Current Investment Strategy and Themes

- ***The future inflation controversy data is muddled; "the current" is clearly high.***
- ***Equity participation should be across all capitalization sectors; factors are volatile and minimized.***
- ***Little opportunity in bonds, but some sectors over yield pickup at attractive risk and return.***

The Markets in Review: June 2021

- The two major concerns debated and analyzed more than all other market worries combined are inflation and the end of the Federal Reserve's stimulating monetary policy. Theoretically both concerns should be major overhangs to the equity markets. But, again in June, the Standard & Poor's 500 advanced. For June, the gains were 2.33% and 15.25% for the first half of 2021. This is just below the YTD return on the Russell 2000 Small Cap index, but significantly higher than the return in the non-US Developed and Emerging Markets.
- The surge in small-cap stocks since September 2021 has been the primary beneficiary and barometer of market inflation sentiment. On one hand the market says "Small caps are soaring. That proves this inflation will be longer, higher, and more uncontrolled than you think." When small-cap stocks underperform the large-cap growth stocks, the technology stocks, and indices like the NASDAQ, the other hand of the market says "the current numbers for inflation are high, but they are transitory, an effect of the demand and supply shocks of the Covid collapse and recovery."
- June and 2nd quarter 2021 returns show large-cap US stocks outperformed small-cap US stocks. This is despite released data on inflation that woke up and scared many investors. While the chatter may have increased on the fears of inflation, equity prices didn't reflect that fear. Stocks are considered a leading economic indicator. The current economic data says high inflation, but the forecasting nature of stocks says the worst is behind us. The debate will rage on.
- Technology stocks generated the best economic sector return in June. However, the huge early year rally in energy stocks makes Energy the best sector YTD. Energy stocks are often called a bellwether of inflation as they are the sector most likely to quickly reflect changes in the general level and direction of commodity industries.
- Interest rates fell in June giving more conflicting data on the outlook for inflation. Rising inflation expectations produced rising bond yields. The 10-year Treasury note yield fell in June from 1.58% to 1.43%. For the quarter, the 10-year fell 30 basis points from the yearly high rate set in late March at 1.73%. The US investment grade and the high yield bond market rose in June and for the quarter.
- Capital market conditions are highly valued equity markets, low interest rates, and global political turmoil. Historically, gold has been one of the few long-term hedges against total portfolio risks. However, the rewards and returns of gold are not stable; lumpy at best. 2021 is no exception. The risks in the dollar are clear, monetary and fiscal policies are debatable, but gold has lagged. But that is the history of gold, the market doesn't always see its value at the moment.

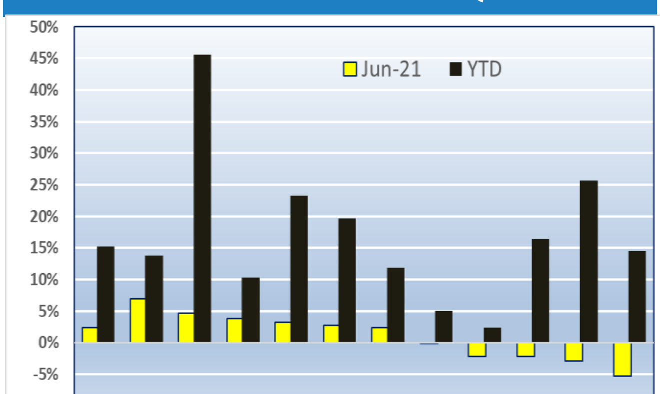
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	June 2021	2nd Qtr 2021	YTD 2021	Current View
U.S. Large Cap	2.33%	8.55%	15.25%	Favorable
U.S. Small Cap	1.94%	4.29%	17.54%	Neutral
International Developed	-1.13%	5.17%	8.83%	Favorable
Emerging Markets Equity	0.17%	5.05%	7.45%	Neutral
Fixed Income				
U.S. Aggregate	0.70%	1.83%	-1.60%	Cautious
U.S. Government	0.62%	1.71%	-2.51%	Cautious
U.S. Corporate	1.50%	3.32%	-1.28%	Neutral
U.S. High Yield	1.34%	2.74%	3.62%	Cautious
Non-U.S. Developed	-2.00%	0.56%	-5.93%	Cautious
Emerging Market Debt	-1.10%	3.53%	-3.27%	Bearish
Alternatives				
REITs	2.61%	12.02%	21.96%	Neutral
Commodities	1.53%	12.81%	23.29%	Neutral
Managed Futures	-2.55%	3.00%	11.04%	Neutral
Hedge Funds	0.38%	2.40%	3.73%	Favorable

Source: Morningstar, data as of 6/30/2021

Economic Sector Returns: 1st Qtr. 2021

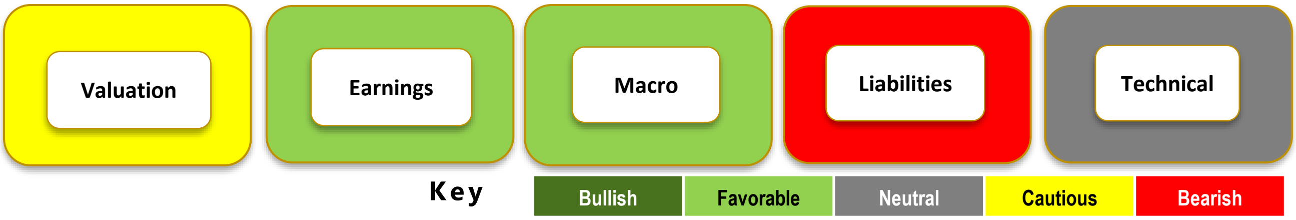


	S&P 500	Info. Tech.	Energy	Cons. Discr.	Real Estate	Comm. Svs.	Health Care	Cons. Staples	Utilities	Industrials	Financials	Materials
Jun-21	2.33%	6.95%	4.61%	3.81%	3.19%	2.72%	2.34%	-0.18%	-2.17%	-2.21%	-2.96%	-5.30%
YTD	15.25%	13.76%	45.64%	10.27%	23.30%	19.67%	11.85%	5.02%	2.38%	16.40%	25.69%	14.50%

