



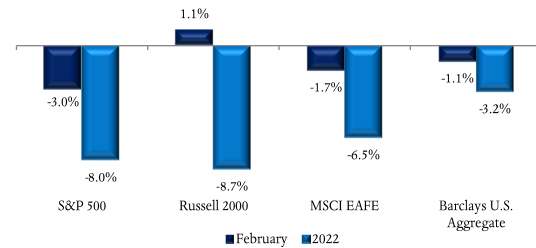
## MARKETS

Global financial markets encountered a number of headwinds in February. Initially, worries centered around the trajectory of interest rates and the number of growth-dampening central bank rate hikes it may take to tame inflation. Then came the shocking Russian invasion of Ukraine which was met by international condemnation and severe economic sanctions.

In a continuation of the difficult start to the year, global stocks were negatively affected in February. The S&P 500 index fell by -3.0% (-8.0% ytd) while the tech-heavy Nasdaq tumbled -3.3% (-12.0% ytd). Bucking the trend was the small capitalization Russell 2000 benchmark which advanced +1.1% in February (-8.7% ytd), bolstered by its domestic US focus and oversold -25% peak to trough decline since November. In terms of the style factor, value stocks outperformed growth oriented ones, though both cohorts declined. Overseas, the MSCI EAFE index declined -1.7% last month (-6.7% ytd), led by European stocks which dropped -3.2% (-6.9% ytd). Asian equities were mixed with the Shanghai composite rising +3.0% (-4.9% ytd) and Japan's Nikkei 225 index falling -1.7% (-7.8% ytd).

Geopolitical tensions dampened bond market expectations for near-term rate hikes, while introducing a headwind to future growth. Interest rates rose even during a risk-off period, as the bond market debated how to value high levels of inflation amid a slowing economy, a potentially stagflationary scenario. The US 10-year Treasury Note yield advanced from 1.78% to 1.83% during February, leading the Bloomberg Barclays US Aggregate bond index down by -1.1% (-3.2% ytd).

Commodities continue to be in demand as one of the best ways to hedge against inflation and geopolitical instability. Energy, metals and agriculture soared in February, with the sector rising 6.2% on average (+15.6%



ytd). WTI crude oil ended the month at \$95.72 per barrel rising +8.6% (+27.3% ytd). US Henry Hub natural gas declined -9.7% in February, but remains +18.0% ytd. In the inflationary and risk-off environment, gold recovered to its highest levels in over a year, closing the month up +6.2% at \$1,907.90/oz (+4.3% ytd).

## GEOPOLITICS

On February 24th, Russian military forces, that had been readying for the past several months, invaded Ukraine. This appears to be a further step in Vladimir Putin's desire to bring former Soviet Union countries firmly under Russia's sphere of influence. A goal far more sinister than the pretense of keeping Ukraine out of NATO. The battle for Ukraine, a country of 42 million people that straddles the East and the West, is potentially the most pivotal for Europe since World War II. Tragically, there has been significant loss of life amid fierce Ukrainian resistance. The international community promptly, and in unison, condemned Putin and Russia's actions, imposing stiff social and economic sanctions. An added inflationary impact has been seen in rising food and energy prices. Ukraine is considered the bread-basket of Europe (producing 25% of all agricultural output in the former Soviet Union), while Russia is a significant exporter of commodities, accounting for 13% of global crude oil production, 17% of natural gas production and nearly a tenth of global wheat supplies. Specifically, Brent crude oil has risen to circa \$123/barrel (+58% since the start of the year), European nat-

ural gas prices (40% of which stem from Russia) have spiked 225%, and wheat prices have advanced by forty percent. Let us hope the world's shunning of Russia, both socially and economically, has the intended effect of restoring peace.

### UNITED STATES

Recent economic data has begun to show signs of a slowdown, albeit off robust levels. February's purchasing manager (PMI) surveys pulled back from their highs, though they are still solidly in expansionary territory. Retail sales also grew a respectable +3.8% in January, with hints that consumers delayed, spending as a result of Omicron, rather than curtailing it.

The main headwind buffeting the US consumer is inflation, which has begun pressuring "real" incomes. US headline inflation for January was 7.5% year-over-year, the fastest pace since 1982, with contributions from both core goods and services, suggesting that underlying inflationary pressures continue to build. Further, the producer price index, which measures wholesale prices, rose 1.0% in January and 9.7% for the 12-month period, the latter just off the record high.

The February jobs report showed a sharp acceleration in new hires as the Omicron variant faded. Non-farm payrolls increased by 678,000, pushing the unemployment rate down to 3.8%, while wages grew by 5.1% relative to a year ago.

With high inflation and strong job gains in mind, the financial markets now expect the Fed to deliver five or more quarter point rate hikes by the end of the year.

