



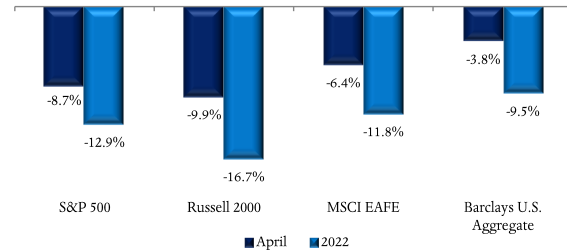
MARKETS

April saw the continuation of the first quarter's challenging financial market environment. The war in Ukraine, pandemic lockdowns in China, rising inflation and tighter monetary liquidity all weighed on investor sentiment.

The risk-off environment drove the S&P 500 benchmark down by -8.7% in April (-12.9% ytd), while the smaller capitalization Russell 2000 index sold off -9.9% (-16.7% ytd). The recent divergence between growth and value stocks, in favor of the latter, grew during the month. Overseas equities also continued their recent decline, with the MSCI EAFE index declining by -6.4% for the period and -11.8% ytd. In Europe, the Stoxx 600 index exhibited resilience (-0.6% in April; -6.4% ytd) as exporters were supported by a weaker Euro currency. Asian stocks also retreated, with the Shanghai composite falling -6.3% during the month (-16.3% ytd), amid local lockdowns. Japan's Nikkei 225 pulled back -3.5% (-5.9% ytd), bolstered by the plummeting Yen/Dollar exchange rate (-6.7% in April; -12.8% ytd).

Fixed income markets registered a negative return in April, extending first quarter losses, driven by an increasingly hawkish tone from the Federal Reserve on account of elevated inflation. The confluence of events led the yield on the 10-year U.S. Treasury higher by 60 basis points (bps), from +2.34% to +2.94%. As a result, the Bloomberg Barclays US Aggregate index declined -3.8% in April (-9.5% ytd). Similarly, the high yield bond index fell -3.6% (-8.0% ytd). Notably, long-term Treasury bonds lost a record -18% this year through April 30.

Commodities remained the main bright spot across asset classes. The Dow Jones Commodity index advanced +2.8% in April (+27.0% ytd) but associated equities pulled back -5.0% (+11.0% ytd), affected by the dynamics of Chinese Covid-19 lockdowns and ongoing geopo-



litical tensions. In energy markets, US natural gas prices rocketed higher by +28.4% during the month (+94.2% ytd), while the European equivalent subsided (+42% ytd). Crude oil prices continued their rise, despite the release of strategic oil reserves and the expectations of lower demand from China. The WTI benchmark rose +4.4% in April and stands +39.2% higher ytd.

GEOPOLITICS

The war in Ukraine entered its third month with no signs of a resolution. Amid stiff resistance, the Russian military decided to regroup and concentrate its offensive efforts on the Donbas region and in the taking of the port city of Mariupol. Meanwhile, the destruction of critical infrastructure across Ukraine continued. The change of strategy came as vast quantities of military weapons and equipment from the United States and Europe made it increasingly difficult for the aggressors to advance on the open fields of central Ukraine and penetrate the deeply entrenched defenses around Kyiv. Diplomatically, the EU continued its debate about halting Russian oil imports, and sanctions mounted.

In France, Emmanuel Macron was re-elected for a second five-year term as president, defeating Marine Le Pen (58.5% to 41.5%) in a repeat of the 2017 run-off. While the margin of victory was narrower than five years ago it was sufficient to make Macron the first French leader to be re-elected in two decades and avoid a radical shift inward that would have changed France's relationship with the European Union and the West.

UNITED STATES

The battle between post-pandemic pent-up demand, supply chain issues, and labor shortages continues to vex economists. Economic data showed signs of weakening. Due to a variety of technical issues, first quarter US GDP missed expectations, contracting by 1.4%. A rebound is expected in the second quarter, which will likely lead to flat first half growth. This represents a significant deceleration over the corresponding period in 2021. At the same time, the US economy added 428,000 jobs in April and the unemployment rate remained at its recent low of 3.6%. Companies are struggling to hire workers to accommodate strong demand, posting 11.5 million job openings (equating to a record high of 1.94 per unemployed worker), the highest in over two decades. This drove wages higher by 5.5% year-over-year in April.

The Federal Reserve has telegraphed its plans to raise interest rates a number of times this year in order to tamp down the tight labor market and inflation (which recently reached a 40-year high of 8.5%). Higher fuel prices contributed significantly to the elevated number. In early May the FOMC hiked the Federal Funds Target Rate by 50 basis points, to a band of 75-100. This is the first time that the Fed has increased rates at consecutive meetings since 2006 and the first half percent increment since May 2000. Looking ahead, the market expects two more 50 bps Fed Funds rate hikes (on June 15 and July 27) and one percent more by year-end. If this plan comes to fruition short-term interest rates will reach nearly 3.00% later in 2022. The Committee also announced its plan for Quantitative Tightening (QT). Beginning in June, the Fed plans to sell balance sheet assets, over a phased-in period, capping-out in September at \$60 billion of US Treasury securities and \$35 billion of agency mortgage-backed securities.

