

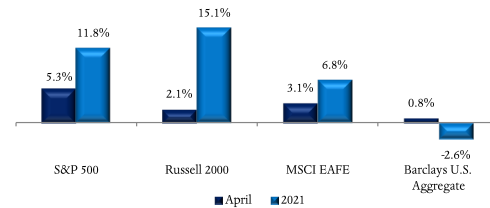


MARKETS

Global equity markets continued their ascent in April with developed market equities returning a particularly strong +4.7%, while emerging markets rose a respectable +2.5%. Solid economic growth, major fiscal policy proposals, and robust corporate earnings results drove stocks higher. The S&P 500 index led the way, returning +5.3% for the month (+11.8% ytd), while the smaller capitalization Russell 2000 added +2.1% (+15.1% ytd). With regard to market internals, the rotation trade from growth to value took a breather in April, with growth stocks returning +6.3% and value stocks +3.2%. Overseas markets such as the MSCI EAFE and the Euro Stoxx 600 lagged, returning +3.1% (+6.8% ytd) and +2.4% (+11.0% ytd), respectively. In Asia, Shanghai stocks have been mired (+0.2% in April; -0.7% ytd).

April saw some retracement of the first quarter's steep rise in bond yields and a mini-rally in prices. The benchmark 10-year US Treasury Note yield ended the month 12 basis points (bps) lower, and the 2- to 30-year curve slope was 10 bps flatter. In this context, the Barclay's US Aggregate bond index rose +0.8% in April (-2.6% ytd). Meanwhile, the High Yield index added +1.1% (+2.0% ytd) thanks to continued economic improvement, an abundance of liquidity, and a strong start to first quarter earnings.

On the commodities front, the price of copper surged in April, nearing its all-time high set in 2011, amid expectations of a global economic recovery. WTI crude oil was also bid higher by +7.5% to \$63.58 per barrel. Gold perked up to \$1,768.59 per oz (+3.6%), benefitting from a weaker dollar and stable rates, as well as expanding monetary and fiscal policies worldwide. Commodities are the best performing asset class in 2021 on the back of inflationary worries and growing belief in a post-pandemic economic recovery.



GEOPOLITICS

Covid-19 vaccine rollouts in the US and UK have continued to proceed well, with 45.7% and 52.4% of their respective populations now having received at least one dose. This has led to significantly lower positivity rates and a sustained reopening of their economies. In the EU, after a difficult start to the vaccine campaign the pace of inoculations has accelerated significantly, to between 0.6% and 0.8% of the total population on a daily basis, with 27.9% having received at least one dose. Tragically, the health crisis in India has worsened, underscoring the need for vaccination rollouts to be urgently broadened out to the emerging world.

With regard to the environment, global emission reduction targets saw a wave of new commitments. President Biden announced the US would target a 50% reduction by 2030, relative to 2005 levels, China's premier, Xi Jinping, also said that China's coal consumption would peak in 2025, and the UK revealed it would target reducing emissions 78% by 2035, relative to 1990 levels. While the EU is targeting to reduce its carbon emissions by 55% by 2030 compared to 1990 levels, its proposed border adjustment carbon (BAC) tax is causing controversy. The tax is designed to level the playing field for European companies by holding imports responsible for their greenhouse gas emissions the same way domestically produced products are, with corresponding economic, legal and environmental ramifications. If passed, the BAC tax would likely force other countries to enact similar schemes to avoid having high carbon emissions related goods dumped on their shores.

UNITED STATES

President Biden's has now been in office for over 100 days and the big takeaway for investors is his fiscal largesse. Following the passage of the American Rescue Plan, a \$1.9 trillion stimulus package passed in March, the President has outlined his plans for two more spending packages. The \$2.3 trillion American Jobs Plan is designed to invest in the country's infrastructure, while the \$1.8 trillion American Families Plan will aim to ensure a more equitable recovery, with many key tax credits from the Rescue bill being extended or made permanent. In order to partially compensate for the increase in spending, there have been proposals to increase the corporate, top marginal income, and capital gains tax rates. Given that there are few fans of higher taxes, it is likely that compromises will need to be made on both the spending and taxation proposals in order for future bills to pass. Meanwhile, vaccinated Americans have started to make up for lost time as the economy reopens. Consumers are feeling more confident, having saved about 8% of GDP in 2020. As such, The Conference Board's measure of confidence rebounded sharply from 109.0 to 121.7 in April.

This setup means that we are entering a period in which economic data will likely be exceptional. The US economy grew at an annualized pace of 6.4% in the first quarter, with additional robust growth expected for the remainder of the year. US retail sales grew 9.8% in March, and now sit 17.0% above the pre-pandemic level, with food and beverage, as well as clothing, seeing the largest gains. However, the 266,000 job additions in April were below expectations of 1 million, and the unemployment rate rose to 6.1%.

