

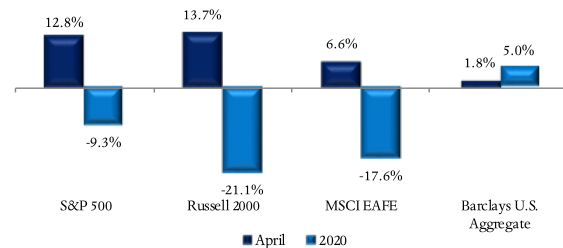


MARKETS

Financial markets rebounded sharply in April, recovering a significant portion of the losses incurred earlier in the year, shrugging off recessionary economic data. The Covid-19 coronavirus continued to spread globally, but by mid-month the benefits of quarantine measures became evident, and governments began planning to gradually reopen their economies. To combat the economic effects of the stay-at-home orders, governments and central banks introduced very significant stimulus measures, boosting market sentiment.

The S&P 500 index returned +12.8% in April, clawing back close to 60% of its prior decline, ending the month down -9.3% for 2020. The harder-hit smaller capitalization Russell 2000 index rebounded +13.7% last month (-21.2% ytd). Overseas, the MSCI EAFE index advanced +6.6% for the period (-17.6% ytd). In Europe, the Stoxx 600 index rose +6.7% (-17.3% ytd). Asian stock markets also exhibited subdued rebounds. The Shanghai stock exchange bounced +4.0% in April (-5.9% ytd), while Japan's Nikkei 225 index added +6.8% in April (-13.8% ytd). In a continuation of a multi-year trend, developed stock markets outperformed emerging ones and growth equities (driven by technology) outperformed value.

Fixed income markets also rallied last month, supported by the massive amount of monetary stimulus globally, directed at government as well as corporate bonds. The Fed unanimously kept the Fed Funds rate near zero and signaled rates will stay low for a lot longer. In Europe, the ECB said it will conduct asset purchases under its €750 billion emergency pandemic program, through at least the end of the year. The Bank of Japan lifted the cap on its government bond purchases and said it would increase buying of corporate bonds and commercial paper. As a result credit spreads narrowed the most in over a decade, leading the US high yield bond index to



rise +3.8% (-9.82% ytd), while the investment grade US Aggregate bond index advanced +1.8% (+5.0% ytd).

Crude oil prices remained volatile despite a historic OPEC+ agreement on production cuts. During the period, supply significantly exceeded demand on the back of low economic activity. West Texas Intermediate (WTI) oil futures for imminent delivery briefly went negative as weak demand, and a dearth of oil storage, meant traders were briefly paid to take physical delivery of oil, eventually ending the month at \$18.84 per barrel.

GEOPOLITICAL EVENTS

Covid-19 cases surged globally, exceeding three million and forcing countries around the world to implement, or extend, lockdowns and social distancing measures. However, growth curves of coronavirus cases, and related deaths, flattened in April, leading numerous countries (and US States) to announce partial reopening schedules at the beginning of May. Management of the coronavirus epidemic in the US became a political battleground with the presidential election coming up in November.

Global Economic data dropped to a greater extent than the financial crisis of 2009/2008, with economies entering the worst recession since WWII. Economists now expect global growth to contract by -4.8% year-over-year in 2020.

UNITED STATES

The US economy contracted at an annualized pace of 4.8% during the first quarter of 2020, as the consumer and industry retrenched on account of the epidemic. As a result, jobless claims mounted by 30 million over the past six weeks, equating to an unemployment level of 14.7%. It is important to note, however, that a significant majority of the recently unemployed are likely to be rehired in short-order as the economy reopens, a key to our optimistic medium-term outlook. The extent of the economic deterioration due to the shutdown was further evidenced by the April composite Purchasing Managers' Index (PMI), which plunged to 27.0%, an all-time low, and the manufacturing index which declined to 41.5% (note: a reading below 50.0% indicates contraction). Retail sales also plunged -8.4% in March. To combat the downturn, fiscal stimulus measures, launched by Congress, have been rapid and monumental in size. During April, the US government reached a deal on a third (\$2+ trillion) fiscal package (~10% of 2020 GDP) and is presently working on 'Phase Four' which is likely to be longer-term oriented and perhaps include infrastructure projects.

The Federal Reserve's monetary response has also been dramatic in both size and speed. First, the central bank committed to unlimited government bond purchases. Then, it announced it will also buy investment grade corporate and high yield bonds, based on certain conservative criteria, as well as associated exchange-traded funds (ETFs). Other ancillary, yet important actions include buying Commercial Paper, providing Primary Dealer overnight loans, as well as supporting the money markets, opening FX swap lines with most central banks, and announcing corporate lending facilities, including the PMCCF, SMCCF, and TALF (which it subsequently expanded)¹. In addition, the central bank broadened its mandate to assist state and local governments as well as small businesses. In all, the recent monetary stimulus has reached \$2.3 trillion.

