



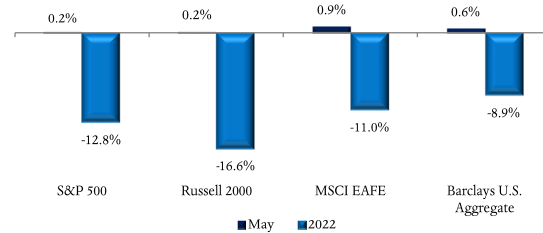
MARKETS

Equity markets exhibited significant volatility during the first three weeks of May, followed by a strong month-end rally. Macro concerns over tightening monetary policy as well as the ongoing war in Ukraine and Covid-19 restrictions in China remained unresolved, but stocks gained some respite from oversold levels.

The S&P 500 index rose +0.2% in May (-12.8% ytd) after flirting with bear market territory (defined as a decline of twenty percent from the peak). The technology heavy Nasdaq, however, continued its descent (-1.9% in May; -22.5% ytd). From a factor perspective, the monthly performance spread between value and growth stocks was 4.4%, in favor of the former, driven by valuation compression amid several high-profile earnings warnings. Real estate was the worst performing asset class as leading indicators suggest the housing market is starting to slow on the back of higher mortgage rates.

Overseas equities followed similar patterns in May, with the MSCI EAFE index rising by +0.9% (-11.0% ytd). European stocks bucked the trend, with the Stoxx 600 index dropping -0.6% (-7.0% ytd). In Asia, stocks fared well, with the Shanghai composite leading the way higher by +4.8% (-12.3% ytd) thanks to economic support measures and improving covid related mobility. Japan's Nikkei 225 index rebounded +1.6% (-4.4% ytd). Foreign equities have generally been bolstered by weaker currencies versus the US Dollar thus far in 2022.

Bonds produced their first positive month of the year in May, driven by lower rates, on the belief that the Federal Reserve may be able to curtail inflation without triggering a recession. During the month, the 10-year US Treasury yield decreased by 9 basis points (to 2.85%) elevating the Bloomberg Barclays US Aggregate index +0.6% (-8.9% ytd) and high yield bonds +0.3% (-7.7% ytd).



Commodities continued to perform well in May, led by energy and agriculture. WTI crude oil added +9.5% to \$114.67/bbl (+47.4% ytd), but remained shy of the post Russo-Ukrainian war induced peak of early March. Similarly, global wheat prices rose +3.1% (+39.2% ytd). Meanwhile, industrial metals, sensitive to China's volatile economy, continued to correct. Overall, the S&P GSCI benchmark rose +5.1% (+47.0% ytd).

GEOPOLITICS

The Russian invasion of Ukraine continued with no sign of resolution. While there have been calls for a diplomatic solution, the current redlines laid out by both sides seem incompatible. Economic sanctions mounted, including Europe's decision to embargo Russian sea-borne oil, a further step towards phasing out dependence on its neighbor's resources. The US State Department also announced a new round of sanctions targeting Russian government officials and elites. NATO-backed Ukraine appears to be facing a long war of attrition with Russia. The aggressor continues to mount its offensive in the Donbas region and has reportedly captured one-fifth of the country, but at a great cost. Taking Sievierodonetsk and Lysychansk would give Russia full control of the Luhansk province. Looking ahead, there is the potential for the war to stabilize, or for hostilities to spread to the southwest. In the aftermath of the invasion, Finland and Sweden have requested to join NATO, with negotiations currently underway to avoid a Turkish veto.

UNITED STATES

Having belatedly signaled its urgency to tamp down inflation, the Federal Reserve (Fed) increased rates by 50bps in May. Chairman Powell adopted a more hawkish tone stating the Fed won't hesitate to raise rates beyond "neutral" and that it is willing to accept an increase in the unemployment rate from its historically low 3.6% level, to achieve the bank's 2% inflation target. This rhetoric is meant to bring free-market forces to bear such that it does the Fed's work for it. As if on cue, headline inflation decelerated to 8.3% in April and estimates call for continuing deceleration. Core inflation, excluding volatile food and energy prices, is expected to have risen by 5.9% last month, after April's 6.2%. Financial markets are pricing in a near certainty of two sequential half point interest rate hikes in June and July. Given the current robust economic conditions, the Fed is likely to follow-through with monetary tightening until inflation is significantly dampened, with the possibility of the Fed Funds rate reaching 3% in early 2023. It is also important to note that the Fed's Quantitative Tightening program (sale of bonds from its balance sheet), is set to begin this month. Come September, the central bank will be cutting \$95 billion a month from its \$9 trillion holdings. The economic risk being that an overly forceful monetary response could trigger a recession.

The US economy is indeed naturally losing momentum, with consumers having to contend with a much higher cost of essentials including housing, food and energy. According to market research firm NPD, over 80% of Americans expect to curtail their future spending. This trend is further illustrated by the University of Michigan Consumer Sentiment survey for May which fell to an 11-year low, with extremely low readings for durable goods and home buying conditions. Also, personal savings rates slid for the fourth consecutive month, to the lowest level since 2008.