EUROPE

The economic impact of the Russia-Ukraine war on the eurozone has started to become more apparent as seen by the region's anemic 0.2% quarter-on-quarter output

April 2022 Economic Statistics

	Apr-22	Dec-20	Dec-19
Federal Funds Target Rate	0.75 - 1.00%	0 - 0.25%	1.50-1.75%
Consumer Confidence Index	107.3	88.6	126.5
Manufacturing PMI Index	55.4%	60.7%	47.2%
Unemployment Rate	3.6%	6.7%	3.5%
JPY / USD	129.83	103.24	108.61
USD / EUR	1.0541	1.2213	1.1210
Gold / oz.	\$1,896.40	\$1,896.49	\$1,517.01
Oil (WTI) / bbl	\$104.69	\$48.52	\$61.06

growth. Yet there was no let up in inflationary pressures, reaching 7.5% in April, up from 7.4% in March. Case-in-point, Russia halted gas supplies to Poland and Bulgaria after the two countries refused to comply with a decree that payment must be made in rubles. Labor markets continue to be the bright spot, with unemployment dipping in February to 6.8%, from 6.9% in January, resting at multi-decade lows. Yet despite strong wage growth, consumer confidence has tumbled across the region, to levels consistent with a recession. Forward-looking indicators painted a mixed picture: the services purchasing managers index (PMI) hit an eight-month high amid an upturn in tourism, but the manufacturing PMI reached a 22-month low, driven by a sharp fall in Germany.

European Central Bank President Christine Lagarde repeated the message that asset purchases will end early in Q3 and short term rates could rise this year, but the governing council will maintain "optionality." In this context, the German 10-year yield rose from 0.55% to 0.94%.

UK economic data was weaker, with output slowing more sharply than expected, retail sales declining -1.4% month-over-month in March, and PMI's falling. Meanwhile, the annual rate of UK consumer inflation climbed to 7.0% in March from 6.2% in February, its highest since March 1992.

ASIA

Having kept Covid-19 under tight control for most of the past two years, Chinese authorities are now strug-

gling to contain a major outbreak. Shanghai spent all of April in full lockdown, and reports emerged of new measures being implemented in Beijing. Monetary and fiscal policy has provided some offset to the economy, but China's 5.5% growth target for 2022 may be difficult to achieve as long as policymakers prioritize the zero-Covid strategy. Valuations on Chinese stocks relative to developed markets now stand at levels last seen in 2015, while Chinese 10-year yields have moved below US 10-year Treasury yields for the first time in over a decade.

The Bank of Japan came under increasing pressure to move away from its current yield curve control targets (where the 10-year Japanese Government Bond yield is pegged at 0.25%). Driven in part by widening interest rate differentials and daily fixed-rate operations, the Yen has declined -12.8% versus the dollar in 2022, breaching the 130 level for the first time in 20 years. While no changes were made at the BoJ's April meeting, the central bank's actions will be carefully monitored given the potential of global contagion should Japanese yields move higher.

OUTLOOK

Believing that inflation was transitory, central banks have fallen "behind the curve," to varying degrees, with regard to their monetary policies. Now the Fed, ECB and BoJ have the unenviable task of attempting to dampen inflation, without stalling their economies. Supply side factors, triggered by the pandemic and the war between Russia and Ukraine, are significant contributors to the current inflationary impulse. Bankers have little control over those, but can affect demand side variables such as wages and inflationary expectations. Looking ahead, global financial conditions are expected to increasingly tighten as central banks cease quantitative easing (buying of assets using printed money), raise interest rates and attempt to reduce the size of their balance sheets. An indication of the fallout can be seen by the plummeting amount of negative yielding debt, from a peak of over \$18 trillion in 2020 to \$2.5 trillion today. At the sovereign level, higher yields will increase the cost of financing and widen budget deficits. From a consumer spending perspective, pent up de-

mand combined with higher prices will squeeze disposable income and draw down on savings.

Equity markets have seen valuation multiples contract significantly, even in the face of growing earnings. Pullbacks were more pronounced for the fastest-growing companies especially those whose results failed to meet lofty investor expectations. The S&P 500 index is expected to grow underlying profits by 9.0% this year and 10.0% next, leading to a forward earnings multiple of 16.5. This compares to an average historical ratio of 13.3 for the period between 1900 and 1980 and 21.9 during the past four decades (driven by declining interest rates, liquid capital markets, and technologically driven productivity improvements). While the short term outlook may be foggy, we feel that current equity market conditions are reasonable and bode well for our favored stock picking strategies.

Although overnight rates have just begun to rise, the US Treasury yield curve has already anticipated substantial future increases. As a result, short maturities now offer a high degree of capital protection. For example, the 2-year US Treasury Note yield, currently 2.73%, would have to rise to 5.75% to generate a negative annual return. However, present yields must be viewed in the context of the current 8.5% inflation rate. Even if price increases moderate, investors are still locking in a 'real' loss. Given the uncertainty surrounding normalization of inflation, we continue to favor a defensive posture with regard to fixed income, focusing on short-term maturities or securities with variable rates.

We remain conservative with regard to portfolio construction, favoring a portion of non-market correlated alternative assets as ballast. For long-term investors seeking to capitalize on disruptive technology trends we are focusing on attractive growth and venture opportunities in the fields of edu-tech and cybersecurity. We also believe that the ongoing gyrations in public equity markets will offer attractive entry points for 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.