PAPAMARKOU
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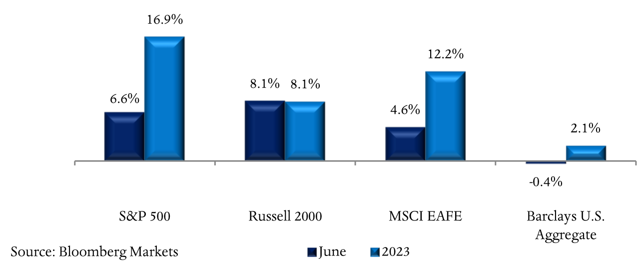
Markets

Global equity markets experienced their strongest first half in forty years, driven by steady employment along with optimism that inflation is set to continue trending lower. The tech-heavy Nasdaq-100 index gained a historic 39.4% during the period, its best such performance since inception in 1985, amid positive sentiment surrounding artificial intelligence. Large capitalization technology stocks have been responsible for the majority of broad index gains, with the rest of the market delivering much more muted returns.

The S&P 500, as a proxy for US stocks, delivered +8.7% in the second quarter (+16.9% year-to-date). Growth equities bounced back strongly from 2022's rout, returning +12.8% in Q2 and +29.0% ytd. The smaller capitalization stocks in the Russell 2000 index rallied to end the second quarter +5.2% higher (+8.1% ytd). However, the value sub-index lagged, up only +2.5% year-to-date. Overseas, the best performing major equity market (in local currency) was Japan, with returns of +18.5% for the quarter and +28.7% in H1. European stocks added +2.7% in Q2 (+11.5% ytd) leading the MSCI EAFE index higher (+3.2% in Q2; +12.2% ytd). Emerging market stocks (+5.0% ytd) were held back by fading optimism over China after its initial reopening-driven rally. Shanghai's equity composite declined -1.1% in Q2 (+4.8% ytd).

Bond markets produced positive returns, but rebounded only slightly in the wake of last year's rise in interest rates and significant credit spread widening. The 10-year US Treasury Note ended the first half with a yield of 3.84%, up from 3.47% at the start of the quarter. The yield on the 2-year Treasury note rose to 4.89%, with the Fed Funds futures markets pricing between one and two additional rate hikes. The difference in yield between 10-year and 2-year Treasuries inverted by -100



basis points, typically a signal of recession and impending interest rate cuts. With this backdrop, the Barclays US Aggregate index declined by -0.8% in Q2 (+2.1% ytd). The high yield index (+1.6% in Q2; +5.4% ytd) also recovered thanks to receding macro risks and higher prospective returns.

Commodities, last year's top asset class, gave up some of those gains this year, down -3.0% for the second quarter and -7.5% for the first half. Industrial metals and energy were the worst-performing sectors last quarter, while livestock prices rose.

Geopolitics

In Russia, a convoy of militarized mercenaries, led by Yevgeny Prigozhin's Wagner Group, advanced on Moscow to protest the planned elimination of the private military company, call attention to the failures of Russian military leadership in Ukraine, as well as to gain military status. In a show of force, the mercenaries traveled, virtually unopposed, to within 120 miles of the capital before abruptly turning around, diffusing the situation and avoiding significant bloodshed. The theatrical rebellion clearly threw the Russian leadership off balance and made Russian President Vladimir Putin look weak.

In the global chip war, China's advancement in semiconductor manufacturing will soon face an additional hurdle following US chip controls, imposed in October 2022. Japan (accounting for 30% of China's semiconductor equipment imports) and the Netherlands announced tough curbs on chipmaking machine exports. In retaliation, China imposed export controls on two strategic raw materials, gallium and germanium, that are critical to the global chipmaking industry. The country accounts for an estimated 98% and 68% of the global production of each mineral, respectively.

The US Supreme Court ruled that colleges and universities can no longer take race into consideration as a specific factor in admissions, a landmark decision that overturns long-standing precedent historically benefiting Black and Latino students in higher education. However, the ruling still allows colleges and universities to consider an applicant's discussion of how race has affected their life as long as it is "concretely tied" to a "quality of character or unique ability" that the applicant possesses.

United States

First quarter US GDP was revised notably higher to 2.0% from 1.3%, reflecting improvements in exports and consumer spending. Consumer confidence increased to its highest level since the start of 2022, which could be attributed to the resilient labor market and softening inflation. The June unemployment rate ticked down to 3.6%, near generational lows, with average hourly earnings growing 4.4% matching gains in the preceding two months. However, the latest monthly job additions of 209,000 showed a marked deceleration from the first half's average of 278,000 and last year's 400,000. Inflation is also showing signs of softening, with the core CPI, which excludes volatile items such as food and energy, rising 4.2%, nearly a two-year low, down from 4.7% prior. However, the Fed's preferred inflation measure, core Personal Consumption Expenditures (PCE), remains elevated at 4.6%.

