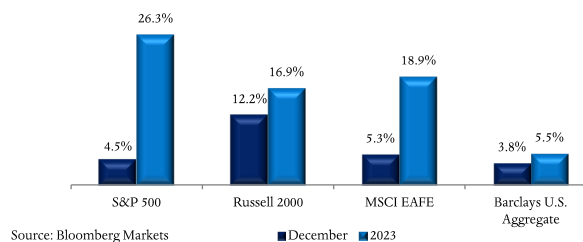




2023 YEAR IN REVIEW

After a risk-off third quarter, the last three months of 2023 saw a roaring rally in financial markets. Lower bond yields led equities to their best quarterly performance in three years, as the Federal Reserve turned dovish amid a series of softer inflation prints. This led investors to forecast cuts to short term interest rates sooner than previously expected, by up to 1.5% during 2024. The S&P 500 index leaped +11.7% in Q4 and +26.3% in 2023, recovering its prior year losses of -18.1%, and leaving it near-flat for the trailing two-year period. However, the vast majority of those gains were driven by technology and artificial intelligence stocks which came to be known as the “Magnificent Seven” Apple (+48%), Microsoft (+57%), Alphabet (+58%), Amazon (+81%), Nvidia (+239%), Meta (+194%) and Tesla (+102%). These stocks also drove the Nasdaq-100 index to its best annual performance (+55.1%) since 1999, and a new all-time high. The Dow Jones Industrial Average of blue chips followed-suit with its own record high, thanks to an annual +16.2% return. Defensive sectors, including Utilities (-7.1%), Staples (+0.5%), and Healthcare (+2.1%), underperformed. The smaller capitalization Russell 2000 index rebounded by a ferocious +24.3% last quarter (+16.9% in 2023), yet remains -17.1% below its November 2021 high. From a factor perspective, large-cap growth stocks outperformed their value counterparts by the second widest margin since 1978. Overseas stocks followed a similar trajectory, with the MSCI EAFE index delivering +10.5% in Q4 and +18.9% in 2023. European equities also delivered solid returns of +6.8% in Q4 and +16.6% for the full year. Emerging market equities delivered a more modest +7.9% in 2023, weighed down by China’s -1.0% performance. Japanese equities, benefiting from a depreciating yen amid loose monetary policy, rallied +31.0% during the year.



Fixed income markets also recovered strongly in the fourth quarter driven by dovish central bank commentary and decelerating inflation. The 10-year US Treasury note ended the year with a yield of 3.88%, well below the 5.02% peak reached early in the fourth quarter. As a result, the Barclays US Aggregate bond index averted a third negative year by recovering +6.8% last quarter, ending the year with a +5.5% return. Reduced funding risks also led to tightening credit spreads which drove the US High Yield index upwards by +7.0% in Q4 (+13.4% in 2023).

Commodities were the outlying asset class, declining -4.6% in Q4 to close out a lackluster year (-7.9%), after significantly outperforming with gains of +16.1% in 2022. Supply exceeded demand as supply chains normalized, exacerbated by inflationary headwinds on manufacturing. Energy commodities led the downside with WTI crude oil declining -10.7%, despite output cuts from OPEC+, while gold advanced +13.1%. Digital assets performed strongly during Q4, with Bitcoin and Ethereum returning +57% and +37%, bringing 2023 returns to +155% and +91%, respectively. The expected approval of a Bitcoin exchange-traded fund by the SEC was a significant driver.

GEOPOLITICS

The horrific Hamas attack of October 7, and Israel’s devastating response, defined 2023. This chain of events, which has led to tens of thousands of deaths thus far, reverberated across the volatile Middle East

and beyond.

Ukraine's counteroffensive, after last year's invasion by Russia, faltered. The war between the two countries, now approaching its second anniversary, has turned into a quagmire. The US and Europe continue to support Ukraine in its quest to retake lost territory and maintain sovereignty. Meanwhile, Russia further cultivated its relationships with China, India and other Asian countries, threatening the western hegemony.

The US shot down a Chinese spy balloon found floating over its territory, stoking tensions between the two countries. Later in the year, Joe Biden and Xi Jinping met in a bid to reboot relations.

Donald Trump became the first former president in US history to be indicted, a process that spiraled into 91 criminal charges against him. Yet despite the prospect of trials overshadowing his White House run, Trump remains the favorite to win the Republican presidential nomination.

UNITED STATES

Despite 20 consecutive monthly declines in the US Leading Economic Index, a much prognosticated recession never came to fruition. Third quarter GDP came in at 4.9% while the fourth quarter's is estimated at 2.5% by the Atlanta Fed. But there were numerous hurdles along the way. A bank crisis in March saw the second largest bank failure in US history, leading to significant stress for regional banks. The 30-year fixed mortgage rate rose above 8% in the aftermath. Meanwhile, the Federal Reserve raised rates four more times, culminating in 525 basis points of increases since the start of their hiking cycle in March 2022. Finally, starting in November, bond markets saw a meaningful reversal of the tightening of financial conditions. That trend accelerated in mid-November with a softer CPI reading, and in mid-December at the Fed's FOMC, Chair Powell said policymakers have now turned their attention to rate cuts as inflation continued to decline towards their 2% goal. Over the past year, the core

December 2023 Economic Statistics

| | Dec-23 | Dec-22 | Dec-21 |
|---------------------------|--------------|--------------|------------|
| Federal Funds Target Rate | 5.25 - 5.50% | 4.25 - 4.50% | 0 - 0.25% |
| Consumer Confidence Index | 110.7 | 108.3 | 115.8 |
| Manufacturing PMI Index | 47.4% | 48.4% | 58.7% |
| Unemployment Rate | 3.7% | 3.5% | 3.9% |
| JPY / USD | 141.06 | 131.11 | 115.08 |
| USD / EUR | 1.1036 | 1.0702 | 1.1368 |
| Gold / oz. | \$2,062.59 | \$1,824.40 | \$1,828.39 |
| Oil (WTI) / bbl | \$71.65 | \$80.26 | \$75.21 |

Sources: see disclosure *

PCE Price Index decelerated from 4.9% in December 2022 to 3.1% in November 2023.

