Current Investment Strategy and Themes

- ***The failure of the July bear market rally to sustain after the Fed announcements of their inflation fighting commitment highlights the need to focus on the characteristics and strategies within the portfolio holdings.***
- ***Yield protection will lower volatility and lower sensitivity to rising rates, these characteristics within both stocks and bonds will help through this inflationary phase.***

The Markets in Review: August 2022

- For most of August, the markets were optimistic that a "dovish" Federal Reserve policy would return. And then all things would be good again; inflation would fall, the economy would avoid a deep recession, and financial asset prices would rise again. But Chairmen Powell ended that hope with a strongly worded speech on the Fed's inflation fighting program that included such words as "pain", "forcefully", "unfortunate costs" and "for some time". This ended the optimism; stock and bond prices fell, and the S&P 500 ended down over 4% for the month.
- The July rally was hoped to indicate the market bottom. Instead, it now appears as just one of those bear market rallies that occur in conjunction with the volatility in interest rates and sentiment. The early summer stock and bond market's bear rally was fueled by a sharp drop in longer-term interest rates. The yield on the 10-year Treasury bond had been on a steady move upward since November 2021, not coincidently also the peak of the NASDAQ index. In just eight months, the yield rose from 1.54% to 3.49%. The mid-summer bond rally took the yield back down to 2.60%. And now the yield is back near its peak. Despite relief and volatility in some commodities, the overall rate of inflation has not turned downward.
- Equity market direction is often a battle of the rate and direction of the earnings the companies generate, and the interest rate that discounts those future earnings back to a current price. Rising interest rates discount those earnings into a lower price. That is where the market is now. The rising discount rate is causing lower Price to Earnings ratios. The earnings pattern within corporate America is beginning to vary wildly. Energy companies are generating higher earnings, while sectors connected to consumer spending like retailers are facing falling earnings. As a whole, the earnings in the S&P 500 are forecast to be higher in 2022, and then forecasted to be higher again in 2023. The market does not yet believe that the economic slowdown and inflation will substantially impact the earnings ability of all companies when taken together.
- When the current fundamentals and prices appear so negative, investors begin to believe that selling all and leaving the markets is their best option. The data shows that market-timing rarely works successfully. Primarily because the investor lacks the decision rules when to reenter the markets. Instead, investors reenter based on a recent price surge and all they do is capture the end of a bear market rally and sustain further losses, or reenter long after a true bull market has begun. The key to bear market investing is a clearly understand and position the strategies within the bond and stock portion. The keys now are lower duration management, volatility management, and inflation hedges with commodity exposure.

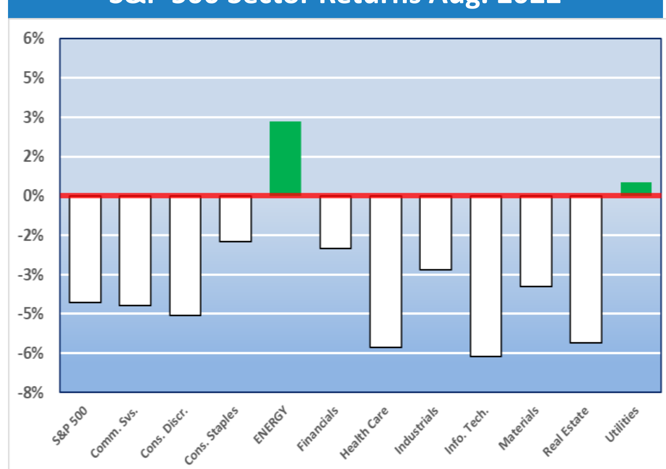
Key Market Indicators

Bullish	Favorable	Neutral	Cautious	Bearish

Equities	Aug 2022	Year to Date	Last 12 Months	Current View
U.S. Large Cap	-4.08%	-16.14%	-11.23%	Cautious
U.S. Small Cap	-2.05%	-17.16%	-17.88%	Cautious
International Developed	-4.75%	-19.57%	-19.80%	Cautious
Emerging Markets Equity	0.42%	-17.49%	-21.80%	Cautious
Fixed Income				
U.S. Aggregate	-2.83%	-10.75%	-11.52%	Bearish
U.S. Government	-2.46%	-9.87%	-10.70%	Cautious
U.S. Corporate	-2.83%	-13.70%	-14.43%	Neutral
U.S. High Yield	-2.30%	-11.22%	-10.60%	Cautious
Non-U.S. Developed	-5.93%	-21.67%	-25.30%	Cautious
Emerging Market Debt	0.32%	-12.66%	-18.30%	Bearish
Alternatives				
REITs	-5.97%	-18.17%	-9.96%	Neutral
Commodities	-1.40%	20.77%	27.95%	Favorable
Managed Futures	4.56%	21.77%	19.75%	Favorable
Hedge Funds	0.95%	-3.63%	-3.93%	Favorable

Source: Morningstar, data as of 8/31/2022

S&P 500 Sector Returns Aug. 2022



Source: Morningstar

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.

Palladiem prepared this Update utilizing information from a variety of sources that it believes to be reliable that may include, but is not limited to, custodians, mutual fund companies, investment managers, Morningstar, Bloomberg, other third-party service providers and in some cases as directed by the client or their representative.

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 market

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 with the SEC. SEC registration does not constitute an endorsement of the Firm by the Securities Exchange Commission nor does it indicate that the Adviser has attained a particular level of skill or ability.

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; or 610-304-6529