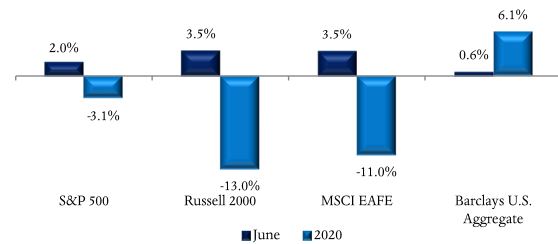




MARKETS

Investors benefitted from a solid June and very strong quarter for global financial markets, as central banks and governments globally provided a tremendous amount of stimulus in response to the pandemic, from which economies have started to reopen. US equities ended the month on an up-beat note, closing-out one of the best quarters since 1998, overcoming continued economic uncertainty, social unrest and a resurgence in coronavirus infections. Leading equities was the tech heavy Nasdaq composite which spiked +31.0% during the quarter (+12.7% ytd). The bellwether Dow Jones Industrial and S&P 500 indexes advanced +18.5% (-8.4% ytd) and +20.5% (-3.1% ytd), respectively, in the second quarter. The smaller capitalization Russell 2000 index exhibited the greatest volatility, soaring +25.4% in Q2, but remained a laggard in 2020 (-13.0% ytd). In a continuation of a long-standing divergence, growth stocks rose +6% while value stocks declined -17%, for the year-to-date period. Overseas stocks also posted positive performance for the quarter, as seen by the MSCI EAFE index rising +15.1% (-11.0% ytd). In Europe, the Stoxx 600 index rebounded +13.9% in Q2 (-11.7% ytd). Asian stocks also clawed their way back towards par for the year. The Shanghai composite bounced +9.8% in Q2 (-0.7% ytd), while Tokyo's Nikkei 225 index rocketed higher by +18.0% (-4.7% ytd).

Despite the rebound in “risky” assets, traditional portfolio hedges such as sovereign bonds and gold performed well, benefitting from the torrent of liquidity. The Barclays US Aggregate bond index added +2.9% in Q2 (+6.1% ytd), while gold advanced +13.3% (+17.4% ytd). In credit markets, US high yield bonds rallied nearly +10% last quarter, while global investment grade bonds advanced by a similarly impressive +9%. Interest rates, globally, remain at or near historical lows with the exception of lower rated or illiquid credit.



In commodity markets, copper ended the quarter at a post-pandemic high, driven by six consecutive weekly advances, notable given the industrial metal's reliability as a leading indicator of economic health. Energy markets also marched higher during the quarter, with the WTI crude oil benchmark trading at \$39.27 per barrel, still approximately one-third below levels of January.

GEOPOLITICAL EVENTS

In continental Europe, Australasia and some parts of Asia, including China, new Covid-19 infections have fallen to low levels and economies are successfully reopening. In the UK, new infections have also continued to fall, though not as efficiently as in Europe. However, in the US the number of new infections has risen to new highs, driven by a select group of states (albeit with a much lower average age of infection and fewer hospitalizations). Further, several developing countries, including India and much of Latin America, have been unable to control the virus. Importantly, there continues to be an unprecedented and concerted global effort to develop a vaccine, with solid progress thus far.

Aside from the pandemic, the much anticipated US Presidential election is approaching, tensions between China and the rest of the world continue to percolate, and Brexit is still unresolved. On a positive political note, the European Union appears to be increasing its cohesion, as seen by the proposed recovery fund, which aims to provide support, via transfer payments, to the worst-affected member countries, such as Italy and

Spain, from members such as Germany and France.

UNITED STATES

As the US economy reopens, economic data is rebounding strongly. Employers continued to recall workers, leading to 4.8 million more payrolls in June. The unemployment rate fell to 11.1%, down from a peak of 14.7% in April, but remains at a post World War II high. In the manufacturing sector, June's PMI survey registered 52.6%, up 9.5% from the prior month's reading of 43.1%, indicating an expansion. Similarly, retail sales rose +16.8% month-over-month in May, but still rest -6.1% over the year ago period. In all, the speed and magnitude of the bounce back is a clear positive.

To support the recovery, with a focus on labor markets, the Federal Reserve (Fed) bank is electronically creating \$120 billion per month (a run rate of \$1.44 trillion per year) to purchase \$80 billion in US Treasuries and \$40 billion in mortgage backed securities. Chairman Powell recently predicted that interest rates would remain near the zero bound through 2022. In addition, to finance government fiscal expenditures, the US Treasury Department borrowed \$3 trillion in the second quarter. Looking ahead, the US Congress and President Trump both support a fourth stimulus package, likely to extend the federal jobless benefits program (which currently pays nearly two-thirds of unemployed workers more than they were making on the job), scheduled to terminate on July 31. A large infrastructure spending program is also being negotiated. By year-end it is conceivable that the Fed's balance sheet may exceed \$10 trillion (up from circa \$7 trillion) and there has been increased talk of "yield curve control." This means that the Fed would be willing to print any amount of money in order to buy sufficient Treasuries to maintain interest rates at targeted low levels for as long as it takes to rejuvenate the economy, or until inflation rises above acceptable levels (note: the Bank of Japan and Reserve Bank of Australia have already implemented yield curve control).

