

Current Investment Strategy and Themes

- **Generally improving fundamentals, but valuations still ignored.**
- **Inflation is still in the expectation phase, but some data is showing higher prices.**
- **The equity shift to value leadership slowed in late March, now the market awaits real inflation news.**

The Markets in Review: March 2021

- The S&P 500 regained market leadership in March, but still ended the first quarter 2021 with a return of less than one-half the return of the US Small-Cap equities. While equities continued their steady advancement, the bond market had one of its worst quarters in several years. Rising long-term interest rates drove down the US Aggregate Index -3.37% in the quarter.
- Conflicting inflation expectations have been the most discussed and debated fundamental in the market. The fear of a new sustained uptrend in inflation, mostly caused by an accommodative monetary policy and trillion-dollar government spending programs are driving the fear. Not all market participants believe that rising inflation is sustainable. Revised potential lower GDP across many countries, labor market dislocations, and demographic issues may prevent long-term rising inflation. Inflation expectations, not necessarily actual inflation is the market concern.

Recovery	Last 2 Qtrs	First 2 Qtrs	Last 4 Qtrs
S&P 500	19.07%	31.30%	56.35%
Ru2000	48.05%	31.60%	94.95%
Ru1000Gro	12.44%	44.74%	62.74%
Ru2000Val	61.59%	21.95%	97.05%

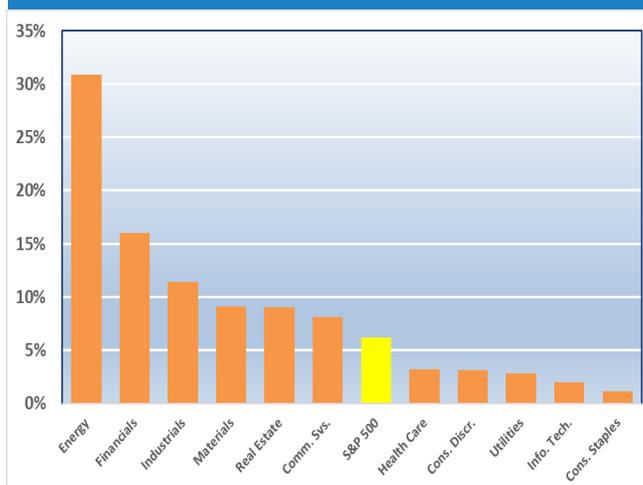
Source: Board of Governors of the Federal Reserve System (FRED) <https://fred.stlouisfed.org/series/r30trec>

- The official low point of the Covid induced bear-market was on March 23, 2020. The last four quarters data of the economic and market recovery are the best way to evaluate investors expectations of how the post-Covid economy will recover. Simply, for the first two quarters of the market move up investors were fearful of both the pace and distribution of how the benefits would be spread across the economic sectors. Over the first six-months of the rebound, interest rates stayed low, and the proven large-cap growth and technology stocks dominated.
- Near the end of September 2020, sentiment, expectations and fears shifted. The market entered a phase called the inflation trade. Rates began to rise, commodity prices began to rally, and small-cap value stocks (the most sensitive to changes in economic forecasts) began to lead the market after many years lagging the returns of large growth stocks, one of the sharpest shifts in style leadership drove the market. Small-cap value stocks have outperformed large-cap growth stocks by almost 50 percentage points.
- Equity markets rose despite the sharp rise in long-term government and corporate interest rates. Valuations of equity markets are at record high levels. Rising interest rates and a falling dollar are often the cause of market corrections.

Key Market Indicators				
Bullish	Favorable	Neutral	Cautious	Bearish
	Mar 2021	1st Qtr 2021	Last 12 Months	Current View
Equities				
U.S. Large Cap	4.38%	6.17%	56.35%	Favorable
U.S. Small Cap	1.00%	12.70%	94.85%	Neutral
International Developed	2.30%	3.48%	44.57%	Favorable
Emerging Markets Equity	-1.51%	2.29%	58.39%	Neutral
Fixed Income				
U.S. Aggregate	-1.25%	-3.37%	0.71%	Cautious
U.S. Government	-1.51%	-4.14%	-4.26%	Cautious
U.S. Corporate	-1.59%	-4.45%	7.88%	Neutral
U.S. High Yield	0.15%	0.85%	23.72%	Cautious
Non-U.S. Developed	-2.60%	-6.45%	6.19%	Cautious
Emerging Market Debt	-3.07%	-6.57%	13.60%	Bearish
Alternatives				
REITs	4.57%	8.87%	37.78%	Neutral
Commodities	-1.90%	9.29%	46.63%	Neutral
Managed Futures	1.08%	7.80%	11.39%	Neutral
Hedge Funds	-0.06%	1.30%	16.15%	Favorable

