

# Monthly Commentary & Outlook – August 2024

## Key Takeaways

- Markets were primarily positive during August as investors benefited from expectations of Fed interest rate cuts on evidence of a slowing economy and labor market. Inflation indicators moved lower during the month due to lower demand in the commodity markets and a slowdown in private capital spending.
- Equity markets continued to broaden as investors started to profit from the dominant AI story that has so heavily dominated the market. The higher expected costs of implementing AI also weighed on future earnings expectations.
- The yield curve recently “dis-inverted” as investors’ inflation expectations were adjusted lower due to slowing economic growth and a general slowdown in the jobs market.
- Long-only commodities moved lower on weakness in the energy and base metal sectors, accentuated by the slowdown in economic growth in China.

## Markets Review and Outlook:

### Equities:

- Markets have been focused on upcoming Fed actions based on lower inflation numbers and a slowing labor market. The consensus is dividend on not if they will cut rates on September 18<sup>th</sup> but by how much.
- For equities, our view is on earnings growth and not rate cuts. Rate cuts may put more pressure on the US dollar and benefit overseas holdings for US investors.
- September has historically been a difficult month for stocks. There is also the distraction of the elections and geopolitical tensions. Our focus on exposure remains centered on quality; low debt to equity and free operating cash flows, rather than strictly earnings.

### Bonds:

- The US yield curve has flattened recently, and expectations are for a shift toward an upwardly rising yield curve. With the expectation of several Fed cuts into 2025 and slowing growth, we would expect that some increase in duration for high-quality credit exposures may be warranted.
- Credit spreads remain tight as an economic slowdown typically means increased credit risk. Our view is to overweight high quality with a bias toward the intermediate part of the yield curve. We believe any high-yield exposure should be selective.

### Alternatives:

- Long-only commodity markets continue to languish, except gold. Weak demand and oversupplies in base metals and other commodities have resulted from the global economic slowdown, especially in China.
- Oil and gas prices have remained weak, despite turmoil in the Middle East, Russia and Ukraine. Again, the forces of economic slowdown has affected both supply and demand in the oil field.
- 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
	August	YTD	1 Year	Current View	
U.S. Large Cap	2.41	19.43	26.97	■ Cautious	
U.S. Mid Cap	-0.10	11.99	18.34	■ Favorable	
U.S. Small Cap	-1.44	8.41	17.30	■ Neutral	
U.S. Momentum	3.40	26.10	35.16	■ Cautious	
U.S. Growth	2.19	24.57	30.43	■ Cautious	
U.S. Multi Factor	-0.52	14.47	24.01	■ Neutral	
U.S. High Beta	-1.30	4.67	13.91	■ Cautious	
U.S. Quality	3.49	21.32	29.16	■ Favorable	
U.S. Buyback	2.00	13.81	21.90	■ Cautious	
U.S. Equal Weight	2.45	12.25	20.43	■ Neutral	
U.S. Value	2.95	14.03	23.52	■ Neutral	
U.S. Dividend Aristocrats	3.63	11.17	13.40	■ Neutral	
U.S. Low Volatility	5.19	15.12	18.80	■ Neutral	
U.S. Low Volatility High Di	4.82	19.71	25.52	■ Neutral	
U.S. Select Dividend	3.05	16.18	22.88	■ Neutral	
International Developed	3.24	11.83	19.46	■ Neutral	
Emerging Markets Equity	1.11	9.60	14.40	■ Neutral	
<b>Fixed Income</b>					
U.S. Total Bond	1.44	3.17	7.29	■ Neutral	
U.S. Government	1.28	2.75	6.00	■ Neutral	
U.S. Corporate	1.65	3.10	9.40	■ Neutral	
U.S. High Yield	1.54	5.91	12.01	■ Cautious	
U.S. Leveraged Loans	0.83	5.23	8.99	■ Cautious	
Non-U.S. Developed	0.53	2.16	7.04	■ Cautious	
<b>Alternatives</b>					
REITs	5.29	9.98	20.37	■ Cautious	
Commodities	-1.72	4.68	-2.99	■ Neutral	
Managed Futures	-1.89	1.29	-6.52	■ Neutral	
Hedge Funds	-0.24	4.22	7.10	■ Favorable	

Source: Morningstar, data as of 8/31/2024

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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%

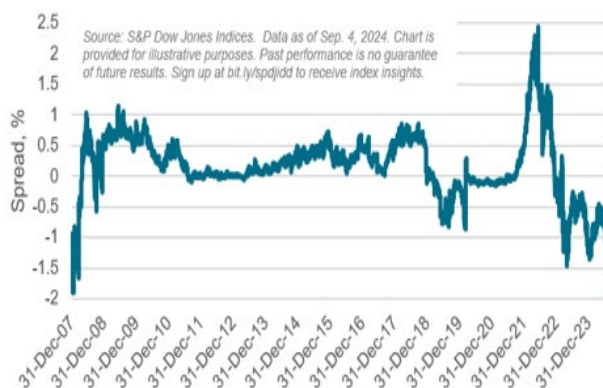
<u>Palladium Fixed Income Model</u>	Allocation
U.S. Total Bond Mkt	15.00%
U.S. Investment Grade Corporate	25.00%
U.S. 1-3 Month T-Bill	17.00%
U.S. Short Term Grade Corporate	28.00%
U.S. Short Term TIPs	<u>15.00%</u>
	100.00%

<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%

## Market Expectation of Rate Cuts

### U.S. 2Y Yields vs. Fed Funds Rate



Source: S&P Dow Jones: September 2024

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

# Important Disclosures

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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.

Palladium has sole discretion in changing allocations to styles and vehicles at any time.

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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