### EUROPE

Business surveys such as the eurozone composite Purchasing Managers' Index indicated an acceleration in economic momentum in Europe. Concurrently, Eurozone headline inflation reached 5.1% year-over-year, the highest level on record. It is interesting to note that more than 50% of this figure is directly attributable to rising energy prices. If Russian commodity exports are disrupted, it would have a significant impact on region-

### February 2022 Economic Statistics

	Feb-22	Dec-20	Dec-19
Federal Funds Target Rate	0 - 0.25%	0 - 0.25%	1.50-1.75%
Consumer Confidence Index	110.5	88.6	126.5
Manufacturing PMI Index	58.6%	60.7%	47.2%
Unemployment Rate	3.8%	6.7%	3.5%
JPY/USD	114.99	103.24	108.61
USD/EUR	1.1219	1.2213	1.1210
Gold/oz.	\$1,907.90	\$1,896.49	\$1,517.01
Oil (WTI)/bbl	\$95.72	\$48.52	\$61.06

al economies given that approximately one-quarter of the EU's crude oil and 40% of its natural gas is imported come from Russia. Concerns over the reliability of Russian energy supplies will put further pressure on European governments to transition away from imported fossil fuels and towards domestically-generated renewables over the long-term.

Eurozone labor markets are improving as seen by the unemployment rate which fell to 6.8%, a record low since the euro's inception. While associated earnings growth is expected to rise over time, recent data indicates that negotiated wages were just 1.5% higher in the fourth quarter of 2021 relative to the prior year, lagging behind the US and UK. Tight labor markets are a key driver of persistent inflation; this trait is not yet being exhibited in Europe.

At its February meeting, the ECB indicated that the central bank was considering whether to hike interest rates later this year, adding that a calm and gradual approach would be taken. The ensuing war on the union's eastern border is sure to slow the process down even further.

In the UK, the Bank of England raised its key Bank rate by 25 basis points to 0.5%, representing the first back-to-back increase since 2004. The Committee also voted to begin reducing the central bank's UK government bond purchases. Looking ahead, financial markets expect short-term interest rates to rise above 1.5% by the end of the year. Headline UK inflation for January came in at 5.5%, while core inflation rose to 4.4%, both year-over-year. The central bank expects inflation to

increase further in coming months, to close to 6.0% in March, before peaking at 7.25% in April, subsequently declining to a little above its 2.0% target in two years.

### ASIA

As developed market central banks move towards tighter monetary policy, China is moving in the opposite direction. The country's 4.0% year-over-year Q4 2021 GDP growth confirmed the economic deceleration brought-on by property price control measures and tepid household consumption. As a result, the People's Bank of China has cut a number of policy rates by modest amounts (in steps of 5-10bps) since December to stabilize economic momentum. Additional fiscal and monetary support is expected to be deployed in order to re-accelerate economic growth back toward 5.5%, even though much of the regulatory reform efforts will likely remain intact. There are, however, concerns that China's zero tolerance Covid strategy may not be able to restrain the more contagious Omicron variant, which could lead to production and global supply chain disruptions.

### OUTLOOK

Russia's invasion of Ukraine and the associated heightened geopolitical tensions, as well as the ensuing economic sanctions, will have far reaching ramifications that are just beginning to be digested by financial markets. These actions follow on the footsteps of record global monetary and fiscal stimulus used to dampen the effects of the coronavirus pandemic. The resulting inflationary impulse is in the early stages of being dealt with, via tighter monetary policy, causing financial market consternation. Now, the Russo-Ukrainian conflict has added another set of worries leading to an uncertain and volatile investment environment. It appears that neither the Russians nor the Ukrainians (or their European neighbors) will come out ahead, no matter the "victor" of the war. One possible scenario is that Russia takes control of eastern Ukraine, perhaps up to the Dneiper river, as well as the strategically important warm water ports of the Black and Azov seas. This may satiate Putin allowing for an eventual negotiated settlement but leaving Ukraine hobbled and Russia ostracized.

Whether central banks react to accelerating inflation (boosted by ever-rising commodity prices) by increasing the magnitude or speed of interest rate rises in order to combat inflation, or reduce their pace of tightening in order to support the economy amid geopolitical uncertainty is not yet entirely clear. The answer will depend on the extent to which the current macroeconomic environment dampens growth or alternatively fuels wage increases as workers try to protect their purchasing power during a tight labor market. This raises the question, to what extent will the Fed's job be pre-empted by free markets?

As investors try to work out how far the Fed could raise interest rates, the uncertainty is likely to lead to elevated equity market volatility for some time. Geopolitical tensions in Europe will also come into play. That said, the constructive outlook for global economic momentum in the medium to long-term could drive continuing profitability for companies. US corporations most recently registered earnings growth of over 30% year-over-year, exceeding expectations of 20% at the start of reporting season. Yet, as of last week, 47% of the tech-heavy Nasdaq index's stocks had declined more than fifty percent from their peak. This price-to-earnings multiple compression is creating interesting investment opportunities for long-term oriented investors.

During times of uncertainty, it makes sense to have a well balanced asset allocation. Unfortunately, the traditional ballast coming from fixed income is unlikely to prove effective, given the historically low level of interest rates, amid persistent and rising inflation. In lieu, we reiterate our preference for short-duration and variable rate securities, hedged credit, as well as select non-market correlated alternative assets. Further, we retain a positive view of inflation protected investments such as real estate, energy exploration, and water infrastructure. For patient investors seeking to capitalize on disruptive technology trends we have identified opportunities in the fields of edu-tech and cybersecurity. In addition, we believe the current pull-back in public equity markets has led to attractive valuations in our 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.