



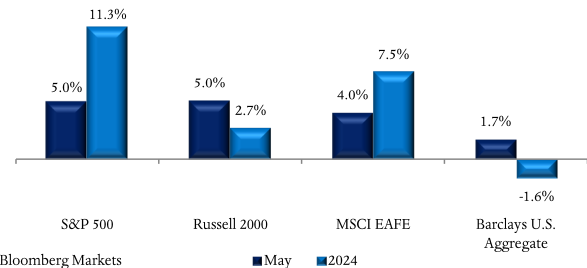
MARKETS

May presided over strong returns from both equities and fixed income. Ongoing investor optimism about the economic outlook led major US indexes to notch all-time highs in what was a broad based rally. The S&P 500 index advanced +5.0% during the month (+11.3% ytd), while small cap stocks regained some momentum, generating returns of +5.0% (+2.7% ytd). Technology and Utilities were the best sector performers, adding circa +10 and +9%, respectively, both driven by artificial intelligence (AI) themes and strong earnings, while energy (-0.4%) and industrials (+1.6%) were laggards.

Overseas equities also performed well, as seen by the MSCI EAFE index which increased +4.0% in May (+7.5% ytd). European markets remained vibrant, with the Stoxx 600 index rising +3.5% (+10.8% ytd). Meanwhile, Asian markets were more subdued with the Shanghai composite declining -0.4% during the month (+3.9% ytd), while Japan's Nikkei 225 index advanced +0.2% (+15.9% ytd).

Global fixed income markets were mostly firmer in May with several central banks having begun their easing cycles. The yield on the benchmark US 10-year Treasury Note declined to 4.50% while shorter dated 2-year's yielded 4.87%. Typically a precursor to an economic slowdown, the 10yr/2yr maturity curve has remained inverted for nearly two years, a historical anomaly. The Barclays US Aggregate index advanced +1.7% during the month (-1.6% ytd), while the US high yield index added +1.1% (+1.7% ytd).

After peaking in April, crude oil prices retreated -6.0% in May (+7.5% ytd). However, broader commodity indices still delivered positive returns of +1.8%, with global demand remaining solid amid ongoing conflicts in both the Middle East and Ukraine. Gold spiked to another record high before correcting to end the month at



Source: Bloomberg Markets

\$2,327/oz (+12.8% ytd); silver also soared (+27.8% ytd).

GEOPOLITICS

Surprise electoral results in some of the largest developing countries are illustrating the extent of investor and market sensitivity, as well as the poor predictive nature of polling. During a year in which voters in countries representing roughly 40% of the world's population will hold elections, this is potentially an early warning for approaching EU, UK and US contests.

In Mexico, Claudia Sheinbaum's landslide win to become the country's first female president was predictable. However, investors did not expect that her Morena party would come so close to winning a supermajority in congress. Mexico's currency and stock market spiked lower on the fear that lawmakers would seek to pass several anti-capitalistic reforms once the new congress is seated. In India, exit polls drastically overestimated the size of victory for Modi's Bharatiya Janata Party. Instead, they lost majority in parliament, requiring the formation of a coalition, sinking the stock market.

Citizens across the EU voted to choose members of the European Parliament. Spanning 27 countries, these decisions will help shape policy on immigration, trade, regulation and climate. The current prevailing political winds are indicative that far right parties are gaining clout, though moderates should retain influence.

Polls for the UK's July 4 election are suggesting a win for the opposition Labour Party. Most speculation has

focused on the scale of Keir Starmer's likely win, which could eclipse Tony Blair's more than a quarter century ago. Such a landslide could reinforce a push for progressive policies, such as overhauling the tax regime to more evenly distribute wealth, with the potential for higher income and corporation taxes.

The US is preparing for a rematch between President Joe Biden and former President Donald Trump. The recent politicized conviction of Mr. Trump, who is ahead in most polls, has seemingly made him a martyr among his voter-base, re-energizing them. Geopolitical uncertainty looms, with stakes including a trade war with China, the Russo-Ukrainian quagmire, as well as increasing hostilities in the Middle East.

UNITED STATES

The US economy remains in solid shape with first quarter GDP estimated to have growth at an annualized rate of 1.3%, a moderation from the recent past. Data released in May pointed to some sluggishness, with capital spending and home sales both trending sideways. Purchasing Managers' Index (PMI) data was another indication of a decelerating economy, with the index remaining in contractionary territory. Retail sales were also weaker than expected, leading to concerns of slowing consumer spending, as highlighted on numerous corporate earnings calls. However, employment and pay remain robust, defying expectations. The economy added 272,000 jobs in May, well ahead of the 190,000 forecasted, with a 4.1% associated average wage rise. The unemployment rate did, however, increase to 4.0% (still near a 50-year low). There are some unique features of the current jobs market, one being an unusual lack of turnover, with employers hiring less people but also laying off fewer workers than is typical, for fear of having difficulty re-hiring if necessary.