Source: Morningstar, data as of 3/31/2021

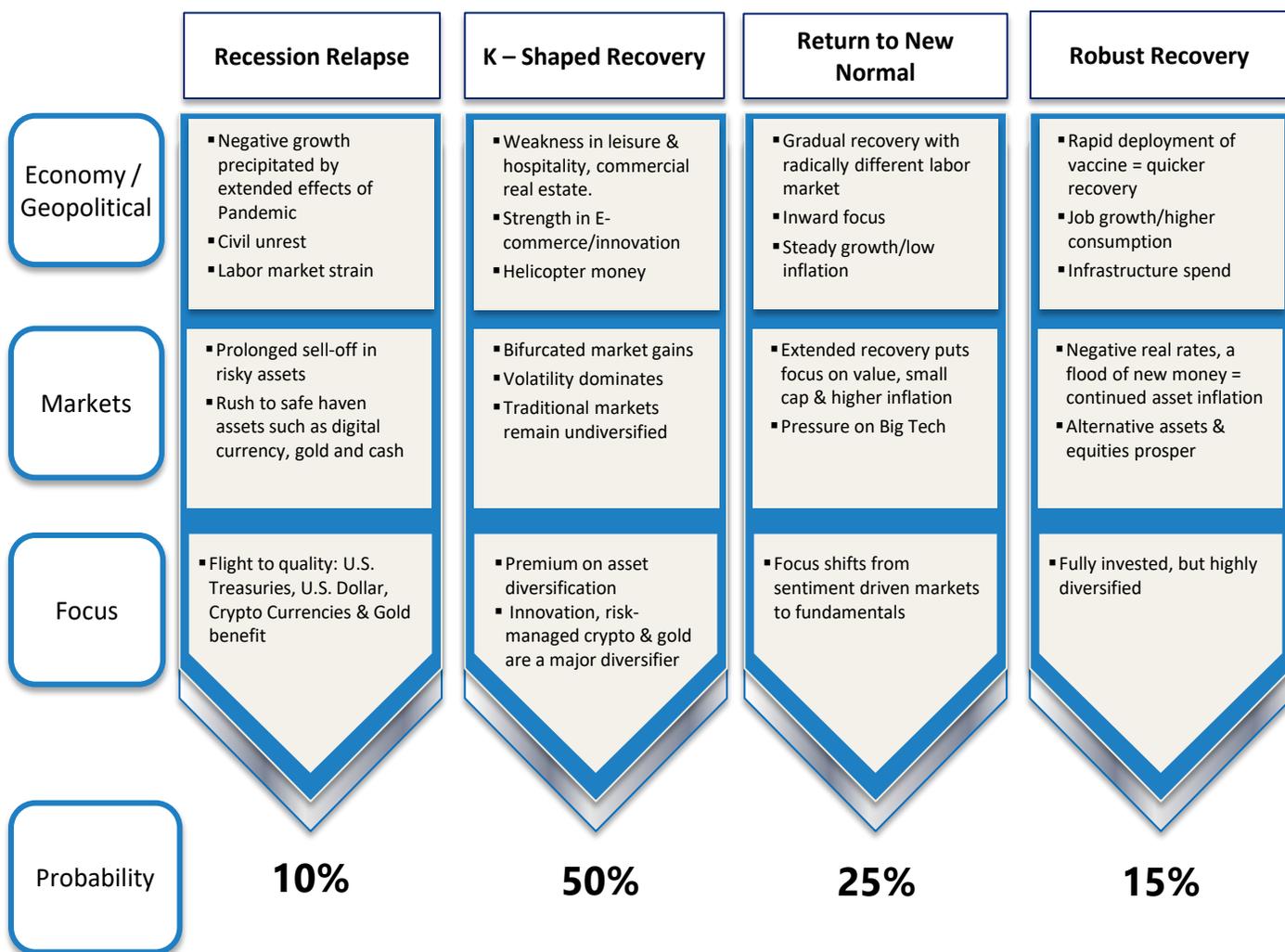
Economic Sector Returns: 1st Qtr. 2021



Source: Morningstar

2021 – 2022 Economic and Investment Scenarios

Our assessment of potential macro scenarios



< < < **Downside** < < <

| > > > **Upside** > > >

Risks

- ◀ Pandemic rages into spring/summer – new variants
- ◀ Civil unrest, supply chain disruptions and food shortages
- ◀ Runaway debt growth on pace to equal Japan
- ◀ Higher rates of poverty and social displacement
- ◀ Further job displacement – weak demand

