recent trough levels, while first quarter total social financing of RMB 8.2 trillion easily surpassed the credit expansion of prior years. China is, however, moving from a phase dominated by rapid industrialization to an economy where the services sector will play a larger role. Given the differing levels of productivity between manufacturing and services, overall GDP growth is naturally set to slow. In addition, China must also deal with the large amount of debt amassed to fuel its growth. The trend towards service oriented growth, coupled with deleveraging, will eventually lead to a natural economic growth convergence with developed economies.

OUTLOOK

With the Federal Reserve having made a dovish monetary policy pivot to neutral, and the Chinese government orchestrating a variety of stimulus measures, investors are expecting a spring back in economic growth. However, there will be a lag while we await confirmation; meaning that the second quarter financial metrics will be vital to the direction of financial markets. While low interest rates and accommodative central bank policies continue to support financial assets fundamentally, it is important to note that the Fed's QE has stopped and QT will continue until October. The next step may be for the Fed to

ease, but this is unlikely to happen until economic growth softens and stays at below trend for several quarters. In Europe, the ECB has stopped QE, even as the economy slows. Meanwhile, the Chinese PBOC eased monetary conditions last year, but has done little since, seemingly satisfied with stability.

For equities, press headlines have cheered better than expected first quarter corporate earnings, even though they were off a low base, and featured an absolute year-over-year decline for the S&P 500 index. Preliminary analysis indicates that a lack of pricing power and rising wages pressured profits. Given the associated multiple expansion, for stock indexes to continue their ascent, an economic rebound must surely follow. However, the aging business cycle may not be so easily extended without meaningful incremental monetary and credit growth. Failing a resumption of robust economic growth and additional liquidity, investors may face disappointment, meriting some caution. Given the recent volatility surrounding Sino-American trade negotiations, political uncertainties regarding tariffs, and their deflationary effects, remain. In addition, if the US administration begins to target automotive imports, this would introduce yet another potential imbalance for global trade and corporate profits. Nevertheless, our analysis indicates that there remain numerous stock-picking opportunities that offer solid value for long-term oriented investors.

In fixed income markets, given the ongoing low level of interest rates, and Fed Chair Powell's characterization of this year's inflation softness as transitory, we continue to urge caution with regard to credit markets. If he is correct, bond markets could deliver a destabilizing move higher in rates at some point later this year. Thus exposure should be limited to short duration or floating rate bonds.

Taking into account the seemingly well priced equity and bond markets, it makes sense to begin making gradual portfolio shifts toward select alternative assets. Such allocations should add to overall portfolio resilience during periods of heightened volatility, while increasing the potential for absolute positive and uncorrelated returns.

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Sources: Barclays, Bloomberg, Bureau of Labor Statistics, Conference Board, Department of Agriculture, Federal Reserve, Financial Times, IMF, Institute for Supply Management, MSCI, Reuters, Russell, Standard & Poor's, and the Wall Street Journal