EUROPE

The final quarter of the year was a strong one for eurozone sentiment, boosted by expectations that the ECB's interest rate hiking cycle has reached its end. This view was supported by softer inflation figures which showed annual inflation fell to 2.4% in November from 2.9% in October, and 10.1% a year-ago. In turn, investors have begun to anticipate that interest rate cuts could be on the way in 2024.

Higher interest rates certainly weighed on the eurozone economy, whose GDP fell by 0.1% quarter-over-quarter in Q3, as per Eurostat. The region's purchasing managers' index (PMI) remained in contractionary territory, with output and job losses continuing for the seventh consecutive month. However, the downward trend has reversed over the past two readings. This suggests that the EU's economy is likely to have contracted again in Q4, which would constitute a technical recession.

UK inflation also continued to moderate, with the latest consumer prices index datapoint decelerating to 3.9%. This contributed to hopes that the Bank of England may have finished hiking interest rates, which culminated in negative GDP growth in Q3.

ASIA

China experienced below trend economic growth in 2023, which was met with tepid government stimulus

efforts. The country's real estate crisis continued, and uncertainty over China's regulatory regime weakened sentiment.

In Japan, economic growth was strong, aided by multi-decade high inflation and robust earnings results. Yen weakness certainly played a role, but pricing power held up well. Companies disclosed management plans to address lower valuations, such as a price-to-book ratio below 1x and the unwinding of cross-shareholdings. The Bank of Japan also, finally, took gradual steps to normalize its extraordinary monetary easing policy.

OUTLOOK

Market sentiment was even more mercurial than usual during 2023, bouncing from recession worries at the start of the year, to optimism over growth in the summer, to concerns that interest rates would stay "higher for longer" in the autumn, and ending the year focused on future rate cuts. Decelerating inflation and dovish messaging from the Federal Reserve remain top of mind for investors. But with the market pricing double the number of interest rate cuts that the Fed has indicated, and a soft economic landing now consensus, many areas of the financial markets start 2024 priced for perfection.

Polling by the American Association of Individual Investors (AAII) shows the fewest numbers of bears in six years, indicating a complete lack of fear. Investors expect inflation to decline, while economic growth remains firm, thanks to unemployment holding near generational lows and consumer spending showing strength. In a "Goldilocks" scenario, futures are currently pricing in close to six 25bp rate cuts by the end of 2024 (to 4.0% from 5.25%), versus the Federal Reserve's Summary of Economic Projections (SEP) forecasts for three cuts. However, recent data indicate that such a scenario may not come so easily. The Atlanta Fed's Wage Growth Tracker's latest survey showed 5.2% wage growth, with unions achieving 6.5% average annual pay raises last year. Further, the Conference Board's consumer confidence index report showed one-year inflation expectations still at 5.6%. As such, the Fed's 2% inflation goal may be hard to

achieve and hold, though our analysis indicates that the central bank may telegraph its comfort with a higher 3% intermediate inflation rate. This brings into question the timing and magnitude of interest rate cuts. Moreover, markets must also account for soaring \$2+ trillion US fiscal deficits, record debt levels (\$34 trillion of US federal debt, with 31% maturing within the next year), and the government's inability to address entitlement issues, all amid an election year. Investors will be watching closely to see whether their rosy prognostications come to pass.

Given the S&P 500's forward 12-month PE of 19.3 versus the 5-year and 10-year averages of 18.8 and 17.6, respectively, with associated earnings growth of 2.4% in Q4 and 11.5% in 2024, investors have begun shifting allocations to more neglected areas. Since the first week of November, small caps outperformed large, the equal-weight Nasdaq-100 and S&P 500 indices outperformed their cap-weighted brethren, and rate-sensitive REITs and Financials outperformed the high-flying Technology sector. This broadening of the market, with strong participation amongst an increasing percentage of stocks, should hopefully bode well for equity investors in 2024.

Credit markets have bounced smartly, but still offer interesting opportunities for income oriented investors, with the caveat that there is the potential for volatility should the economy soften and defaults increase. Commodities, especially energy and agriculture related ones, offer the chance to add capital after the recent pullback in prices. The extended and continuing period of underinvestment in hard assets bodes well for future returns, including water infrastructure. For long-term investors, seeking to capitalize on disruptive technology trends, there are opportunities in the emerging food and beverage, defense-technology and edu-tech sectors. We also wish to reiterate the growth prospects of the disruptive companies in our Nordic Technology and Innovation Fund, whose strong underlying growth is trading at a reasonable price.

Wishing you and your families a happy, healthy and prosperous 2024!

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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.