

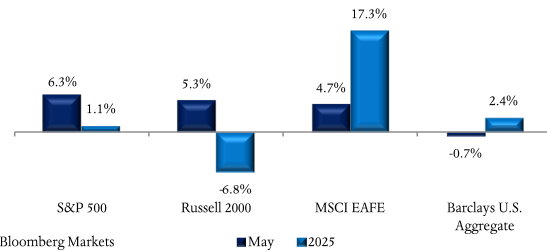


MARKETS

May saw US stocks recover significant ground, with the S&P 500 index advancing +6.3% (+1.1% ytd), the Nasdaq composite rising +9.6% (-0.7% ytd), and the small cap Russell 2000 adding +5.3% (-6.8% ytd). The de-escalation of the trade war between the US and China was a major catalyst, leading to the best month for US equities in nearly two years. Robust corporate performance also boosted investor sentiment. In the risk-on environment, large-cap growth stocks (+8.8% in May; -0.3% ytd) outperformed their value counterparts (+3.5% in May; +2.5% ytd).

Overseas equities, which had not been as affected as domestic ones during the recent downdraft, added to their gains. The openness of the US to negotiate on trade, and the associated temporary delay to planned tariff hikes, reduced fears of a global recession. The MSCI EAFE Index added +4.7% in May (+17.3% ytd), with European stocks leading the way higher. In Asia, China's Hang Seng index rose +5.9% during the month (+18.0% ytd), while Tokyo's Nikkei 225 rose +5.3% (-4.0% ytd on the back of a stronger yen). Emerging market equities also continued to perform well (+4.3% in May; +8.9% ytd) aided by a weaker US dollar.

In fixed income markets, US Treasuries were sold across the curve due to concerns surrounding persistent federal budget deficits, inflation, and an increasingly hawkish Fed. This led the 2-year yield higher by 30 basis points (bps) and the 10 and 30-year yields up approximately 25 bps to 4.41% and 4.94%, respectively. Of further concern to investors, Moody's downgraded its US sovereign credit rating, leading to weak demand at long-dated Treasury auctions. In all, the Barclay's US Aggregate bond index declined by -0.7% in May (+2.4% ytd). Credit markets, however, benefitted from a more positive narrative, leading to 130 bps of spread-narrowing in



Source: Bloomberg Markets

US high yield since April 7, buoyed by improving risk appetite and solid corporate profits. US high yield bonds rose +1.7% in May (+2.6% ytd).

In commodity markets, the S&P GSCI index recovered +1.3% in May (-4.5% ytd). Virtually unchanged for the month, gold retained its +25.4% year-to-date gain. Economically sensitive resources such as energy, industrial metals and livestock appreciated. WTI crude oil's +4.4% rebound in May (-15.2% ytd) was seen as a positive given that Opec+ announced a third increase in oil production, set for July. Cryptocurrencies Bitcoin and Ethereum rose by +11% and +42%, respectively, during the month, with the former touching an all-time high of \$112,000.

GEOPOLITICS

Following April's "Liberation Day," which kicked off a tariff war, May saw the US and China de-escalate their de facto trade embargoes. President Trump took a more pragmatic stance on trade (easing and postponing tariffs in an effort to negotiate deals) as negative public sentiment and legal challenges to his edicts arose. Further, concerns about fiscal deficits and a potential government funding impasse began to simmer after introduction of the Trump administration's One Big Beautiful Bill. The federal budget proposal seeks to extend the major provisions of the 2017 Tax Cuts and Jobs Act, which are set to expire at the end of 2025. It includes reductions in non-military government expenditures and significantly cuts spending on the Supplemental

Nutrition Assistance Program (SNAP) and Medicaid, through stricter eligibility requirements. It allocates an additional \$150 billion for defense spending, scales back many clean-energy tax credits from the Inflation Reduction Act, and increases the state and local tax (SALT) deduction from \$10,000 to \$40,000. According to estimates by the Congressional Budget Office, its passage would add \$2.4 trillion to the national debt by 2034, with the hope that tariff revenues of \$2.8 trillion over 10 years would offset the additional spending. The bill passed the House of Representatives in a narrow vote, largely along party lines, and now faces an uphill battle in the Republican controlled (53-to-47) Senate.

US

Minutes from the Federal Reserve's Open Market Committee meeting of May 6-7 observed that the US economic outlook is experiencing unusually elevated uncertainty. Erratic tariff announcements, as well as trade barrier, legal and regulatory concerns, have proven challenging for businesses (globally) trying to invest, plan and forecast for the future.

In terms of macroeconomic data, inflation has been on a downtrend. The most recent Consumer Price Index rose 2.3% from a year earlier, the lowest reading since January 2021. However, the current global trade environment is set to fuel a reacceleration. On the labor front, the economy added 139,000 jobs in May, while the prior two months figures were revised downward by 95,000, suggesting some softness. Drivers included the loss of 59,000 federal government workers since January, offset by hiring in the leisure and hospitality sectors. The unemployment rate held steady at 4.2%, while wages rose 3.9% from a year ago. Meanwhile, the ISM Services Report on Business's latest metric joined the Manufacturing index below 50, the latter of which is in the midst of a multi-year contraction.

