

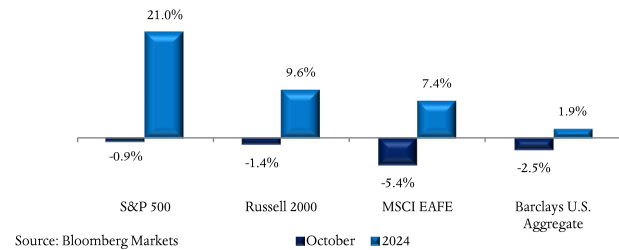


MARKETS

October saw stocks retreat, with the S&P 500 index pulling back a modest -0.9% but November has seen a post-Republican-victory rally, bringing year-to-date returns to +27.2%. Investors are focused on economic growth risks, despite signs of resilience, as well as the associated implications of a government policy shift on inflation and interest rates. The economically sensitive small-cap Russell 2000 fell -1.4% in October, then rocketed higher post-election (+19.7% ytd). At the sector level, healthcare, materials and real estate experienced the steepest falls last month, while financials were standout positive performers with investors reacting positively to earnings updates from several banks. Overseas, equities in the MSCI EAFE index bore the brunt of investor selling in October (-5.4%) and have been subdued since (+8.4% ytd). Japanese stocks were the top performer last month (+3.1%) posting modest additional gains so far in November (+19.6% ytd), despite concerns that the need for tighter monetary policy and a stronger yen could impact export-oriented companies, as well as political uncertainty.

Ongoing steady economic data released in October saw US Treasury yields rise sharply across the curve, breaking a five-month streak of falling rates. Inflation data was higher than expected with services inflation, particularly shelter, persisting. This increased investor doubt regarding the magnitude and urgency of future central bank monetary policy easing. The 2-year US Treasury Note yield rose over 50 basis points, ending the month at 4.16%, while the 10-year yield climbed to 4.37%, well above a recent low of 3.62% on September 16. This action led the Barclays US aggregate index lower by -2.5% in October (+1.9% ytd).

In currency markets, the dollar index rose +3.2% during October (+2.6% ytd), marking its first gain in four



months. Breaking historical correlations, gold was content to rise alongside a stronger dollar and higher bond yields, chalking-up a fourth-straight monthly increase (+4.1% in October; +33.0% ytd), ending the month in record territory, trading at \$2,743.80/oz Cryptocurrency Bitcoin rose to \$69,927, matching the high it set in March (+9.6% in October; +64.5% ytd). Oil prices were choppy, as macroeconomic concerns and risks of falling demand were weighed against the geopolitical tensions in the Middle East. Overall, WTI crude oil rose +1.6% last month, to \$69.26/bbl, but remains down -3.3% ytd.

GEOPOLITICS

Donald J. Trump was elected America's 47th president, returning to the White House amid a resounding victory by riding a wave of voter dissatisfaction with the direction of the country under four years of Democratic leadership. The Republican defeated Vice President Kamala Harris by promising to curb inflation, crack down on undocumented immigrants and end overseas conflicts. Trump achieved an electoral college and significant popular vote majority by increasing his share in every state apart from Utah and Washington. He was increasingly strong in areas he had won in the last election and also gained ground in traditional Democratic strongholds. Across the US, the data showed urban voters did not come through strong enough for Harris while people in rural areas turned out for Trump. Overall, he improved on his 2020 margin in almost 90% of counties nationwide. The Republican candidate also

gained support among huge swaths of the electorate compared to four years ago, including 12 of 14 closely tracked constituents. Democratic and Republican voters were split on their most important issues, with Trump gaining vast support among those concerned with immigration and the economy, while Harris was favored by voters who placed the state of democracy highest. Boosting Trump's win, Republicans regained majority control of the Senate after winning two crucial races. GOP control of the upper chamber of Congress will increase Trump's ability to enact his agenda as well as staff his administration given the required confirmations of judicial appointments. As we go to press, the Republicans have captured 215 seats in the House of Representatives, just short of the 218 needed to take control of the lower chamber of Congress.

President-elect Trump is poised to push for new tax cuts, both for corporations and individuals (exempting tips, overtime wages and social security benefits), as well as extending his 2017 tax legislation which would otherwise sunset at the end of 2025. If enacted, these plans are estimated to cost \$9.15 trillion over the next decade.

President Trump's proposed foreign policy agenda encompasses several significant shifts in international relations: resolving conflicts in Ukraine and Gaza, restructuring US-China relations, implementing aggressive trade measures against major partners, and re-evaluating existing alliances. These potential policy changes signal a fundamental reorientation of US foreign engagement and global strategic positioning.