EUROPE

Labor markets continued to tighten in the eurozone,

May 2022 Economic Statistics

	May-22	Dec-20	Dec-19
Federal Funds Target Rate	0.75 - 1.00%	0 - 0.25%	1.50-1.75%
Consumer Confidence Index	106.4	88.6	126.5
Manufacturing PMI Index	56.1%	60.7%	47.2%
Unemployment Rate	3.6%	6.7%	3.5%
JPY / USD	128.68	103.24	108.61
USD / EUR	1.0733	1.2213	1.1210
Gold / oz.	\$1,837.09	\$1,896.49	\$1,517.01
Oil (WTI)/bbl	\$114.67	\$48.52	\$61.06

with unemployment resting at 6.8%, the lowest on record. This has supported an acceleration in wage growth, to circa 2%, but inflation has pressured spending power. Regional prices rose by 8.1% in May, a new all-time high, after a 7.4% increase in April. Perhaps more relevant for the intermediate term, core inflation rose to 3.8% from April's 3.5%, on account of disruptions in food and energy supplies, moving further away from the European Central Bank's (ECB) target of 2%. European consumer confidence, while still low, improved in May and business surveys were resilient. This should give the ECB more confidence in raising interest rates to combat inflation. Indeed, central bank President Lagarde indicated an initial rate increase was likely in July (leading to positive rates), followed by two more hikes by year-end. These tightening actions will be accompanied by a cessation of asset purchases.

In the UK, business surveys softened markedly with services particularly weak. This was coupled with the lowest consumer confidence reading on record and an expected contraction in GDP. Nevertheless, the Bank of England raised the base rate to 1.00% in May, and with headline inflation at 9.0%, is likely to act again in June. The BOE must walk a tightrope, mindful of the risks to the economic outlook and an impending recession. On the positive side, the Chancellor's package of measures to help with rising energy bills will provide significant support to lower income households.

ASIA

China continued to grapple with Covid-19's Omicron

variant. Shanghai spent most of May in lockdown, while outbreaks in Beijing and Tianjin forced tighter restrictions. Subsequently there has been a selective increase in mobility, within the context of the country's zero covid policy. From an economic perspective, Chinese credit growth has slowed as banks have become more conservative. In response, the People's Bank of China put pressure on financial institutions to increase loan issuance, and cut a key mortgage reference rate by 15bps to support house prices. The fragility of the supply chain has been a headwind for Chinese exports, most recently rising 3.9% year-over-year. Volatility is likely to persist for some time, severely hampering global manufacturing activity and transportation infrastructure.

OUTLOOK

Financial markets are in the midst of a regime shift, stemming from a chain of events that commenced with the Covid-19 global pandemic, the ensuing monetary and fiscal stimulus to combat the economic downturn, subsequently unleashing pent-up consumer demand, bottlenecks in the supply chain, commodities constraints (exacerbated by the Russo-Ukrainian war), labor shortages, and the current monetary tightening cycle to combat the supply/demand imbalances.

Central banks are in an ongoing war against inflation, playing catch-up due to their initial assessment that rising prices would be transitory. The risk to curtailing liquidity is that global growth will suffer, and that inflation may nevertheless persist. Energy prices are high and may remain elevated due to several years of underinvestment that has created a supply constraint at a time of peak demand. The war in Russia has worsened the situation and is expected to result in a 2.5 million barrel per day shortfall of marketable crude. However, it is perhaps food prices that are the greatest threat to price stability and economic growth. According to the UN's FAO index, food prices have already climbed approximately 20% so far this year; Ukraine, Russia and Belarus have historically been important sources of grains and fertilizer for the global economy. A war of attrition and the long production cycle in

agriculture, combined with higher input costs, could keep related commodity prices elevated for some time. A third concern for the inflation outlook comes from increased demand for services. Fading concerns about Covid-19 have seen demand start to shift from manufactured goods to labor intensive services, at a time when labor availability is tight and wages are rising.

As investors are faced with macroeconomic and geopolitical uncertainty, amidst rapidly changing financial conditions, strategies that have worked in the past, may be less rewarding going forward. Continuing our discussion over the past year, the structural relationship between stocks and bonds has demanded a non-traditional approach to optimal portfolio construction. Until recently, equities traded at record high valuations (indicating lower potential future returns), while fixed income featured ultra-low yields (offering reduced risk mitigation). With most publicly traded equities having declined significantly from recent highs (Russell 2000 -21.6% since early November), while earnings have continued to advance, valuations have compressed. Ongoing risks include labor markets remaining firm, with negative real wage growth squeezing spending. Corporate profit margins have also started to come under pressure, particularly in consumer facing companies, with the potential for earnings shortfalls in the coming quarters. Thus pricing power is likely to be a key driver of relative stock performance moving forward. Nevertheless, equities offer the best opportunity to outpace inflation for long-term oriented investors.

We remain conservative with regard to portfolio construction, favoring a portion of non-market correlated alternative assets as ballast. Consumer products oriented investments have also begun to offer compelling risk/reward characteristics. 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.