EUROPE

European countries are finally making good progress inoculating the general public, giving confidence that the economic recovery can begin in earnest in the second quarter, with additional growth expected in the third quarter as restrictions are loosened. This is good news following a GDP contraction of 0.6% in the first

April 2021 Economic Statistics

	<i>Apr-21</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	121.7	126.5	128.1
Manufacturing PMI Index	62.7%	47.2%	54.1%
Unemployment Rate	6.1%	3.5%	3.9%
JPY/USD	109.27	108.61	109.56
USD/EUR	1.2018	1.1210	1.1469
Gold/oz.	\$1,768.59	\$1,517.01	\$1,282.73
Oil (WTI)/bbl	\$63.58	\$61.06	\$45.41

quarter. With a return to normality in sight, consumers are feeling more optimistic and April's measure of confidence rose more than expected. Spending has also proved resilient through the difficult winter with retail sales down just -2.9% in February, then jumping +11.6% in March, year-over-year.

Inflation remains subdued in the eurozone as seen by April's headline figure of 1.6%, with the core measure rising 0.8%, year-over-year. European Central Bank president, Christine Lagarde, acknowledged that the eurozone and the US are at different stages when it comes to their economic and inflationary outlook and, as such, the ECB would not be acting in tandem with the Federal Reserve, an indication that any reduction in liquidity will likely come much later.

ASIA

The Chinese economy continues to normalize. In the first quarter of the year local GDP grew 0.6%, with a balanced split across sectors, as activity in services continues to improve. It should be noted, however, that there has been a significant reduction in fiscal and monetary policy support which has led to a deceleration in local government financing and infrastructure investment. In addition, a stronger Renminbi has been a headwind for exports. Looking forward, domestic consumption is expected to be the major growth driver for the Chinese economy.

OUTLOOK

The developed world looks well on the path to recovery and the coming quarters should see extremely

strong economic data, albeit off the pandemic lows. Policymakers have worked tirelessly throughout the downturn to support economies and financial markets. The US government has injected an unprecedented \$12.3 trillion of monetary and fiscal stimulus into the economy over the past 13 months. Globally, the economic bailout is running at \$25 trillion, and rising. Central bankers, led by the US Federal Reserve, argue that any inflationary pressures are likely to be transitory, however there are indications it could be longer-lasting.

Commodity prices have risen significantly, with some industrial metals, and agricultural products having eclipsed their peak prices of a decade ago. Bottlenecks in the supply chain are also pressuring intermediate costs. Soaring lumber prices have added \$35,872 to the average price of a new American single-family home. In turn, the median existing home price has soared +17.2% from a year ago (aided by negative real interest rates), the largest price spike on record. Further, wage pressures are quickly building across industries. A recent survey of small businesses by the NFIB found that 42% had job openings they could not fill. Similarly, job postings on Indeed.com are 22.4% above the pre-pandemic baseline. Walmart recently announced a 7.1% wage increase for its 425,000 hourly workers (from \$14 to \$15 per hour). Hospitality providers have needed to boost their wages by 15% above year-ago levels. Trucking companies find themselves having to pay newly certified drivers 40% more amid the tightest labor conditions in over three decades. This trend is exacerbated by an estimate that 42% of workers can make more not working, than they did with their pre-unemployment wage, thanks to federal enhanced unemployment benefits that have been extended through September and now cover those that have quit their jobs. Tellingly, mentions of “inflation” in first quarter US corporate earnings conference calls more than tripled from the year ago period, reaching a record high. Yet the Consumer Price Index (CPI) index rose only 2.6% in March, while the core measure (excluding food and energy) was up a mere 1.6%. These understated figures (distorted by downward adjustments) will inexorably rise. In fact, the Producer Price Index (PPI), which has more even weightings than the

CPI, already jumped 4.2% in March, the fastest increase in a decade. The PPI for “finished” goods climbed 5.9%, while “intermediate” processed goods saw their fastest (+12.0%) increase in 53 years. Import prices also showed a hefty 6.9% rise last month, the largest in nearly a decade.

A driver of demand, US household income soared by a record 21.1% (and the savings rate increased by 27.6%) in March due to the latest round of (\$1,400) stimulus checks. Notably, most married couples with two children will receive \$5,600 (65% more than last year’s round of stimulus). Soon to come are the plan’s expanded child credits (\$3,000 - \$3,600 *per* child, depending on the age). The increased savings is allowing some Americans to begin paying down their debts, undoubtedly a much welcome relief. Looking ahead, President Biden has proposed as much as \$4.1 trillion in additional spending packages, with some portion directed towards “investment in human infrastructure.” This spending spree will continue to increase deficits (\$1.7 trillion for the trailing 6 months) and debt, which will eventually weigh on economic growth.

Given the aforementioned combination of ongoing fiscal and monetary stimulus, low interest rates, pent-up demand, rising input costs and wage pressures, fixed income investors should be wary of a coming wave of inflation which may have longer lasting legs than the consensus believes. Equity investors, however, can prosper in rising price environments. Our favored large capitalization, quality-oriented, multinational companies command pricing power and can be expected to emerge stronger. Value oriented and cyclical stock, which have underperformed over a multi-year period, tend to thrive in inflationary environments. We believe such a scenario would be ideally suited for our stable of active equity managers as stock picking should be able to add significant alpha.

As economies inflect upwards into a high growth phase, we continue to have a favorable view of merger arbitrage and hedged credit, as well as inflation hedges such as distressed real estate, European equities, and water infrastructure. As long-term investors, with the belief that technology will be a dynamic growth sector for decades to come, we are proud to announce the launch of our proprietary Nordic Technology and Innovation Fund.

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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.