UNITED STATES

The first estimate of US third quarter GDP growth came in at a healthy 2.8%, annualized, confirming that the economy continues to grow at an above trend pace. The US labor market added 12,000 job in October, much less than the 110,000 expected, temporarily weighed-down by work stoppages stemming from severe weather events like Hurricane Milton and worker strikes, such as the Boeing factory walkout. The unem-

October 2024 Economic Statistics

	Oct-24	Dec-23	Dec-22
Federal Funds Target Rate	4.75 - 5.00%	5.25 - 5.50%	4.25 - 4.50%
Consumer Confidence Index	108.7	110.7	108.3
Manufacturing PMI Index	46.5%	47.4%	48.4%
Unemployment Rate	4.1%	3.7%	3.5%
JPY / USD	152.03	141.06	131.11
USD / EUR	1.0883	1.1036	1.0702
Gold / oz.	\$2,743.80	\$2,062.59	\$1,824.40
Oil (WTI) / bbl	\$69.26	\$71.65	\$80.26

Sources: see disclosure *

ployment rate remained at 4.1%, up from 3.8% a year ago. Wages increased 4.0% over the past year, underpinning consumer spending and the overall economy.

The September CPI (consumer price index) report indicated that inflation eased by less than expected. Headline CPI rose 0.2% month-over-month and 2.4% year-over-year, marking the slowest annual increase since early 2021. However, core inflation remained elevated at 3.3%, driven by rising costs in medical care, auto insurance and airline fares.

Following the Federal Reserve's 50 basis point (bp) interest rate cut in September, the sticky core inflation reading highlighted the challenge facing the central bank if they are to achieve their dual mandate of maintaining a solid labor market alongside price stability. As a result, on November 7th the FOMC lowered the Federal Funds Target Rate by a lesser 25 bps to 4.50-4.75%, telegraphing that the pace and magnitude of future adjustments will likely remain data-dependent.

EUROPE

In Europe, there was more evidence of a weakening economic backdrop, with Germany at the epicenter. Eurozone GDP rose at an annual pace of 0.9% in the third quarter. However, Germany is projected to end 2024 with a 0.2% contraction in output, marking its first back-to-back annual recession since the early 2000's, after a 0.3% decline in 2023. Recent data indicated continued declines in industrial and car production, with the manufacturing PMI index (46.0%) remaining firmly in contractionary territory. October headline

inflation picked up to 2.0% year-over-year, from 1.7% prior, mainly driven by energy base effects.

The European Central Bank (ECB) acknowledged the signs of weakening economic momentum by announcing a third 25 bp interest rate cut, taking the deposit facility rate to 3.25%. ECB President Lagarde expressed confidence in the ongoing disinflation process but reinforced that future central bank action will be data dependent.

In the UK, labor remains tight with the unemployment rate falling to 4.0% and wage growth remaining high at 4.9% year-over-year. Nevertheless, inflation is decelerating, with September's headline figure descending to 1.7% year-over-year, with core inflation at 3.2%. This has allowed the Bank of England to follow-up its August interest rate cut with another 25 bp reduction. After a lackluster first half the year the UK economy is expected to grow by 1.1% in 2024 and 1.5% next year, aided by stronger-than-expected fiscal spending.

ASIA

Chinese policymakers introduced new initiatives which will allow local governments to use special bonds to purchase land from troubled developers, as well as a debt ceiling hike for municipalities. This appears to signal Beijing's willingness to manage the deflation of China's real estate bubble and support consumption. Such looser monetary and fiscal policy could potentially lead to improved economic growth in 2025.

In Japan, core inflation data was reported, showing a 1.8% year-over-year increase in October, supported by positive wage momentum. The Bank of Japan nevertheless stayed on hold, but struck a hawkish tone. On the political front, Prime Minister Shigeru Ishiba's Liberal Democratic Party (LDP), which has ruled Japan for almost all of its post-war history, lost its parliamentary majority, raising uncertainty over the make-up of the next government and the outlook for the world's fourth-largest economy. The Constitutional Democratic Party of Japan was the biggest gainer, as voters punished the LDP over a funding scandal and inflation.

OUTLOOK

Financial markets are poised to advance into year-end, driven by a pro-business US political outlook, during what is historically a seasonally strong period. The implications of election results, however, are still being digested, with uncertainties around tax, trade, regulation, and immigration policies. The prevailing trends should benefit reflation trades, such as equities and hard assets, supported by pro-cyclical policies and continuing GDP growth, amid decelerating inflation and normalization of short-term interest rates. Equities are likely to remain supported by accelerating earnings growth, starting in the fourth quarter and extending into 2025. This progression should allow investors to more confidently shift capital into sectors and stocks that had been previously neglected.

Fixed income markets are poised to experience further volatility until the fiscal and inflationary path becomes clearer. This uncertainty was illustrated by the recent divergence between short-term interest rates, which have been declining, and longer dated yields, which have advanced sharply. Our interpretation is that these moves signal the expectation of ongoing profligate government spending, and that the Federal Reserve has not yet conquered inflation, which when combined, has resulted in yet another year of lackluster, coupon-minus, returns from risk-free bond indexes. Looking ahead we continue to recommend focusing fixed income investments on short-term maturities and higher yielding credit.

Given the reduced ability for bonds to augment performance and dampen the volatility of traditional portfolios, we continue to recommend select hedge funds and non-market correlated strategies that are nimble and opportunistic. Further, our research indicates that precious metal miner investments, which have trailed the appreciation of gold and silver bullion, offer attractive potential with reduced correlation to equities. For capital appreciation oriented investors, select software equities, with an activist element, appear to be timely investments. We have also identified innovative private equity funds attempting to disrupt the education and healthcare industries.

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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.