Source: Morningstar

Risk Examination – June 2021

A quarterly update on our views of the complex risk factors in global markets



Valuation

- Global asset valuations remain high in cap-weighted indexes with the majority beta risk being driven by technology stocks. Growth continues to outpace value because the market is focused on committing capital to innovation and disruption, rather than shopping for the best price. Our view is that markets will continue to be driven by the ebb and flow of investor sentiment tied to the recovery from COVID-19. Market uncertainty will remain high.

Earnings

- Earnings growth is being led by the beneficiaries of the rapid transformation to digitization by many industries as a result of the onset of COVID 19. On the other side of this phenomenon, earnings are struggling as those companies have been the victim of a dramatic fall-off in demand. Overall earnings growth looks attractive commensurate with real economic growth.

Macroeconomic

- Near term global economic growth is expected to jump from previously depressed levels due to the rapid dissemination of vaccines and higher rate of business openings, especially in the services sector. Markets continue to price in higher inflation. This may be true in the near term and the effects could be quite small. Central banks will and need to remain accommodative as any structural rise in interest rates would be devasting to a global economy that continues to gorge on the low cost of debt.

Liabilities

- Liabilities have exploded on government and corporate balance sheets over the last cycle. Household borrowing rates are not far behind. The shift now will be on balance sheet repair and debt repayment and not on earnings growth and increased individual spending. This will place additional pressure on growth and governments to provide extra stimulus programs to re-start the global economy.

Technical/Sentiment

- The biggest driver of security price swings since COVID-19 has been investor psychology and sentiment, rather than investment or macroeconomic fundamentals. The radical uncertainty with the onset of the global virus pandemic has resulted in highly volatile equity and credit markets.
- In our view, recent market rallies are more likely consistent with a fear of missing out (FOMO) mentality as opposed to pure investment fundamentals.

2021 – 2022 Economic and Investment Scenarios

Our assessment of potential macro scenarios

	Recession Relapse	K – Shaped Recovery	Return to New Normal	Robust Recovery
Economy / Geopolitical	▪ Negative growth precipitated by extended effects of Pandemic ▪ Civil unrest ▪ Labor market strain	▪ Weakness in leisure & hospitality, commercial real estate ▪ Strength in E-commerce/innovation ▪ Helicopter money	▪ Gradual recovery with radically different labor market ▪ Inward focus ▪ Steady growth/low inflation	▪ Rapid deployment of vaccine = quicker recovery ▪ Job growth/higher consumption ▪ Infrastructure spend
Markets	▪ Prolonged sell-off in risky assets ▪ Rush to safe haven assets such as digital currency, gold and cash	▪ Bifurcated market gains ▪ Volatility dominates ▪ Traditional markets remain undiversified	▪ Extended recovery puts focus on value, small cap & higher inflation ▪ Pressure on Big Tech	▪ Negative real rates, a flood of new money = continued asset inflation ▪ Alternative assets & equities prosper
Focus	▪ Flight to quality: U.S. Treasuries, U.S. Dollar, Crypto Currencies & Gold benefit	▪ Premium on asset diversification ▪ Innovation, risk-managed crypto & gold are a major diversifier	▪ Focus shifts from sentiment driven markets to fundamentals	▪ Fully invested, but highly diversified
Probability	**10%**	**50%**	**25%**	**15%**

< < < Downside < < < | > > > Upside > > >

Risks

Downside:
- Pandemic rages into fall/winter – 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

Upside:
- 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
Equity *Low-Cost, Systematic, and Factor Exposure*	▪ Global systematic equity beta exposure to investment & economic fundamentals ▪ Continued emphasis on quality & move away from market cap weighted exposure to equal weight	▪ Higher exposure to U.S. mid cap and global small cap ▪ Favor higher growth regions and sectors with attractive valuations ▪ Longer-term, market driven by value, but in shorter-term growth and momentum can dominate
Fixed Income *Seek to Preserve Capital, and Diversify Equity Exposure*	▪ 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 ▪ New exposure to asset-backed & private mortgages	▪ Favor intermediate duration or less ▪ Favor quality credit over rates ▪ Selective, short duration high yield ▪ Issuer selection critical ▪ BBB segment is crowded
Opportunistic *Highest Conviction Ideas Based on 12-24 Month Proprietary Forecasts*	▪ 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 & cyber security	▪ Reflects Palladiem'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.
Alternative *Anticipated Risk Mitigation with Alpha Opportunities*	▪ Risk Managed Digital Assets ▪ Risk Managed Gold ▪ Hedged Equity ▪ Merger Arbitrage ▪ Global Macro - Credit	▪ 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 Palladiem Investment Portfolios, please refer to the Disclosures at the end of this report.

Important Disclosures

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It is important to remember that there are risks inherent in any investment and that there is no assurance that any investment, asset class, style or index will provide positive performance over time. Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in a declining markets. Past performance is not a guarantee of future results. All investments are subject to risk, including the loss of principal. Portfolio positions referenced are subject to change at any time, your portfolio may not reflect the information referenced.

Palladiem 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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For more information about Palladiem, as well as its products, fees and services, please refer to Palladiem's website, www.palladiem.com or call us at 888-886-4122; 610-304-6529