



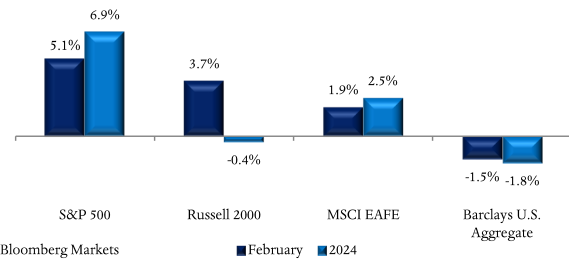
MARKETS

February produced gains for global stock markets, thanks to resilient economic data and relatively strong earnings reports. The bellwether S&P 500 index continued its ascent, rising +5.1% (+6.9% ytd) while the small capitalization Russell 2000 index recovered most of last month's losses, advancing +3.7% (-0.4% ytd), an extreme variance of performance so far in 2024. Overseas, Japanese stocks continued to excel, with the Nikkei 225 index reaching a new all-time high for the first time in 30 years (+7.7% in February; +16.8% ytd). Overall, foreign large cap stocks in the MSCI EAFE index rose +1.9% (+2.5% ytd). Emerging market equities also performed well, recovering +5.5% during the month (+0.6% ytd), thanks primarily to a Chinese stock market rebound (+7.8% in February; +1.0% ytd).

Fixed income markets came under pressure as investors continued to push out potential interest rate cuts. During the month, the yield on the 10-year U.S. Treasury Note increased by 34 bps (from 3.91% to 4.25%) leading the Bloomberg US Aggregate index down -1.5% (-1.8% ytd). Less rate-sensitive high yield bonds outperformed, managing a +0.3% monthly gain (+0.3% ytd).

Commodities lost ground as seen by Bloomberg's broad index which fell -1.5% in February (-2.0% ytd). US natural gas prices fell by a dramatic -11.7%, primarily due to soaring output. Adjusted for inflation, current levels are among the lowest since futures started trading in 1990. To the upside, WTI crude rose +3.2%, driven by OPEC+ supply concerns as well as winter storms in North America. Gold added +1.3% in February, with strong momentum toward the end of the month. Both "black gold" and the "yellow metal" were supported by a deterioration in global risk sentiment.

The crypto market surged, reaching a staggering total capitalization of \$2.3 trillion, with Bitcoin (BTC) leading



Source: Bloomberg Markets

■ February ■ 2024

the rally on its way to a yearly high near \$64,000 before closing the month at \$61,445 (+44.7%). The ten recently launched BTC ETF's saw up to \$7.7 billion in daily trading volume, suggesting that the rally has been driven by broad based institutional and retail buying.

GEOPOLITICS

Former President Donald Trump has become the presumptive Republican presidential nominee after soundly defeating his last major rival, Nikki Haley, in coast to coast primaries. This all but cements a November rematch against President Biden in which issues surrounding the economy, immigration, climate, democracy and foreign policy will be hotly debated.

The humanitarian crisis in Gaza continues. Extreme hunger is adding to the death toll as Israel's severe restrictions on aid have drained essential supplies. Almost 40% of UN aid missions in Gaza have been denied or impeded according to the organization. Hospitals have been besieged by violence, and health professionals say the medical system has been completely crushed, allowing little relief for people in need of care. In related news, Houthi rebels in Yemen continue attacking ships using vital waterways as an act of solidarity with Gaza and protest over Israel's offensive. In response to the threat to global trade, a US-led coalition launched airstrikes against Houthi targets at sea and on land.

UNITED STATES

Investors weighed a variety of mixed economic data

points in February. The economy grew at a robust +3.2% in the fourth quarter, and inflation ran hot, while unemployment remained low. On the other hand, retail sales stumbled, declining -0.8% month-over-month.

On the manufacturing front, the PMI registered 47.8% in February, down 1.3% from the 49.1% recorded in January. A PMI level above 42.5%, over a period of time, generally indicates an expansion of the overall economy; it has been above this level for the past 46 months.

The US economy added a robust 275,000 jobs in February, though downward revisions to the December and January reports reduced those estimates by 167,000 jobs. The jobless rate moved higher to 3.9% even as the labor force participation rate held steady at 62.5%, and the “prime age” rate increased to 83.5%, up 0.2%. There were indications that it is getting harder to find a new job right away. Wage growth, an indicator of inflation, rose 0.1% month-over-month, and 4.3% from a year ago, resuming its downward trend after an uptick over the past few months.

January inflation numbers showed some undesirable resilience, with headline inflation at 3.1% year-over-year. Yet Federal Reserve chair Jay Powell indicated that the US central bank was “not far” from having the confidence it needed to start cutting interest rates from their current 23-year high of between 5.25% and 5.50%. A slim majority of economists, polled by Reuters, are calling for a first reduction in June, with Fed Funds futures and the central bank’s dot plot projecting 75 basis points of easing in 2024.

