

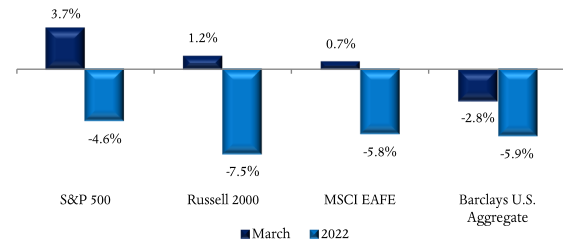


MARKETS

After an strong 2021, the first quarter of 2022 turned out to be a challenging one for financial markets. Concerns about central bank tightening of monetary policies, to combat higher inflation, were compounded by the shocking Russian invasion of Ukraine. The economic implications weighed on both stocks and bonds.

The S&P 500 index partially retraced its early-year losses in March, rising +3.7% for the month, but ended the quarter down -4.6%, its first such loss in two years. Smaller capitalization stocks as measured by the Russell 2000 index had a tough start to the year, then trended upwards over the past two months (+1.2% in March; -7.5% ytd). However, it was the tech-heavy Nasdaq composite that bore the brunt of the selling during the quarter (+3.5% in March; -8.9% ytd) Overseas, the theme was similar. The MSCI EAFE index rebounded +0.7% in March (-5.8% ytd). The Euro Stoxx 600 index similarly advanced +1.1% in March, leading it lower by -5.9% ytd. European smaller capitalization stocks ended the quarter down -11.3% given their sensitivity to the geopolitical instability stemming from the Russo-Ukrainian war. In Asia, Tokyo's Nikkei 225 index rebounded +5.8% in March (-2.5% ytd), driven by a significantly weaker Yen. Chinese stocks were among the biggest losers -6.1% in March (-10.6% ytd) due to a confluence of events including government regulation and a local resurgence of Covid-19.

Amid persistent inflation, the Federal Reserve finally enacted its first interest rate increase in March, with a further 200+ basis points of monetary tightening forecast for the remainder of the year. This led the bond market to post its worst start to the year since the early 1980's. Treasury yields rocketed higher (10-year yield rose from 1.51% to 2.34%), leading the Bloomberg Barclays US Aggregate index -2.8% in March (-5.9% ytd).



Credit spreads also widened dramatically leading the high yield index down by -0.9% in March (-4.5% ytd). Expectations for tighter US monetary policy also contributed to a rally in the Dollar, which finished the quarter up 3% against both the pound and the euro.

Russia's significant production of energy, metals and agriculture are perceived to be at risk due to global sanctions. This pushed the prices of certain commodities, such as nickel, to extreme levels, exacerbating the surge in inflation, supply chain disruptions and putting global growth at risk. Crude oil and natural gas prices were also very volatile, spiking in early March before falling back. European Brent crude and European natural gas ended the month at \$103 per barrel and €121 per megawatt hour, up 33% and 55% respectively since the start of the year. In agricultural markets, Kansas wheat and corn all recorded sharp price gains on fears that supplies could be hit by the ongoing war in Ukraine (the region accounts for about 30% of global wheat exports).

GEOPOLITICS

One and a half months post the Russian invasion of Ukraine, the war is turning into one of attrition. The Ukrainians have valiantly defended their country at the cost of significant lives lost and the devastation of huge swaths of the eastern and southern parts of their country. Estimates of the infrastructure damages caused to-date exceed \$500 billion. Severe economic and financial sanctions have been imposed on Russia by developed nations, including removing some local banks from the

SWIFT wire transfer network, and imposing restrictions on the Central Bank of Russia's international reserves. Some of Russia's wealthiest people have had their assets frozen or seized, and a slew of major international corporations have withdrawn from the country. The Russian central bank, in-turn, adopted extraordinary measures, increasing overnight interest rates to 20% and imposed capital controls. Initially the currency collapsed and the local stock exchange was closed for two weeks. Moscow then reacted by pegging the Ruble to gold and mandated its use for commodity export payments, leading to a sharp recovery in the currency. While the sanctions will inflict significant damage to the Russian economy, leading to a deep recession, the effects have not yet dealt the critical blow the West had hoped for. Europe's dependence on Russian natural gas, and the global trade of commodities, have enabled Moscow to continue funding the war.

UNITED STATES

Consumer sentiment deteriorated during the last quarter in reaction to rising costs. However, the labor market remains strong, having regained over 90% of the jobs lost since the heights of the pandemic, leading the unemployment rate to a multi-decade low of 3.6%, with healthy wage growth of 5.6%. Unfortunately, income growth continues to trail inflation (most recently measured at an annualized rate of 7.9%) resulting in irregular spending patterns. Moreover, price increases are expected to remain elevated for a meaningful time.

The Federal Reserve raised interest rates by 0.25% in March, with calls from within for more aggressive tightening. According the CME FedWatch tool, the market expects six more rate hikes this year, including three at 50 bps, and three more in 2023, with the Fed Funds rate eventually reaching a range of 3.25 - 3.50%. The committee is also preparing to reduce the size of the bank's \$9.0 trillion balance sheet in the near future.

