

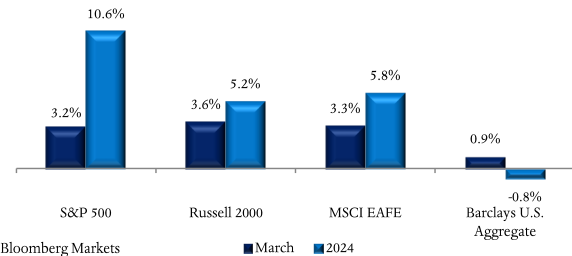


MARKETS

Resilient economic data supported the prospect of a soft landing and led financial markets higher during the first quarter of 2024, with several global benchmarks reaching all-time highs. The S&P 500 index rose +3.2% in March and +10.6% in Q1, registering a historic 5-month gain of +25.3%. A stellar performance from the 'magnificent seven' stocks, which posted earnings growth of 56% during Q4 2023, lifted the index's prior quarter earnings growth to 8%. Small capitalization stocks in the Russell 2000 index started off the year to the downside, subsequently having to play catch-up (+5.2% in Q1). In fact, small and micro-cap stocks remain 15% and 30%, respectively, below their late-2021 highs. Overseas, the MSCI EAFE index ascended steadily during the quarter, at an accelerating rate, returning +3.3% in March (+5.8% in Q1). However, the best performing market was, once again, Japan. The Nikkei 225 index ended the quarter higher by +20.9% to an all-time (34-year) high, despite the Bank of Japan tightening its monetary policy.

Fixed income investors experienced a more challenging first quarter. Stickier inflation prints, resilient economic activity, and renewed uncertainty of the timing of rate cuts by the Federal Reserve led to mixed returns for bonds. Market expectations for US interest rate cuts in 2024 were roughly halved to three quarter-points, possibly starting in June. As a result, the Bloomberg Barclays US Aggregate Index ended the period in negative territory (-0.8% in Q1), recovering +0.9% in March. Meanwhile, the more economically sensitive US high yield index produced a string of positive monthly returns (+1.2% in March; +1.5% in Q1).

The broad Bloomberg Commodity Index increased +2.2% during the first quarter as natural gas weakness was more than offset by a rise in crude oil, on the back



Source: Bloomberg Markets

of ongoing supply cuts and geopolitical tensions. Russia surprisingly pledged to deepen its output cut by a cumulative 471 kbd, bringing the country's crude oil production to 9.0 mbd in June. This led WTI crude oil to end the quarter at \$83.17/bbl (+6.3% in March; +16.1% in Q1). Unnoticed by many market participants, the energy sector was the top-performing one in the S&P 500 index (+13.5% in Q1). Gold also lifted-off to record highs in March, ending the period at \$2,232/oz (+9.3% in March; +8.2% in Q1), amid ongoing global central bank and Eastern buying.

GEOPOLITICS

Geopolitical instability and conflict continues to be the most cited risk to global growth, according to McKinsey's latest survey on economic conditions. With more than 60 countries slated to hold national elections in 2024, transitions of political leadership have jumped from the fifth-most-cited risk to the world economy, to second.

European Union leaders convened in Brussels for a two-day summit. It prominently featured a resolute EU stance on the ongoing conflict in Ukraine, with leaders reiterating their unwavering support for the embattled nation, condemning Russia's aggression. Pledges of comprehensive aid encompassing political, financial, economic, humanitarian, military, and diplomatic support were made, underscoring the urgency of the situation. There was also a commitment for the EU to increase its own defense expenditures and enhance coop-

erative defense investments, with a focus on advancing access to cutting-edge defense technologies and incentivizing collective development and procurement of indispensable military capabilities.

The critical humanitarian situation in the Middle East, particularly in Gaza (as Israel prepares to move militarily on Rafah), was a focus. European leaders called for an immediate ceasefire and condemned both Hamas' terrorist attacks and Israeli illegal settlement expansions across the occupied West Bank. Advocacy for a two-state solution and adherence to international law were also emphasized.

The European summit additionally covered various urgent topics including enlargement, migration, and economic policy. During the summit, the European Council decided to initiate accession negotiations with Bosnia and Herzegovina, while commending Ukraine and Moldova's progress towards EU membership. Regarding migration, leaders reiterated their commitment to a strategic approach, focusing on combating human trafficking and smuggling.

UNITED STATES

The US economy continues to skip along. Q4 GDP expanded 3.4%, well ahead of the initial 2.0% forecast, with consumer spending a primary tailwind. Expectations for Q1 growth stand at 1.5%, up from 0.6% at year-end. The labor market remained robust, adding 303,000 jobs in March (over 800,000 over the past three months), with average hourly earnings up 4.1% from a year ago, the smallest gain since June 2021. While inflation has been robust over the past four years it has been decelerating. The Federal Reserve's preferred inflation gauge, core PCE, cooled to 2.8% in February from 2.9% in January.