EUROPE

The European Central Bank (ECB) signaled it may begin to cut interest rates (from their all-time high of 4.0%) in June after it lowered its forecasts for inflation, from 2.7% to 2.3% for 2024, with the anticipation of a further decline to 2.0% in 2025. Yet services inflation has decelerated less from its record annual rate of 5.6%

February 2024 Economic Statistics

	Feb-24	Dec-22	Dec-21
Federal Funds Target Rate	5.25 - 5.50%	4.25 - 4.50%	0 - 0.25%
Consumer Confidence Index	106.7	108.3	115.8
Manufacturing PMI Index	47.8%	48.4%	58.7%
Unemployment Rate	3.9%	3.5%	3.9%
JPY/USD	149.98	131.11	115.08
USD/EUR	1.0803	1.0702	1.1368
Gold/oz.	\$2,043.24	\$1,824.40	\$1,828.39
Oil (WTI)/bbl	\$78.26	\$80.26	\$75.21

Sources: see disclosure *

last July to 3.9% in February. ECB President Christine Lagarde noted a moderation on the wage front and an absorption of higher wage costs by corporate profit margins. The central bank, in-turn, reduced its 2024 economic growth forecast for the fourth quarter in a row, saying it expected eurozone GDP to rise a mere 0.6% cent this year, down from its previous estimate of 0.8%. The eurozone economy stagnated for much of last year and has been slower to recover from the double shock of the pandemic and Russia’s invasion of Ukraine than most advanced economies. Looking ahead, a larger than expected rise in the eurozone composite PMI in February to 48.9%, may suggest that the worst of the continent’s growth weakness is over.

The UK economy continued to face headwinds as shown by a -0.3% (quarter-over-quarter) Q4 GDP print indicating the country is in the midst of a technical recession (defined as two consecutive quarters of contracting economic output). Wages decelerated less than expected with total earnings growing 5.8% year-over-year, suggesting inflation might prove stickier than anticipated and postponing the Bank of England’s ability to cut interest rates amid a stagflation.

ASIA

Chinese equity markets had hit five-year lows coming into the month. However, activity data over the Lunar New Year holiday period strengthened. The Chinese government announced a number of supportive actions, including a cut to the 5-year loan prime rate (a benchmark for mortgages) and increased financing for

selected property projects. From a market perspective curbs on short selling, and stock purchases by state-owned investment firms were enacted. Additionally, there was an acceleration of northbound flow into onshore Chinese markets from Hong Kong via Stock Connect. The upcoming National People's Congress will provide further insights into policy for the coming year.

In Japan, a weaker than expected fourth quarter GDP report (-0.1% quarter on quarter) tipped the country into a technical recession. Meanwhile inflation continued to be sticky, with national CPI rising 2.2% year-over-year. Consumption and manufacturing weakened, but the services side of the economy remains strong. From a capital markets perspective, ongoing corporate governance reforms fueled investor enthusiasm, with growth sectors such as technology, consumer discretionary and health care witnessing positive earnings revisions.

OUTLOOK

Economic resilience in the US (aided by expected ongoing stimulus in anticipation of the November presidential election), combined with signs of an uptick in European activity, leave us constructive on growth prospects for the balance of the year. Inflation continues its deceleration towards central bank targets, albeit more slowly than anticipated. Nevertheless, investors should be prepared for lower short-term interest rates in the second half of the year.

Within equities, a focus on quality companies with strong balance sheets seems prudent given earnings expectations for continued growth. We forecast global corporate earnings growth of approximately 10% in 2024, after two years of little or no growth in most regions. But the recent rally and higher valuations have anticipated much of this, especially for the best companies. We anticipate that the combination of ongoing US economic growth and preemptive rate cuts by the Federal Reserve will provide further support for global equities. However, investors should be careful not to overpay for quality, with valuations of large-cap US growth stocks at the upper end of

their historic norms. In February, both the S&P 500 and Euro Stoxx 600 indexes reached all-time highs. Japan's Nikkei 225 index also (finally!) eclipsed its previous record, set in 1989, fueled by corporate governance reforms. China remains the clear outlier among the major markets, in the grip of a deep and painful bear market, but contrarian indicators are beginning to send a more positive message. For a sustained rally in China we think investors will need more clarity about government policy toward the corporate sector, which may remain elusive. A broadening of overall stock market participation to include the "value" cohort, as well as small-cap, international and emerging market equities would be a logical and welcome evolution to the current narrow leadership state of the markets.

The aforementioned economic resilience, alongside signs that inflationary pressures have not yet entirely dissipated, suggest central banks will likely be on hold for a little while longer, but eventually lower interest rates (75bps of easing is expected by the Fed during the second half of 2024). This likely bodes well for government bonds, while corporate and high yield securities offer compelling income. Fixed income should also offer diversification against an eventual economic slowdown.

Ongoing stress in the real estate sector continues to affect select financial institutions, serving as a reminder that the full effect of higher interest rates on economies is still to come.

Alternative assets such as liquid hedge funds and commodities (currently out of favor) can augment risk-adjusted returns of traditional portfolios, while reducing overall volatility. Natural resources and precious metals stand to benefit from cyclical tailwinds stemming from underinvestment and the potential for scarcity and supply shortages, amid geopolitical instability. Hedged strategies should also profit from more prevalent alpha generating opportunities in a post zero interest rate environment. For longer-term, growth-oriented, investors, we are seeing opportunities to invest in disruptive technologies in the healthcare, 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.