June 2020 Economic Statistics

	<i>Jun-20</i>	<i>Dec-19</i>	<i>Dec-18</i>
Federal Funds Target Rate	0 - 0.25%	1.50-1.75%	2.25-2.50%
Consumer Confidence Index	98.1	126.5	128.1
Manufacturing PMI Index	52.6%	47.2%	54.1%
Unemployment Rate	11.1%	3.5%	3.9%
JPY / USD	107.92	108.61	109.56
USD / EUR	1.1231	1.1210	1.1469
Gold / oz.	\$1,780.67	\$1,517.01	\$1,282.73
Oil (WTI) / bbl	\$39.27	\$61.06	\$45.41

According to the Conference Board, first quarter US GDP contracted by 5.0%, and second quarter output is expected to drop by almost 40%. Thereafter the economy is expected to experience a large rebound of over 30% in Q3, to be followed by a tapering of growth in Q4 and beyond (all figures are annualized). For 2020 as a whole, the economy is estimated to contract by approximately 5.7%, before recovering by 5.0% in 2021.

EUROPE

Europe's economic recovery from the coronavirus pandemic is well under way, according to a recent data points, but activity remains far below normal levels, limited by social distancing measures, suggesting that the recovery from recession will require patience. The IHS Markit services and composite PMI (purchasing managers' index) confirmed that business activity rebounded in June, with a reading of 48.5% which was sharply higher than May's 31.9% but not yet above the expansionary 50% level.

The UK is also recovering from the pandemic, albeit at a slower pace. From an economic perspective, local retail sales rebounded by +12% last month, yet remain -13% year-over-year. On the other hand, according to a recent survey, British factories are increasingly expecting to lay off workers, with 46% of manufacturers considering redundancies, rising from 25% in May.

To further support the region's economies, from a monetary policy front, the European Central Bank (ECB) announced a further increase in its bond buying program, by €600 billion to €1.35 trillion per annum, and extended the scheme's duration until June 2021,

or until the bank believes the crisis is over. The ECB also updated its economic forecasts and said it now expected the euro zone economy to contract by 8.7% this year, before rebounding to 5.2% growth in 2021 and 3.3% in 2022. Similarly, the Bank of England increased its quantitative easing program by an additional GBP £100 billion, to £745 billion, but avoided taking interest rates into negative territory. These actions have contributed to a further reduction in borrowing costs across the region.

ASIA

Economic activity gathered momentum in China as Beijing's uncompromising approach to tackling the coronavirus pandemic is starting to pay off. Local health authorities have aggressively addressed secondary outbreaks as they emerge across the country. The most recent cluster, which originated at Beijing's largest wholesale food market, prompted a swift and vigorous response, including the testing of millions of citizens and new restrictions on people's movements in and out of the capital. As a result, the Chinese service sector surged in June, reaching its highest level in more than a decade, as seen by a reading of 58.4% from the purchasing managers index. Similarly, China's manufacturing PMI climbed into expansionary territory at 50.9%, as did the nonmanufacturing PMI, a gauge of services and construction activity, which jumped to a seven-month high of 54.4%. Notably, the International Monetary Fund (IMF), in its latest economic-outlook update, predicted China would be the only major world economy to expand this year, forecasting growth of 1.0%.

Japan's economy shrank less than initially estimated in the first quarter, but the broad impact from the coronavirus crisis is still expected to send the country further into recession. According to the Japan Center of Economic Research, the country's GDP is expected to contract by 6.8% in 2020 and will not return to its pre-coronavirus level until 2024. As such, Prime Minister Abe promised more than (the equivalent of) \$2 trillion in spending, representing over 40% of GDP. Much of this stimulus will be financed by newly created funds from the Bank of Japan.

OUTLOOK

The worst case scenario of the Covid crisis morphing into a liquidity crunch has been, thankfully, avoided as global central banks have made it clear that they stand willing to use their monetary powers to keep government and corporate borrowing costs low. Central banks have, thus far, presided over nearly 150 interest rate cuts and purchased assets worth \$5 trillion. Combined with government spending, the total global fiscal stimulus, to combat the pandemic, has already exceeded \$18 trillion. However, solvency issues still remain, especially in the services part of the economy, with some notable bankruptcies already occurring. Sectors that have been most affected by the virus include travel and leisure, retail, energy and banking. Notwithstanding the enacted stimulus, the IMF recently trimmed its global GDP forecast to -4.9% for 2020.

The pandemic is changing the world we live in from a myriad of perspectives. It has served to accelerate several already pervasive technology trends (ie online retailing taking share from brick and mortar shopping), and has begun to disrupt industries such as entertainment, education, transportation, as well as the global supply chain. Notably, due to social distancing measures in place to protect people's health, remote transactions are gaining traction, displacing the traditional way of doing things, and perhaps increasing efficiency, with the potential downside of losing the human touch.

We steadfastly remain in favor of an active approach to investing, with a focus on quality equities and a long-term perspective. Our favored globally-oriented large capitalization stocks have performed admirably over the recent past, illustrating their resiliency in the face of elevated market volatility. In addition, there are opportunities in the European equity markets, especially for patient investors willing to wait for the eventual recovery.

Given that risk-free bonds currently offer negative inflation-adjusted returns, we instead recommend select alternative assets that can act as volatility dampeners, while offering the potential for solid risk-adjusted returns stemming from alpha generation.

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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.