April 2020 Economic Statistics

	Apr-20	Dec-18	Dec-17
Federal Funds Target Rate	0 - 0.25%	2.25-2.50%	1.25-1.50%
Consumer Confidence Index	86.9	128.1	122.1
Manufacturing PMI Index	41.5%	54.1%	59.7%
Unemployment Rate	14.7%	3.9%	4.1%
JPY / USD	107.17	109.56	112.67
USD / EUR	1.0955	1.1469	1.1996
Gold / oz.	\$1,680.09	\$1,282.73	\$1,302.45
Oil (WTI)/bbl	\$18.84	\$45.41	\$60.42

EUROPE

The eurozone's real GDP contracted 3.8% in the first quarter of the year. As expected, the composite April PMI indicator fell to an all-time low of 13.6%, confirming a substantial hit to businesses. The International Monetary Fund forecasts a regional drop in 2020 GDP of over 7%, with a significant increase in deficits and debt levels, to 7.8% and 100%, respectively.

The European Central Bank continued its quantitative easing program, launched a new €750 billion QE fund (PEPP), released more LTROs and announced a new TLTRO². Some flexibility was added, as well as an increased emphasis on purchases of government bonds of those countries with the greatest need due to the virus, including Italy and Spain. Further, the ECB indicated it would give banks leeway in order to encourage more lending, especially geared towards small and medium-sized enterprises.

Member governments also increased their fiscal responses. The Eurogroup launched an emergency support plan of €540 billion and the European Council announced a recovery fund, with details to follow. Discretionary fiscal easing has presently reached amounts exceeding 2% of GDP.

The UK government, too, unveiled a fiscal package close to 5% of GDP. The PMI indicators for April followed a similar trajectory to Europe, with the composite business survey falling to 12.9%. Retail sales in March fell by -5.1% sequentially, (-19.4% excluding food).

ASIA

China's economy has been gradually reopening. First-quarter real GDP declined by 6.8% year on year (-5.2% for the service sector). More recent trends show there has been a recovery in production, retail sales and investment. The China Urban Survey unemployment rate fell to 5.9% in March from 6.2% in February.

Given the global interconnectedness, and recent stresses in the supply chain, China now depends on the success of exit strategies in the rest of the world. Domestically, to prevent a second wave of contagion, China continues to maintain broad-based social distancing, which is leading to a soft recovery. Importantly, the pandemic is unlikely to derail China's positive structural growth outlook.

To support the economy, the People's Bank of China increased its monetary stimulus, cutting the one-year targeted medium-term lending facility rate by 20 basis points (bps), to below 3%, and the one-year and five-year prime rate loans by 20bps and 10bps, respectively. Overall, social financing data showed an acceleration in loan issuance, aimed at reducing liquidity risks.

In Japan, the central bank emphasized that it will conduct the maximum easing it can, to prevent the sharp deterioration of the economy. Thereafter, it decided to expand credit policies more boldly than expected, including unlimited purchases of government bonds, targeting low levels at various points along the yield curve.

OUTLOOK

There is much uncertainty surrounding the potential trajectory of global growth at the present juncture. We have many unanswered questions regarding Covid-19 and how society will behave in the aftermath of the pandemic, which is likely to dictate the shape of the economic recovery. Amidst record declines in macroeconomic data governments and central banks have acted swiftly and decisively to bolster household and corporate balance sheets in an effort to avoid a worst case scenario. We believe that these fiscal and monetary efforts will give investors sufficient confidence to look beyond the short and intermediate-term disruptions to economies.

Equity investors will indeed have to be forward thinking. Analysts have downwardly revised 2020 corporate earnings estimates, by over 15% in both the US and Europe, with a gradual recovery expected over the following two years. While the large capitalization growth companies that we favor have been the most resilient place to be invested, there are now numerous additional opportunities in the medium and smaller capitalization segment, in the US as well as in Europe, many of which feature robust dividend yields.

Over the past year, the US "all-items" consumer price index has increased 1.5%, before seasonal adjustment. This figure includes the effect of a sharp decline in gasoline, airline fares, lodging away from home, and apparel. We can thus infer that the cost of living essentials is growing at a far faster rate, outpacing the growth in disposable income, and squeezing the consumer. Notably, this is the continuation of a long standing trend. Since 2002, disposable income has grown 132% versus a basket of expenses which have increased between 171% (rent) and 218% (school and child care costs). Similarly, "risk-free" fixed income investors are earning negative real-returns, thanks to interest rates well below real-world inflation (note: the 10-year US Treasury Note yield is presently 0.64%). The silver lining is that, post the recent dislocation in credit markets, there are opportunities for investors, with a higher degree of risk tolerance, to earn above average returns over time.

While the most recent turbulent period was positive for long-dated US Treasuries, interest rates have fallen much closer to the zero bound, so the future return potential is now limited, and negatively asymmetrical. The next bout of inflation (one way to pay-off coronavirus debt) is likely to prove costly to holders of such long-duration fixed coupon securities. In lieu, we believe that select alternative assets should be viewed as important tools by investors seeking to grow their capital while insulating their portfolios against periods of volatility.

Lastly, and most importantly, we hope that all of you and your loved ones are healthy and able to spend quality time together.

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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. 1) Primary Market Corporate Credit Facility, Secondary Market Corporate Credit Facility, Term Asset-Backed Securities Loan Facility. 2) Pandemic Emergency Purchase Program, (Targeted) Long Term Refinancing Operations.