On the monetary policy front, Federal Reserve Chairman Powell and his colleagues signaled a patient, data-dependent, stance given the economic crosscurrents. As a result, the Fed Funds rate remained steady at 4.25-

May 2025 Economic Statistics

	May-25	Dec-23	Dec-22
Federal Funds Target Rate	4.25 - 4.50%	5.25 - 5.50%	4.25 - 4.50%
Consumer Confidence Index	98.0	110.7	108.3
Manufacturing PMI Index	48.5%	47.4%	48.4%
Unemployment Rate	4.2%	3.7%	3.5%
JPY/USD	144.04	141.06	131.11
USD/EUR	1.1347	1.1036	1.0702
Gold/oz.	\$3,289.15	\$2,062.59	\$1,824.40
Oil (WTI)/bbl	\$60.79	\$71.65	\$80.26

Sources: see disclosure *

4.50% for the third consecutive meeting. The committee has been pleased with inflation's trajectory towards its 2% target, but weary of a potential reversal on account of tariffs, while tracking a slowing economy (-0.2% in Q1) and potential for increased unemployment.

EUROPE

The euro area's economy continues to expand at a modest pace, with 2025 GDP growth projected at 1.1%. However, uncertainty has increased on the back of the Trump administration's tariff actions. After threatening 50% levies from June 1, an extension until July 9 was granted, to allow time for negotiations.

Euro zone inflation fell by more than expected to 1.9% in May, prompting the European Central Bank to cut rates by a further quarter point to 2.0%. The ECB has halved borrowing costs over the past year, but signaled that levels are now close to neutral.

The UK established a trade framework with the US, though it lacked formal details. Meanwhile local inflation jumped to 3.5% in April, a year-high, on account of higher everyday goods prices. Nevertheless, the Bank of England cut its overnight interest rate from 4.5% to 4.25%. That was the fourth cut since a year ago, when the rate stood at 5.25%. Looking head, just one further 25 basis point cut is now anticipated.

In an interesting development, the UK and EU agreed to "reset" relations and deepen ties in the wake of Brexit. The deal covers a defense and security pact, fishing

rights, and removes bureaucracy for farm exports.

ASIA

The trade war has weighed on Chinese consumption and its broader economy so it was welcome news that the US agreed to a 90-day trade truce following negotiations in Geneva. As a result, US tariffs on Chinese imports were reduced from 145% to 30%, while China reciprocated with matching cuts. Subsequently, both sides began leveraging their control over certain strategic natural resources to gain an upper hand in trade negotiations. The US dominates in ethane, a gas used to make plastics, with China buying nearly the entirety of production. Washington is now tightening control by requiring export licenses. Similarly, China has curbed exports of rare earth minerals, crucial for autos, electronics and defense, drawing Washington's ire.

Japanese economic data (Q1 GDP -0.7%) showed that stagnant consumption and falling exports due to a strengthening Yen, and tough US trade policies, are weighing heavily on output. In addition, a worsening fiscal condition has led to a structural supply and demand imbalance for local government bonds. This prompted a significant steepening of the yield curve, with the 30-year peaking at an all-time-high of 3.2%.

OUTLOOK

Uncertainty remains as the 90-day postponement of reciprocal tariffs is fast approaching, with little progress on agreements thus far. The easing in trade tensions helped reduce recession fears and supported an improved market sentiment. However, the US federal fiscal outlook remains precarious.

Investors will have to contend with, and navigate, two-sided risks: persistent inflation on one hand, and the potential for weaker economic growth on the other. From a bottoms-up perspective, corporations have been producing prodigious earnings, supporting equity markets. The S&P 500's first quarter profit growth rate of 12.5% marked the second consecutive period of double-digit increases. However, for the full year 2025, growth is expected to

decelerate to 7.5%, indicating a forward 12-month price-to-earnings ratio of 21.3, compared to the 5 and 10-year averages of 19.9 and 18.4, respectively. Such metrics could be supported by expanding corporate margins thanks to strong AI-driven savings, ongoing consumer spending, and a pickup in M&A and IPO activity. Of note, smaller capitalization stocks could be boosted by the proposed tax and regulatory changes in the US budget reconciliation bill. Overseas markets, especially those in Europe, offer attractive valuations, as well as currency, and policy tailwinds. The de-escalation of the trade war provided a significant boost to financial markets, but volatility may return if negotiations falter or economic data disappoints. Investors should therefore remain vigilant for any resurgence of tariff threats or other geopolitical shocks that could rapidly undermine risk appetite.

With the Federal Reserve on hold (with hints of a hawkish bias) given the potential for a tariff related resurgence in inflation, coupled with a heavy US Treasury bond supply on the horizon, the path of least resistance for long-term yields appears upward. For risk free investors this means sticking to the shorter-end of the yield curve. Yet credit markets (corporates, high yield, and EM) weathered the recent storm, supported by appetite for income, warranting continued investment.

Profits earned amid the recent bout of high volatility showcased the benefits of allocating to our favored hedge funds and non-market correlated investments. While precious metal mining equities have had a terrific run so far in 2025, after correcting in the fourth quarter of last year, we believe the majority of returns are still to come, warranting continued and increased exposure. Should a downside case for credit markets be realized, a commitment to our recommended dislocation fund should bear fruit. For capital appreciation oriented investors, select software equities, with an activist element, offer interesting opportunities after the recent pullback. We have also identified various unique private equity and credit funds focused on the cybersecurity, healthcare, education and natural resource 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.