EUROPE

European countries import a material percentage of their oil and natural gas from Russia, making their

March 2022 Economic Statistics

	Mar-22	Dec-20	Dec-19
Federal Funds Target Rate	0.25 - 0.50%	0 - 0.25%	1.50-1.75%
Consumer Confidence Index	107.2	88.6	126.5
Manufacturing PMI Index	57.1%	60.7%	47.2%
Unemployment Rate	3.6%	6.7%	3.5%
JPY/USD	121.66	103.24	108.61
USD/EUR	1.1065	1.2213	1.1210
Gold / oz.	\$1,796.47	\$1,896.49	\$1,517.01
Oil (WTI)/bbl	\$100.28	\$48.52	\$61.06

economies vulnerable to the ongoing war. Mitigating factors include excess savings accumulated during lockdowns, healthy labor markets (where unemployment is dropping an wages are rising) and ongoing fiscal and monetary stimulus. Nevertheless, eurozone consumer confidence moved sharply lower in March on the back of 7.5% inflation (up from 5.9% in February). European institutions have reacted by discussing the launch of an energy and defense fund to tackle the ongoing crises. At the sovereign level, Germany, France and Italy, approved measures to absorb part of higher household energy bills. In addition, the European Commission announced ambitious plans to reduce imports of gas from Russia by two-thirds before the end of the year, via more diversification, energy efficiency and accelerated investments in wind and solar power. This seems overly optimistic. Moreover, eliminating European dependency on Russian gas will require significantly more time and effort.

Industrial production, as seen by the PMI at 54.5%, showed the economic resilience of many European members. The exception was Italy which posted a drop that may reflect how component shortages and the energy price shock are starting to hurt manufacturing activity.

In response to rising inflation, the European Central Bank confirmed that the tapering of the pandemic emergency purchase program (PEPP) will conclude in June and the asset purchase program (APP) will be phased out by September. ECB President Christine Lagarde indicated that a first interest rate increase

could potentially come this year, saying rates would rise “some time” after asset purchases had concluded.

The UK, a heavy consumer of oil and gas, announced a fiscal package amounting to 0.4% of GDP to provide some support to household incomes in the face of a significant purchasing power squeeze due to higher energy bills. Meanwhile, the local labor market is exhibiting signs of tightening with strong recent jobs growth. The unemployment rate fell to 3.9% and wages grew at a faster than expected 4.1%, yet trailed inflation which accelerated to 6.2%. Manufacturing surveys declined modestly to 59.7%, indicating that the economy is still growing at a good pace despite inflationary headwinds. Nevertheless, forward looking consumer sentiment fell sharply. These factors led the Bank of England to increase its official rate by a combined 50 basis points during the quarter (to 0.75%).

ASIA

The Chinese economy suffered in the first quarter due to a resurgence of Covid-19 cases (the highest in two years) and the subsequent lockdowns in Shenzhen, Shanghai and other cities. The associated manufacturing plant shutdowns have exacerbated global supply constraints, including some critical components. This prompted Chinese authorities to enact meaningful economic stimulus measures during the National People’s Congress which led to a material improvement in credit growth and the restatement of a 5.5% GDP growth target for 2022.

OUTLOOK

The outcome of the invasion of Ukraine remains highly uncertain. What has become a humanitarian disaster, and war of attrition, is likely to further pressure energy, materials and agricultural commodity prices, exacerbating inflation and creating logistical constraints. Concurrently, global central banks have admitted that inflation is no longer simply transitory and turned increasingly hawkish, leading to a bond market rout. This chain of events is likely to lead to lower economic growth which may turn into a recession. Looking ahead, bankers will have to choose between trying to tame inflation or supporting

growth. For the time being they appear to view inflation as the more pressing problem, assuming that economic growth will remain resilient.

While tightening monetary policy has historically been a headwind for equities, inflationary periods tend to benefit our favored global large capitalization, dividend-paying, stocks. This cohort’s strong pricing power and improving supply-chain fluidity bode well for their earnings prospects going forward. In the near-term, geopolitical tensions, coupled with volatile commodity prices, are affecting economies and consumer confidence, warranting a conservative posture towards risk-assets.

Even after the recent significant rise in bond yields, real (post-inflation) interest rates remain deeply negative, with few prospects of normalization. Such an environment is not conducive to fixed income investing and is likely to pose further challenges for years to come. The knock-on effect of rising interest rates on real-estate activity is also something to address. While demand for homes has been strong and prices high, the move in the average new 30-yr mortgage rate rising above 5.00% has led the median new mortgage payment 38% higher than a year ago, reducing affordability in a sector which accounts for roughly 18% of the US economy.

For conservative investors seeking stability in their portfolios we continue to reiterate our preference for short-duration and variable rate securities, hedged credit, as well as select non-market correlated alternative assets. The European energy crisis, catalyzed by the Russo-Ukrainian war, has forced local governments to accelerate their energy transition plans, with a focus on diversification, as well as addressing the volatility of renewable energy via the use of battery storage. For long-term investors seeking to capitalize on disruptive technology trends there are attractive growth and venture opportunities in the fields of edu-tech and cybersecurity. In addition, we believe the current pullback 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.