Current Investment Strategy and Themes

- ***Inflation fears begin to negatively impact consumer confidence.***
- ***Investment fundamentals still matter in the long-term, but can be overlooked in the short-term.***
- ***Selective opportunities remain across the capital markets, especially where innovation and impact dominate.***

The Markets in Review: September 2021

Global equity and bond markets turned lower during September due to higher commodity prices, an uncertain outcome on raising the country's debt ceiling and the persistence of the COVID pandemic. Most assets turned lower during September, except those companies in the energy sector that benefitted from the sharp rise in energy prices.

The U.S. consumer still accounts for nearly 70% of the country's economic output. As such, sentiment and confidence are important measures of future consumption and growth. Both measures have been trending lower as higher food and energy prices have placed constraints on demand. On the supply side, constraints such as distribution and delivery problems have begun to pressure companies to raise prices or face a squeeze on profit margins. The current upswing in volatility in the market has been a reflection of the uncertainty of whether these current inflationary pressures are transitory or more permanent.

Momentum and short-term investor behavior along with negative real bond yields still dominate market direction. Investment fundamentals remain important for the long-term direction of equity and bond prices, but the ***direction*** of earnings and valuation can have a more immediate impact on investor behavior. For example, recent strong earnings growth has been revised lower as many companies across several industries are feeling pressure on profit margins due to higher inflation.

Global equity and bond markets will continue to be focused on central bank policies and the state of inflationary pressures, specifically in the energy sector. There are several areas of uncertainty that could affect future market prices, ranging from inflation concerns to the debt ceiling debate. Also, it is still uncertain whether Covid will spike in the late fall and early winter despite higher vaccination rates. Labor market issues remain as well. New job creation is weak, as the structural shift to a more tech-educated workplace unfolds. Rapid automation and stagnant real wage growth over the last several decades has pushed the work force to a self employed "gig" economy model. Markets do not like uncertainty and higher levels of uncertainty equal higher market volatility.

There will continue to be opportunities in specific companies, industries and themes, especially those that stand to benefit from the transition to a digital global economy with a focus on reducing the harmful effects from climate change and those that can adequately address the rapidly widening inequality gap. Innovation has long been the driver of commercial success and those economies that foster and encourage innovation, while paying attention to the social, economic and environmental impact of the global economy will be the market leaders.

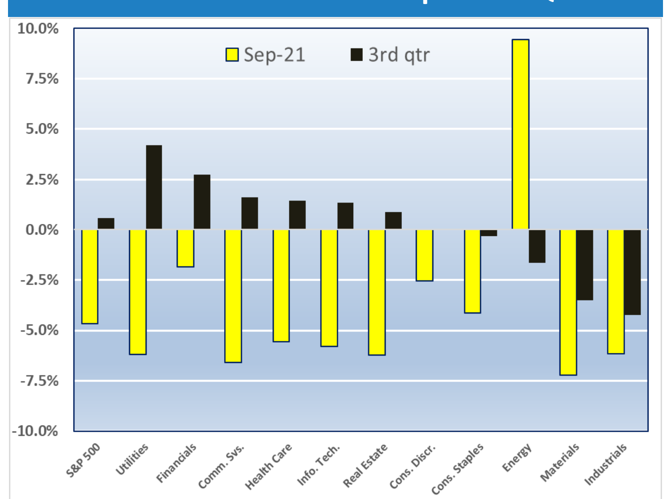
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	Sep 2021	3rd Qtr 2021	YTD 2021	Current View
U.S. Large Cap	-4.65%	0.58%	15.92%	Neutral
U.S. Small Cap	-2.95%	-4.36%	12.41%	Cautious
International Developed	-2.90%	-0.45%	8.35%	Favorable
Emerging Markets Equity	-3.97%	-8.09%	-1.25%	Neutral
Fixed Income				
U.S. Aggregate	-0.87%	0.08%	-2.42%	Cautious
U.S. Government	-1.06%	-0.03%	-1.30%	Cautious
U.S. Corporate	-1.07%	0.89%	4.53%	Neutral
U.S. High Yield	-0.01%	-2.10%	-7.91%	Cautious
Non-U.S. Developed	-2.94%	-3.08%	-6.25%	Cautious
Emerging Market Debt	-3.37%	0.98%	23.15%	Bearish
Alternatives				
REITs	-5.40%	-0.07%	10.97%	Neutral
Commodities	2.94%	-0.14%	3.58%	Favorable
Managed Futures	1.51%	0.00%	0.00%	Neutral
Hedge Funds	-0.38%	0.00%	0.00%	Favorable

Source: Morningstar, data as of 9/30/2021

Economic Sector Returns: Sept & 3rdQ 2021



Source: Morningstar

Risk Examination – September 2021

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

Valuation	Earnings	Macro	Liabilities	Technical

Valuation

- Global asset valuations remain high in cap-weighted indexes, with the majority beta risk being driven by technology stocks. This leadership role is still present, despite a recent sell-off in large technology company stocks. 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. We believe market uncertainty will remain high.

Earnings

- Our view is that earnings peaked during 2nd quarter. Growth that was led by the beneficiaries of the rapid transformation to digitization by many industries as a result of the onset of COVID-19 has waned as the economy struggles to recover to pre-COVID levels.

Macroeconomic

- The rapid reversal in growth post the fall lockdown from COVID has created supply shocks due to shortages and distribution issues. Inflation has crept higher with oil prices reaching a new near-term high. Disfunction in Congress is also shaking the economy's confidence as the parties cannot agree on raising the debt ceiling and approving a major infrastructure bill. This places downward pressure on growth and near-term pressure on higher prices.

Liabilities

- Liabilities have exploded on government and corporate balance sheets over the last cycle. Household borrowing rates are not far behind. The shift now should be on balance sheet repair and debt repayment and not on earnings growth and increased individual spending. This would 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 ▪ Highly valued & concentrated markets	▪ 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%**

Risks

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

◂ 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

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 ▪ Emphasis on diversified market exposure both in U.S. and non-U.S. markets with no one dominant factor tilt	▪ 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, renewable energy 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

The statements contained herein are based upon the opinions of Palladiem LLC (Palladiem) and the data available at the time of publication and are subject to change at any time without notice. This communication does not constitute investment advice and is for informational purposes only, is not intended to meet the objectives or suitability requirements of any specific individual or account, and does not provide a guarantee that the investment objective of any model will be met. An investor should assess his/her own investment needs based on his/her own financial circumstances and investment objectives. Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Palladiem or its affiliates to buy or sell any securities or investments or hire any specific manager.

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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 m]

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 U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg 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

Palladiem, LLC is a Registered Investment Adviser.

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