- ▶ Effective use of fiscal stimulus spurs economic growth
- ▶ Globalization returns
- ▶ Labor market returns with shift in focus and higher productivity
- ▶ Strong real economic growth and productive use of credit
- ▶ Raises the wealth effect across multiple sectors

Portfolio Asset Class Positioning

PORTFOLIO SEGMENT / SEGMENT OBJECTIVE	SEGMENT CONSTITUENTS	SEGMENT COMMENTS
<p>Equity</p> <p><i>Low-Cost, Systematic, and Factor Exposure</i></p>	<ul style="list-style-type: none"> ▪ Global systematic equity beta exposure to investment & economic fundamentals ▪ Continued emphasis on quality & move away from market cap weighted exposure to equal weight 	<ul style="list-style-type: none"> ▪ Favor higher quality equities ▪ Favor higher growth regions and sectors with attractive valuations ▪ Longer-term, market driven by value, but in shorter-term growth and momentum can dominate
<p>Fixed Income</p> <p><i>Seek to Preserve Capital, and Diversify Equity Exposure</i></p>	<ul style="list-style-type: none"> ▪ Overweight low duration and high quality ▪ Continued exposure to fallen angels ▪ Not a time to “reach for yield” ▪ Risk-managed gold as a bond surrogate 	<ul style="list-style-type: none"> ▪ Favor intermediate duration or less ▪ Favor quality credit over rates ▪ Selective, short duration high yield ▪ Issuer selection critical ▪ BBB segment is crowded
<p>Opportunistic</p> <p><i>Highest Conviction Ideas Based on 12-24 Month Proprietary Forecasts</i></p>	<ul style="list-style-type: none"> ▪ Emphasis on disruptive innovation themes ranging from 3D technologies to immunotherapies ▪ Active core innovation portfolio with systematic over-weight exposures to E-commerce, medical instruments & cloud computing 	<ul style="list-style-type: none"> ▪ Reflects Palladium’s shorter-term model (value and momentum) ▪ Seeking participation in select themes with attractive return potential based on innovative technologies such as 3D printing, gene therapies, digital wallets and AI.
<p>Alternative</p> <p><i>Anticipated Risk Mitigation with Alpha Opportunities</i></p>	<ul style="list-style-type: none"> ▪ Risk Managed Digital Assets ▪ Risk Managed Gold ▪ Hedged Equity ▪ Merger Arbitrage ▪ Global Macro - Credit 	<ul style="list-style-type: none"> ▪ Low return and higher risk expectations for equities and bonds in the near future presents the challenge of providing uncorrelated sources of risk and return. ▪ We also favor exposure to risk managed approaches to investing gold and cryptocurrencies where the goal is to participate on the upside but only capture 25-30% of the downside.

All investments are subject to risk, including the loss of principal. For additional information about the Palladium Investment Portfolios, please refer to the Disclosures at the end of this report.

Important Disclosures

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Palladium has sole discretion to change allocations to styles and vehicles at any time.

Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.

“U.S. Small Cap” represented by the Russell 2000 Index.

“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.

“Emerging” represented by the MSCI Emerging Markets Net Return Index.

“U.S. Aggregate” represented by the Bloomberg Barclays U.S. Aggregate Bond Index.

“U.S. Government” represented by the Bloomberg Barclays U.S. Government Bond Index.

“U.S. Corporate” represented by the Bloomberg Barclays U.S. Credit Bond Index.

“U.S. High Yield” represented by the Bloomberg Barclays U.S. Corporate High Yield Index.

“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.

“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index

“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.

“Commodities” represented by the Dow Jones Commodity Index .

“Managed Futures” represented by the Credit Suisse Managed Futures Index.

“Global Macro” represented by the Credit Suisse Global Macro Index

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