

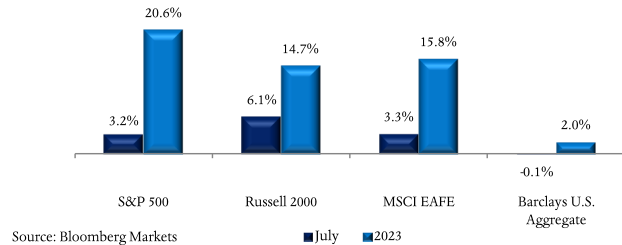


MARKETS

Investor sentiment remained positive in July, buoyed by a drop in inflation and resilient economic data. This raised hopes for a soft economic landing and supported a broad rally across most asset classes and regions. US stock indexes produced strong results, including participation from small-capitalization and value oriented constituents. The bellwether S&P 500 index added +3.2% during the month (+20.6% ytd). Technology shares continued this year's recovery, with the Nasdaq composite rising +4.1% (+37.7% ytd). Smaller stocks leaped higher as seen by the Russell 2000 index's +6.1% rally (+14.7% ytd). Notably, value oriented stocks outperformed their growth oriented counterparts for the first time in 2023. Overseas stocks also produced robust returns, with the MSCI EAFE index rising +3.3% (+18.8% ytd). European equities added a lesser +2.2% (+13.9% ytd). In Asia, the Shanghai composite played catchup (+4.1% in July; +9.1% ytd), while Japanese shares took a breather (-0.04% for the period; +28.6% ytd). The top performing international group last month were emerging market shares (+6.3% in July; +11.7% ytd).

Fixed income showed mixed results in July, with the Barclays US Aggregate bond index pulling-back -0.1% (+2.0% ytd). US Government bond yields climbed, with the 10-year Treasury Note ending the month offering 3.96%, up 12 basis points, reacting to stronger than expected economic growth. To the upside, equity-sensitive US high yield bonds rallied +1.4% (+6.9% ytd) as spreads narrowed on the back of better than expected corporate earnings, ending the month with an effective yield of 8.05%.

Commodity prices recovered some of their year-to-date losses, with the broad Bloomberg Commodity Index rising +6.3% in July (-2.0% ytd). The price of WTI crude oil rocketed +15.8% in July (+1.9% ytd) as global de-



mand rose to a record 102.8 million barrels-per-day in July, and belief that OPEC+ will maintain disciplined output. Agricultural commodities saw rising prices after Russia's cancellation of the Black Sea grain export deal.

GEOPOLITICS

For the Russo-Ukrainian war, the implications of June's aborted Wagner insurrection became more apparent. It introduced an element of doubt over Putin's stronghold on power even though, in the end, he was able to maintain control after eradicating the only realistic military resistance against the Kremlin. Now Putin will have to backpedal and invest in shoring up domestic security. The infighting and the Wagner leader Prigozhin's open challenge of Putin's war rationale will also erode the morale of Russian military forces. From Ukraine's perspective, this should help their ongoing counter-offensive. It has also allowed them the opportunity to exploit the opening by hitting targets in the heart of Moscow. Perceived Russian weakness and the associated uncertainties should also lead to a distancing of Chinese and other overseas support for Russia to the extent that Putin is seen as a potential liability.

UNITED STATES

The initial reading of second-quarter GDP came in at a resilient 2.4% (quarter-over-quarter annualized). In a continuation of trends, economic activity in the services sector expanded (to 52.7%) in July for the seventh consecutive month, while the manufacturing sector con-

tracted (to 46.4%) for the ninth month in a row. Feedback from constituents indicates that the overall economy is healthy, the supply chain is stable, and inventories are declining. On the other hand, high operational expenses continue to put pressure on businesses and limit hiring. Manufacturers also indicated further reduced output as order softness continues.

The June CPI print was the most anticipated data point of the month. Headline inflation fell more than expected to 3% year-over-year (from 4% previously and 9% a year ago). The more nuanced core inflation (which excludes volatile food and energy prices) remained stickier at 4.8%. Fed Chair Powell's favorite measure, core services excluding housing, slowed to just below 4%. Clearly, inflation is trending lower but there are some sticky components, energy and select staples are rising again, and year-over-year comparisons are set to be less flattering as the year evolves.

On the labor front, there were 185,000 jobs added in July, a deceleration from the average monthly rate thus far in 2023. Conversely, payroll data showed a steady 4.4% annualized rise in average hourly earnings and the unemployment rate improved to 3.5%, suggesting tightness remains in the labor market.

Taking all these data points into account, the Federal Reserve raised the overnight rate by 25 basis points to a range of 5.25%-5.50%. Its ensuing statement was seen as shifting towards a softer stance, even though it retained the phrase "additional policy firming may be appropriate." Fed Chair Jay Powell emphasized that he and his fellow bankers will be focusing on the evolution of the various inflation and labor data points going forward. At present markets expect the latest increase to be the peak for the current interest rate cycle. Irrespective, buoyant economic activity suggests the Fed may have to hold interest rates at elevated levels for an extended period of time in order for inflation to descent to the targeted 2% rate.

