

# Monthly Commentary & Outlook – July 2024

## Key Takeaways

- Markets were mixed in July with clear evidence of a rotation in the equity markets from the large-cap AI-related Tech darlings selling off with a higher move for smaller cap and value stocks.
- The froth in the concentrated, non-diversified equity markets (The Magnificent Seven) and less-than-expected earnings results prompted the sell-off in technology stocks.
- As of press time, the markets sharply sold off during the 2<sup>nd</sup> week in August as the uncertainty gauge, the VIX, jumped from a level of 15.81 on July 31<sup>st</sup> to a high of 59.21 on August 5<sup>th</sup>. As with most sharp daily moves in the market, the dust has not settled. Most of these mini corrections are followed by delayed reactions, similar to the waves of the ocean caused by a Tsunami. .
- We believe our portfolios have been prepared for this pick-up in volatility, with risk exposures properly diversified to protect principal investments in this heightened period of global uncertainty.

## Markets Review and Outlook:

### Equities:

- There was a clear rotation in July away from momentum and growth stocks into value-oriented dividend payers across the size spectrum. The big bounce in small-cap stocks was not necessarily the result of any positive fundamental catalysts but was aided partly by hedge funds covering their previous short positions.
- The shift away from the dominant AI-related growth companies was probably due to investor expectations that were too optimistic relative to current price levels for these stocks.
- While growth and the labor market are slowing, the consumer has remained constant in spending despite stubbornly high rates of inflation for common household goods. We would expect this trend to continue, placing further headwinds on corporate profit margins.
- We remain defensive and well-diversified across the multiple value, momentum, quality, and volatility risk factors.

### Bonds:

- Bond prices continued to increase during July as the yield curve shifted lower on high expectations of at least one interest rate cut in September.
- Credit spreads remained tight as credit risk rose during the month. It's now estimated that nearly 15% of short-term levered loans are distressed.

### Alternatives:

- Commodity markets, aside from gold prices, sold off during July due to weaker demand, specifically in China, and expectations of further deterioration in global economic growth.
- Long-short managed futures strategies based on trend-following algorithms were mixed during the month due to a lack of trending.
- We believe base and precious metals will continue to be in strong demand due to the long-term strategic move to renewable energy sources and pressure on a weaker dollar.

## Market Performance

	Bullish	Favorable	Neutral	Cautious	Bearish
	July	YTD	1 Year	Current View	
U.S. Large Cap	1.21	16.61	22.00	■ Cautious	
U.S. Mid Cap	5.75	12.11	15.03	■ Favorable	
U.S. Small Cap	10.79	9.99	14.09	■ Neutral	
U.S. Momentum	-1.96	21.96	31.09	■ Cautious	
U.S. Growth	-1.31	21.90	26.86	■ Cautious	
U.S. Multi Factor	7.05	15.06	22.38	■ Neutral	
U.S. High Beta	2.91	6.04	8.89	■ Cautious	
U.S. Quality	0.73	17.23	24.28	■ Favorable	
U.S. Buyback	5.86	11.57	18.50	■ Cautious	
U.S. Equal Weight	4.08	9.57	13.74	■ Favorable	
U.S. Value	4.73	10.76	16.71	■ Neutral	
U.S. Dividend Aristocrats	5.16	7.27	6.88	■ Neutral	
U.S. Low Volatility	4.38	9.43	9.58	■ Neutral	
U.S. Low Volatility High Di	7.02	14.21	16.13	■ Neutral	
U.S. Select Dividend	7.55	12.75	14.64	■ Neutral	
International Developed	3.32	8.32	11.24	■ Neutral	
Emerging Markets Equity	1.00	8.40	6.75	■ Neutral	
<b>Fixed Income</b>					
U.S. Total Bond	2.35	1.71	5.10	■ Neutral	
U.S. Government	2.19	1.45	4.10	■ Neutral	
U.S. Corporate	2.75	1.43	6.36	■ Neutral	
U.S. High Yield	2.07	4.30	10.50	■ Cautious	
U.S. Leveraged Loans	0.68	4.36	9.25	■ Cautious	
Non-U.S. Developed	2.17	1.65	6.66	■ Cautious	
<b>Alternatives</b>					
REITs	7.75	4.46	10.57	■ Cautious	
Commodities	-3.61	6.51	-0.78	■ Neutral	
Managed Futures	1.89	3.23	-3.13	■ Neutral	
Hedge Funds	2.29	4.47	6.07	■ Favorable	

Source: Morningstar, data as of 7/31/2024

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## Current Asset Class Allocations\*

<u>Palladium Equity Model</u>	Allocation
U.S. Large Cap	15.00%
U.S. Large Cap Value	15.00%
U.S. Equal Weight	12.50%
U.S. Quality	12.50%
International Quality	12.50%
Emerging Markets	10.00%
U.S. Energy Sector	10.00%
Dynamic Innovation	<u>12.50%</u>
	100.00%

<u>Palladium Fixed Income Model</u>	Allocation
U.S. Total Bond Mkt	15.00%
U.S. Investment Grade Corporate	25.00%
U.S. 1-3 Month T-Bill	17.00%
U.S. Short Term Grade Corporate	28.00%
U.S. Short Term TIPs	<u>15.00%</u>
	100.00%

<u>Palladium Alternatives Model</u>	Allocation
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%

## CBOE Volatility Index (VIX)

July 8, 2024 to August 7, 2024



Source: CBOE August 2024

\*Asset Class and Multi-Class Allocations are shown for illustrative purposes only and are subject to change.

# 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 S&P 600 Smallcap 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.
- "Hedge Funds" represented by the ProShares Hedge Fund Replication Index.

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