

# Monthly Commentary & Outlook – February 2024

## Key Takeaways

- Equities:** Overall defensive posture with a bias toward quality, especially companies with a persistent record of strong positive operating cash flows. Overweight US vs non-US based on expected growth rates. Additional exposure to the innovation theme using dual momentum as a risk overlay. These exposures are based on high valuations and expectations of lower earnings growth ahead.
- Bonds:** Heightened credit risk and slightly lower duration risk than the bond market with an overweight to high quality. We believe in the moniker “higher for longer” with respect to interest rates until there is evidence of a slowdown, specifically in the job market and wage growth.
- Alternatives:** Emphasis on liquid alternatives that demonstrate low correlation and returns independent of stocks and bonds. Currently favor systematic long/short managed futures, actively managed opportunistic commodities, gold, and hedged equities. The push toward the transition to renewable energy will place higher price pressures on metals, etc. Long/short exposure should benefit in an increasingly highly volatile capital marketplace.

## Markets Review and Outlook:

### Equities:

- Equity markets rose across the board in February. The US markets drove the ACWI return (+4.29%); ACWI ex the US was up (+2.53%).
- The S&P 500 cap weighted (+5.34%) continued to outpace the equally weighted (+4.14%). **However**, the S&P Midcap beat the 500 in February. Markets broadened, but not enough to overtake the NVIDIA and Tech mega-cap effect.
- Momentum remains the dominant factor in the S&P 500 (+11.16% in Feb, +17.76% YTD). The Quality factor slightly lagged the 500 during the month. Growth, momentum, and high beta stocks continued to lead the market higher, primarily in the technology and communication services sectors.
- Dividend strategies continued to lag the 500. The S&P 500's index of consistent dividend growers rose 2.68% versus 5.34%. The high-yield dividend payers also lagged the market, rising only 1.89%. **Longer-term, the strategies have fared even worse. Trailing 12-month S&P 500 is 30.45%, vs the consistent dividend growers up only 9.93%.**
- Overseas markets (EAFE) continued to lag the US market, posting a 2.42% return in 2024 to date vs 7.11 for the S&P 500.

### Bonds:

- The Investment Grade Bond indices declined in February as interest rates continued to advance across the curve since bottoming out in late December. The fall 2023 Treasury rally took the 10-year down from 4.98% to 3.99%. The yield is back to 4.25%, and the curve remains inverted.
- High-yield indices, including bonds and leveraged loans, advanced in February, despite the rate rise.

### Alternatives:

- Liquid alternative assets have continued to lag equities and equity-like bonds (high yield) but with lower risk and lower correlation to stocks and bonds.
- Long/short managed futures and commodities continue to provide positive results with lower correlations over longer periods but have experienced more short-term volatility.
- Bitcoin, along with gold prices moved higher due to higher levels of economic and market uncertainty as well as Bitcoins SEC approval of Bitcoin ETFs.

## Market Performance

	Bullish	Favorable	Neutral	Cautious	Bearish	Current View
<b>Equities</b>						
U.S. Large Cap						Cautious
U.S. Mid Cap						Favorable
U.S. Small Cap						Neutral
U.S. Momentum						Cautious
U.S. Growth						Cautious
U.S. Multi Factor						Neutral
U.S. High Beta						Cautious
U.S. Quality						Favorable
U.S. Buyback						Cautious
U.S. Equal Weight						Favorable
U.S. Value						Neutral
U.S. Dividend Aristocrats						Neutral
U.S. Low Volatility						Neutral
U.S. Low Volatility High Di						Neutral
U.S. Select Dividend						Neutral
International Developed						Neutral
Emerging Markets Equity						Neutral
<b>Fixed Income</b>						
U.S. Total Bond						Neutral
U.S. Government						Neutral
U.S. Corporate						Neutral
U.S. High Yield						Cautious
U.S. Leveraged Loans						Cautious
Non-U.S. Developed						Cautious
<b>Alternatives</b>						
REITs						Cautious
Commodities						Favorable
Managed Futures						Favorable
Hedge Funds						Favorable