Disinflationary trends are stalling, with price pressures in services sectors looking particularly sticky. The latest data showed only a modest slowing in headline and core inflation categories, bringing year-over-year rates

May 2024 Economic Statistics

	May-24	Dec-22	Dec-21
Federal Funds Target Rate	5.25 - 5.50%	4.25 - 4.50%	0 - 0.25%
Consumer Confidence Index	102.0	108.3	115.8
Manufacturing PMI Index	48.7%	48.4%	58.7%
Unemployment Rate	4.0%	3.5%	3.9%
JPY / USD	157.31	131.11	115.08
USD / EUR	1.0841	1.0702	1.1368
Gold / oz.	\$2,326.97	\$1,824.40	\$1,828.39
Oil (WTI) / bbl	\$76.99	\$80.26	\$75.21

Sources: see disclosure *

down to 3.4% and 3.6%, respectively. The minutes of the May Federal Open Market Committee (FOMC) meeting reinforced concerns about the lack of further progress, noting that their favored inflation indicator (April's core PCE price index was +2.8%) remained well above the central bank's 2% target. Fed Fund Futures are now pricing in a 60% chance of a rate cut at the September FOMC meeting.

EUROPE

The European economy appears to be on the mend. PMI data released last month confirmed that economic activity is improving. Services sectors continue to act as the key pillar of strength, as seen by the latest reading of 53.2%. In addition, there continue to be signs of a recovery in manufacturing (PMI readings have risen from the low 40% area to 47.3% over the past year). First quarter GDP rose 0.4% over the same period last year (an improvement from the recessionary declines seen in the third and fourth quarters of 2023). Unemployment hit a fresh record low of 6.4% in April, down from 6.5% in each of the prior five months.

The eurozone's headline and core inflation rates accelerated to 2.6% and 2.9%, respectively in April. Nevertheless, the European Central Bank expressed confidence in the regional economy's longer-term disinflationary path, allowing it cut its benchmark overnight rate of interest by 25 basis points, to 3.75%.

UK headline inflation fell meaningfully in April to 2.3% but services inflation remained high at 5.9%, increasing the uncertainty of rate cuts from the Bank of England.

ASIA

Chinese economic data is generally showing encouraging signs of improvement, mainly thanks to robust growth in high-tech manufacturing. Gross domestic product (GDP) grew by 5.3% in the first quarter, from a year ago, a fractional acceleration from the prior quarter. China's manufacturing purchasing managers' index (PMI) expanded for the first time in six months. In particular, the production of 3D printing equipment, charging stations for electric vehicles (EVs) and electronic components all surged about 40% compared to a year earlier. Despite these improving aspects, domestic demand remains weak, increasing the country's reliance on strong export growth. Challenges in the real estate sector, which comprise 70% of Chinese household wealth, also remain unresolved. Property investment slumped 9.5% in the first quarter from a year ago, while new property sales slid 27.6%, perpetuating concerns about the health of the financial system.

In Japan, Yen weakness is starting to weigh on consumer sentiment which is being negatively affected by higher imported goods prices. As a result, the Bank of Japan intervened to support the currency. With 10-year government bonds yielding less than one percent, central bank interest rate hikes appear necessary to avoid a further spiraling of the currency and a reacceleration of inflation.

OUTLOOK

Moderating yet positive economic data have reinforced the likelihood of a "soft landing" for the US economy. Corporate fundamentals remain in good health, with profit margins set to expand as 2024 unfolds. Higher input costs are being annualized, while price increases are beginning to take effect, with a lag. Meanwhile, employment is robust and wages continue to grow, both likely to underpin consumer spending. Interest rates, globally, are beginning to trend lower, albeit with some divergence in timing across regions, providing a liquidity tailwind. As we go to press, the European Central Bank has cut rates (from 4.0% to 3.75%) thanks to confidence in future disinflation.

The aforementioned macroeconomic factors should be

supportive of equity valuations, aided by more broadly dispersed profit growth from an eventual reversion to the mean. According to FactSet data, the first quarter's blended growth rate for the S&P 500 index was 5.9%, besting consensus of +3.4%. The Communications Services sector posted the highest earnings growth rate of any of the 11 S&P sectors at +34%. Notably, if one strips out the profits of the "Magnificent 7," the blended earnings growth rate for the remainder of the S&P 500 was -1.80%, raising concerns of breadth divergence. Looking ahead investors are gaining conviction of a normalization in corporate profitability (2024 and 2025 earnings growth forecasts stand at approximate 8% and 13%, respectively, assuming healthy mid-single-digit revenue growth in addition to sequential margin expansion as positive operating leverage resumes. This should promote increased active equity participation as investors hunt for attractively priced securities, which would provide the added benefit of increased diversification, across various factors (ie small capitalization and value) as well as geography.

The central banks of Europe, Sweden, Switzerland, Mexico and Brazil have made initial cuts to their respective short term interest rates, with the US expected to follow later this year. However, future rate reductions are not at all assured and will be highly inflation-data dependent. The upshot is that currently robust bond yields offer both income and protection against a potential growth shock.

Active hedge funds and non-market correlated investments are poised to produce outsized risk-adjusted returns as market participation broadens, amid higher interest rates. Small capitalization stocks should also benefit from a rotation of capital towards less efficient segments. Natural resources, especially noble alloys and specialty metals benefitting from growth in military and technology applications, offer interesting inflation resistant opportunities. We are also seeing specific opportunities in software focused investments, with an activist element. For longer-term investors we have compelling ideas in the private equity arena, revolving around European growth, healthcare, and education-technology.

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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.