Existing home sales remain well below the prior cycle's highs as many homeowners are reluctant to move out of their low mortgage rate homes. However, new home sales, building permits, housing starts, and NAHB homebuilder sentiment have been trending

June 2023 Economic Statistics

	Jun-23	Dec-21	Dec-20
Federal Funds Target Rate	***5.00 - 5.25%***	0 - 0.25%	0 - 0.25%
Consumer Confidence Index	***109.7***	115.8	88.6
Manufacturing PMI Index	***46.0%***	58.7%	*60.7%*
Unemployment Rate	***3.6%***	3.9%	*6.7%*
JPY/USD	***144.32***	115.08	*103.24*
USD/EUR	***1.0910***	1.1368	*1.2213*
Gold/oz.	***$1,919.57***	$1,828.39	*$1,896.49*
Oil (WTI)/bbl	***$70.64***	$75.21	*$48.52*

Sources: see disclosure *

higher due in part to favorable demographics and the post-covid migration trend away from bigger metropolitan cities.

The Federal Reserve raised rates in May but paused in June. Policymakers are forecasting two additional rate hikes this year, a near certainty at the upcoming July meeting, with 40% odds for an additional quarter-point hike to follow.

Europe

Eurozone economic data is indicative of an ongoing mild recession, with forecasts pointing to a loss of momentum. The region's composite purchasing managers' index (PMI) fell to a contractionary 49.9% in June from 52.8% in May. That represents a five-month low and suggests a stalling regional economy due to a deepening downturn in factory output and a softer expansion in services activity.

The European Central Bank raised interest rates twice in the second quarter, taking the main refinancing rate (which provides the bulk of liquidity to the banking system) to 4.0%. Headline inflation declined during the period, estimated at 5.5% in June, down from 6.1% in May. However, the core rate crept up to 5.4% in June from 5.3% prior.

Wage growth in the UK came in hot, rising by 7.2% year-over-year. As a result, core services inflation accelerated to 7.1%, the highest since March 1992, taking many by surprise. Further, food price inflation has been hovering just under 20% with the most recent reading receding to 18.3%. This led the Bank of England to raise interest rates (including 50 basis points in June) to 5.0%, with more telegraphed to come in its quest to tame inflation, albeit with the potential to trigger a recession.

Asia

China's economic growth was expected to blast out of the gates after its pandemic related reopening, but that hasn't happened. The local economy grew by 4.5% in the first quarter, however, subsequent data has pointed to a slow-down. University graduates are being hit especially hard by China's post-Covid economic uncertainty, with youth unemployment rising to 20.8%. Such sentiment is also manifesting itself in muted fixed asset investment, which rose 4.0% for the first five months of the year. Factory output has also begun to slow as supply chains ease and inventories normalize. With increased mobility, consumption has shifted from goods to services.

The Bank of Japan (BoJ) held the first policy meeting under new governor Kazuo Ueda in April and the second in June. There was no change to the country's monetary policy of yield curve control, which targets short-term interest rates at -0.1% and the 10-year government bond yield at 0.5% above or below zero, in an effort to sustainably achieve 2% inflation. Meanwhile, the BoJ maintained its cautious stance on the continuity of inflation and wage growth, currently at 3.2% and 2.5% respectively, suggesting solid progress.

Outlook

Economic data is exhibiting both positive and negative signals. Labor markets remain tight, while home sales and goods orders continue to be firm. Conversely, manufacturing has weakened, and lending standards have tightened sharply, compounded by much higher interest rates. In the US, a 'soft landing' scenario is now considered to be consensus. However, core inflation is still too high and sticky at 5.3% (having peaked at 6.6% in September 2022). As such, the Federal Reserve has indicated it will continue to tighten monetary policy until data exhibits slower growth and lower inflation. Should the FOMC follow-through on what it says, it introduces the potential of a crunch in bank lending, capital market liquidity, as well as consumer and capex spending, none of which is priced into financial markets.

Corporate earnings are expected to decline for the third consecutive quarter, including -7.2% for the S&P 500's constituents. This would mark the largest pull-back since the second quarter of 2020. The index's forward price/earnings ratio is 18.9 vs. the 5 and 10-year averages of 18.6 and 17.4, respectively. Against this backdrop, we believe that investors should err on the side of conservancy in equity portfolios by focusing on high-quality dividend producing stocks with international exposure.

The 2-year and 10-year US Treasury yields recently closed at 4.94% and 3.85%, sending the difference between the latter and the former's yields to the most negative (inverted) level since 1981. On other occasions that this ratio has inverted more than 100 basis points the Fed started cutting rates soon after. However, it initially tightened further, deepening that inversion, and then, either responding to the market or economic data, quickly reversed course leading to a flattening, or steepening, of the yield curve. In this context, and with inflation in the mid 4% range, we deem the current negative real rates of long dated bonds to be unappealing. Thus, we continue to favor short duration bonds for investors seeking income.

Our research indicates that adding exposure to alternative asset classes, at the current junction, should provide ballast to traditional portfolios through diversification and non-market correlation. We have identified opportunities for investors to capitalize should a credit dislocation occur. Energy and agricultural related commodities stand to benefit from cyclical tailwinds stemming from underinvestment and the potential for scarcity and supply shortages. Over the longer-term, we are seeking to benefit from disruptive trends in the defense, edu-tech and cyber-security sectors. We would also point to the compelling characteristics of the growth companies in our Nordic Technology and Innovation Fund.

*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.