Source: Morningstar, data as of 02/29/2024

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## Asset Class Allocations

Asset Class/Strategy	Allocation
<b>Palladium Equity Model</b>	
U.S. Large Cap	15.00%
U.S. Equal Weight	15.00%
U.S. Quality	10.00%
International Quality	15.00%
Emerging Markets	10.00%
U.S Energy Sector	10.00%
International Small-Cap	10.00%
Dynamic Innovation	<u>15.00%</u>
	100.00%
<b>Palladium Fixed Income Model</b>	
U.S. Total Bond	30.00%
U.S. Investment Grade Bond	30.00%
U.S. 1-3 Month T-Bill	15.00%
U.S. Short-Term Investment Grade Bond	<u>25.00%</u>
	100.00%
<b>Palladium Alternatives Model</b>	
Gold	20.00%
Carbon Allowances	10.00%
Global Credit Macro Opportunity	20.00%
U.S. Hedged Equity	20.00%
Long/Short Commodities	15.00%
Systematic Long/Short Managed Futures	<u>15.00%</u>
	100.00%

## Multi-Asset Class Allocations

Multi-Asset Class Strategies	Allocation
<b>Palladium Defensive</b>	
<b>Equity</b>	
U.S. Large Cap	7.50%
U.S. Equal Weight	7.50%
U.S. Quality	5.00%
International Quality	5.00%
<b>Fixed Income</b>	
U.S. Total Bond	15.00%
U.S. Investment Grade Bond	10.00%
U.S. 1-3 Month T-Bill	10.00%
U.S. Short-Term Investment Grade Bond	20.00%
<b>Alternative</b>	
Global Credit Macro Opportunity	5.00%
U.S. Hedged Equity	<u>15.00%</u>
<b>Total</b>	100.00%
<b>Palladium Aggressive</b>	
<b>Equity</b>	
U.S. Large Cap	12.00%
U.S. Equal Weight	12.00%
U.S. Quality	10.00%
International Quality	10.00%
Emerging Markets	5.00%
U.S Energy Sector	6.00%
International Small-Cap	5.00%
Dynamic Innovation	15.00%
<b>Alternative</b>	
Gold	5.00%
Carbon Allowances	5.00%
Systematic Long/Short Managed Futures	<u>15.00%</u>
<b>Total</b>	100.00%

Multi-Asset Class Strategies	Allocation
<b>Palladium Balanced</b>	
<b>Equity</b>	
U.S. Large Cap	8.00%
U.S. Equal Weight	8.00%
U.S. Quality	5.00%
International Quality	10.00%
Emerging Markets	5.00%
U.S Energy Sector	5.00%
International Small-Cap	5.00%
Dynamic Innovation	10.00%
<b>Fixed Income</b>	
U.S. Total Bond	10.00%
U.S. Investment Grade Bond	9.00%
<b>Alternative</b>	
Gold	5.00%
Carbon Allowances	5.00%
Global Credit Macro Opportunity	5.00%
Systematic Long/Short Managed Futures	5.00%
U.S. Hedged Equity	<u>5.00%</u>
<b>Total</b>	100.00%

# Important Disclosures

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Index definitions (Some Indexes are represented by ETFs that best track the appropriate passive index net of fees) :

- "U.S. Large Cap" represented by the S&P 500 Index.
- "U.S. Mid Cap" represented by the S&P 500 Midcap 400 Index.
- "U.S. Small Cap" represented by the Russell 2000 Index.
- "U.S. Momentum" is represented by the S&P 500 Momentum Index.
- "U.S. Growth" is represented by the S&P 500 Growth Index.
- "U.S. Multi-Factor" represented by the S&P QVM Multi-Factor Index.
- "U.S. High Beta" represented by the S&P 500 High Beta Index.
- "U.S. Quality" is represented by the S&P Quality Index.
- "U.S. Buyback" represented by the S&P Buyback Index.
- "U.S. Equal Weight" is represented by the S&P Equal Weight Index.
- "U.S. Value" is represented by the S&P Value Index.
- "U.S. Dividend Aristocrats" represented by the S&P Dividend Aristocrats Index.
- "U.S. Low Volatility" is represented by the S&P Low Volatility Index.
- "U.S. Low Volatility High Div" represented by the S&P Low Volatility High Div Index.
- "U.S. Select Dividend" represented by the S&P Dividend Index.
- "International Developed" represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
- "Emerging" represented by the MSCI Emerging Markets Net Return Index.
- "U.S. Total Bond" represented by the S&P U.S. Aggregate Bond Index.
- "U.S. Government" represented by the Bloomberg U.S. Government Bond Index.
- "U.S. Corporate" is represented by the iBoxx USD Liquid Investment Grade Index.
- "U.S. High Yield" represented by the iBoxx USD Liquid High Yield Index.
- "U.S. Leveraged Loans" represented by the iBoxx USD Leveraged Loans Index.
- "Non-U.S. Developed" represented by the S&P International Treasury ex U.S. Index.
- "Emerging Market Debt" is represented by the JP Morgan GBI-EM Global Core Index.
- "REITs" are 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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