Economists began the year expecting roughly seven quarter-point interest rate cuts in 2024. During the quarter, expectations were reduced to three cuts amidst a backdrop of improving economic growth and decelerating inflation. The Fed's justification for low-

March 2024 Economic Statistics

	Mar-24	Dec-22	Dec-21
Federal Funds Target Rate	5.25 - 5.50%	4.25 - 4.50%	0 - 0.25%
Consumer Confidence Index	104.7	108.3	115.8
Manufacturing PMI Index	50.3%	48.4%	58.7%
Unemployment Rate	3.8%	3.5%	3.9%
JPY / USD	151.31	131.11	115.08
USD / EUR	1.0793	1.0702	1.1368
Gold / oz.	\$2,232.38	\$1,824.40	\$1,828.39
Oil (WTI) / bbl	\$83.17	\$80.26	\$75.21

Sources: see disclosure *

ing rates, amid an expanding economic environment and improving employment outlook, appears to be an effort to preserve economic growth heading into the November elections. The market and the Fed are now closely aligned in forecasting three cuts, which may come at the June, September, and December meetings.

EUROPE

The eurozone showed signs of improving business activity during the quarter. The overall purchasing managers' index (PMI) rose to a near-stable 49.9% in March compared to 49.2% in February (a reading above 50 indicates growth while below 50 indicates contraction). Additionally, regional inflation continued to cool as seen by the latest CPI reading of 2.6%, down from 2.8% prior. European Central Bank President Christine Lagarde sought to downplay the chances of a premature interest rate cut, telling the European Parliament that the central bank does not want to run the risk of reaccelerating inflation. Nevertheless, markets believe a first cut in interest rates is imminent, perhaps in June.

UK data confirmed that the economy had entered a technical recession in the second half of 2023, as the tailwind of post-pandemic catch-up spending was met by the headwinds of higher inflation and interest rates. Annual inflation fell has now fallen from a peak of 11.1% in October 2022 to 3.4%, the lowest level since September 2021. However, elevated service inflation and wage growth led the Bank of England to reiterate the need to 'remain restrictive for sufficiently long' to return inflation to target.

ASIA

China's manufacturing activity expanded for the first time in six months, offering some relief to an economy that has been consumed by the downtrodden property sector. The PMI rose to 50.8% in March from 49.1% in February, indicating that business activity transitioned into expansionary territory. New export orders also recovered, breaking an 11-month slump, but employment continued to shrink, albeit at a slower rate. Overall, domestic supply and demand appears better balanced, while homeowner and business confidence is recovering, boosting willingness to consume and invest. As a result, last month, Premier Li Qiang announced an ambitious 2024 economic growth target of 5% at the annual meeting of the National People's Congress. Additional stimulus will likely be necessary to achieve parliament's goals.

The Bank of Japan ended its negative interest rate policy (the short-term rate is now set at 0.0-0.1%), yield curve control, and purchases of equity exchange traded funds and real estate investment trusts. These monetary policy decisions were supported by the significant progress made in the spring wage negotiations known as Shunto. The initial figures released by the unions exceeded 5%, surpassing the previous year's levels and reaching a 34-year high.

OUTLOOK

Our research indicates that the combination of continuing growth for the US economy coupled with decelerating inflation should allow for pre-emptive interest rate cuts by the Federal Reserve. This backdrop should bode well for both equity and fixed income investments leading into the US elections in November.

Stock market gains have been concentrated in the large-cap growth space, especially in the top tier. However, breadth has been steadily improving since the summer of 2023, which could further support the bull market. The aforementioned crowding has created diversification opportunities in value oriented and overseas equities, many of which offer attractive dividend and share buyback yields. Early adopters of AI and lower-beta consistent

earnings growers in the health care and financial services also appear attractive.

Looking ahead, analysts are expecting S&P 500 companies to report a fourth consecutive quarter of earnings growth, following declines in the prior three quarters. They are also forecasting an acceleration in growth of earnings per share, from 1.8% in calendar 2023, to 3.4% in Q1, 9.0% in Q2, 8.2% in Q3, and 17.2% in Q4, according to FactSet. For the full year 2024, this would translate into growth north of 11.0%, to be followed up by a further 13.0% in 2025. This momentum should be sufficient to support the index's 21 p/e ratio.

We believe that government bonds have the potential to deliver steady returns for the remainder of the year while helping cushion a balanced portfolio's performance in the case of the unexpected. The prospects of future rate cuts by the Federal Reserve may also bring rates down, though we still suggest limiting bond duration. Credit markets should outperform, riding on the coat tails of a strong economy and ample financial market liquidity.

Markets are, as always, threatened by a multitude of economic, environmental, political and geopolitical risks which could lead to volatility ahead. In this context, maintaining a well-diversified portfolio is more important than ever. The good news is that investors now have ample choice to diversify and increase the resilience of their portfolios.

Non-market correlated assets and commodities (such as gold which is in a stealth bull market) can augment risk-adjusted returns of traditional portfolios, while reducing overall volatility. Natural resources are currently out of favor and offer interesting opportunities stemming from underinvestment and the potential for scarcity and supply shortages, amid geopolitical instability. Hedged strategies should also profit from increased dispersion amid higher interest rates. For longer-term, growth-oriented, investors, we are seeing opportunities to invest in disruptive technologies in emerging software (both in the US and the Nordics), healthcare, edu-tech and cybersecurity.

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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.