July 2023 Economic Statistics

	Jul-23	Dec-22	Dec-21
Federal Funds Target Rate	5.25 - 5.50%	4.25 - 4.50%	0 - 0.25%
Consumer Confidence Index	117.0	108.3	115.8
Manufacturing PMI Index	46.4%	48.4%	58.7%
Unemployment Rate	3.5%	3.5%	3.9%
JPY/USD	142.28	131.11	115.08
USD/EUR	1.0993	1.0702	1.1368
Gold/oz.	\$1,964.19	\$1,824.40	\$1,828.39
Oil (WTI)/bbl	\$81.80	\$80.26	\$75.21

Sources: see disclosure *

EUROPE

The eurozone's economy returned to growth after two quarters of stagnation, as inflation in the 20-member currency area continued to fall from last year's peak. Activity expanded by 0.3% in the second quarter, while the inflation rate declined from 5.5% to 5.3%. In other economic data, the eurozone composite purchasing managers' index (PMI) fell to 48.6% in July, pointing to the largest contraction in private sector activity since November. The manufacturing PMI dropped still further to a post-Covid low of 42.7%, featuring the sharpest reduction in new orders since 2009, when excluding the first months of the pandemic. The services PMI came in lower at 50.9% in July from 52% in June, pointing to a rapid deterioration and near stalling of activity levels.

Notwithstanding the bite from prior tightenings, the European Central Bank also raised rates in July, by 25bps, to 3.75%. In the aftermath, central bank president Christine Lagarde gave a dovish nod to the possibility of a pause in September, although she emphasized that holding rates flat would not necessarily mean the peak of the tightening cycle had been reached.

In the UK, wage data remained elevated, with average earnings growing 7.3% year-over-year in June. Inflation did however soften more than expected, with June's headline CPI rising 7.9% year on year (down from 8.7% in May). The Bank of England raised rates by 0.25%, to 5.25%, at its August meeting with expectations now calling for an eventual peaking at 5.75%.

ASIA

Chinese GDP increased 6.3% year-over-year in Q2, a significant improvement from the 4.5% growth in the first quarter, aided by the low base effect since last year's post-pandemic economic reopening. The momentum was however heavily state-led and monthly growth rates indicate the recovery slowed significantly in May and June. Consumption, in particular, tapered off to 3.1% year-over-year at quarter's end since peaking at 18.4% in April. Given the realization that China's economic recovery came to a halt amid the fading effect of reopening, July's Politburo meeting was keenly focused on how to achieve its full year 5% economic growth target. China's leaders vowed to spur consumer spending, tackle unemployment, and increase support for the ailing property sector

Japanese inflation remained strong, with the BoJ's preferred measure (CPI excluding fresh food and energy) rising at an annualized pace of 4.2% in June. As a result, at its July meeting the Bank of Japan loosened its yield curve control framework. The prior 0.5% yield ceiling was transitioned from a rigid limit into a reference point. The central bank will now buy 10-year Japanese government bonds at yields of up to 1.0%.

OUTLOOK

Investors remain increasingly optimistic that inflation will fall to targeted levels without significantly tighter monetary policy, or a meaningful decline in economic activity, eventually allowing the Federal Reserve to cut overnight rates to 4% by the end of 2024. The question is whether this "soft landing" scenario, which has become consensus, is likely, or too good to be true. While keeping an open mind, we must consider that the Fed is engaged in the steepest interest rate hiking cycle in decades (from 0% to 5.25-5.50% in 16 months), while selling \$90 billion per month of bonds from its balance sheet (aka quantitative tightening). This has already pitched commercial real estate, existing home sales, business IT spending and retail sales (adjusted for inflation) into downturns. In turn, federal and state tax receipts have declined. However, core

inflation has been sticky, and the headline CPI may have a resurgence given that energy and food prices are on the rise again. All this at a time when the S&P 500's price-to-earnings multiple of circa 19x is above the long-term average, during a period when corporate profits are declining (-6% year-over-year estimated for Q2). Perhaps the market is calling the Fed's bluff, knowing that interest rates are unaffordably high. US government debt has rapidly increased by \$1.3 trillion (to \$32.7 trillion) since the national debt ceiling was lifted in June. Interest expense has skyrocketed to \$852 billion over the trailing twelve months, paying an average interest rate of 2.76%. Given the current higher level of interest rates and the fact that half of this debt will mature over the next three years the Washington Economic Establishment is highly incentivized to lower interest rates, assuming the data and the market permit. We expect clarity to this predicament by the end of the year. In the meantime we suggest a conservative stance towards asset allocation.

With regard to our Nordic Technology and Innovation Fund, investor sentiment has started to improve for the portfolio's growth-oriented stocks focused on technology, health and digital brands. Meanwhile, portfolio companies have predominantly continued to grow earnings rapidly, while stock prices are well below their previous highs, compressing valuations. In the case of these smaller stocks, located overseas, performance typically lags that of US mega caps that have rebounded much more meaningfully, perhaps offering an opportune entry point.

Exposure to alternative asset classes, especially during the current uncertain period, should provide ballast to traditional portfolios through diversification and non-market correlation. Select credit opportunities currently offer investors equity-like returns, while residing higher in the capital structure. Energy and agricultural related commodities stand to benefit from cyclical tailwinds stemming from underinvestment and the potential for scarcity and supply shortages, amid geopolitical instability. Finally, we are seeking to benefit from disruptive trends in the defense, edu-tech and cybersecurity sectors.

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*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.