PALISADE
CAPITAL

Our Market View in Summary

August 2024

Economic datapoints that we have been highlighting for months as a sign that the US economy is "normalizing" from some post-pandemic extremes are now being interpreted by some forecasters as a sign of pending recession in the US. Same dataset, different interpretation. Corrections are a normal part of investing, even in bullish markets. Our key assumption is that lower interest rates will cushion the US and Canadian economies from a recession. If that is true, the recent pullback in sectors and themes like oil and gas, growth stocks and small cap stocks should be seen as a buying opportunity.

Key Highlights:

- **Economic Normalization:** US economic data indicates a shift towards normalization with job openings reducing from extreme levels and slight increases in unemployment and credit delinquencies, signaling a return to still reasonable pre-pandemic economic conditions.
- **Interest Rate Cuts:** Anticipated rate cuts in the US starting on September 18th, which come on the heels of three interest rate cuts in Canada, are expected to cushion the economy against potential downturns.
- **Consumer Strength:** The US consumer balance sheet is still in a position of strength after a change in mindset following the 2008-09 Global Financial Crisis led to healthier trends around debt service and savings. Service sectors remain in an expansionary phase.
- **Economic Resilience:** The above points are crucial to see the recent market weakness as normal course, and not as a precursor to a bear market and a recession as voiced by some market pundits and investors in the last few weeks.

Near-Term Outlook:

- **Recession Unlikely:** Despite the market's recent weakness, we assess the risk of a US recession as minimal, supported by strong consumer financial health and ongoing interest rate cuts in the coming year.
- **Market Misinterpretations:** In our view, recent weakness in oil and gas, small cap and some growth stocks should be viewed as a buying opportunity.
- **Oil Price Bounce Potential:** We expect that overly bearish positioning in the crude oil markets should set up a contrarian bounce in the coming weeks, especially considering low oil inventories, flat US oil production and a recent commitment by OPEC+ to delay the return of some previously curtailed oil production.

Despite the market's bearish interpretation of recent economic data, our analysis supports a continued growth trajectory for the US and Canadian economies through 2025. In our view, the recent downturn in certain sectors/themes should be regarded as temporary fluctuations, typical of normal market behavior, even in bullish markets. Our medium-term investment outlook remains intact. We like interest sensitive stocks, oil stocks and select growth stocks into 2025.

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August 2024

Fellow Palisade Investors and Friends,

Please find attached our August 2024 Monthly Update, as well as the Fund Fact Sheets for the Palisade Funds. **This month's client conference call is scheduled for Wednesday, September 18th at 11am MT.** The Teams meeting details will be provided the morning of the call. In conjunction with this call, we will be emailing out a presentation that contains data and charts to further detail our thought process and outlook. We look forward to speaking with you then and answering any questions you may have.

All Fund performance figures are shown net of fees and expenses and include changes in security values and distributions paid. Palisade Vantage Fund performance figures include the reinvestment of distributions. The Palisade Vantage Fund currently pays a regular quarterly distribution of $0.11 per unit, or $0.44 per unit per year. The Palisade Select Fund and Palisade Absolute Fund pay irregular annual distributions for years in which taxable net income is positive.

MARKET COMMENTARY – OPPOSITE SIDES OF THE SAME COIN

Generally speaking, we all have access to the same economic data - investors, computers, members of the US Federal Reserve Board, the Bank of Canada and the general public. How that data is interpreted is in the eye of the beholder. The US Federal Reserve has chosen to interpret the data patiently and wait until September 18th to cut interest rates, while the Bank of Canada has already cut rates three times. We look at recent economic data and see a strong US economy normalizing into a lower growth (and lower inflation) operating environment. However, in recent weeks some investors have chosen to view the same data in a negative light and are fearful of a US recession, which has brought down most stocks with the exception of interest sensitive names.

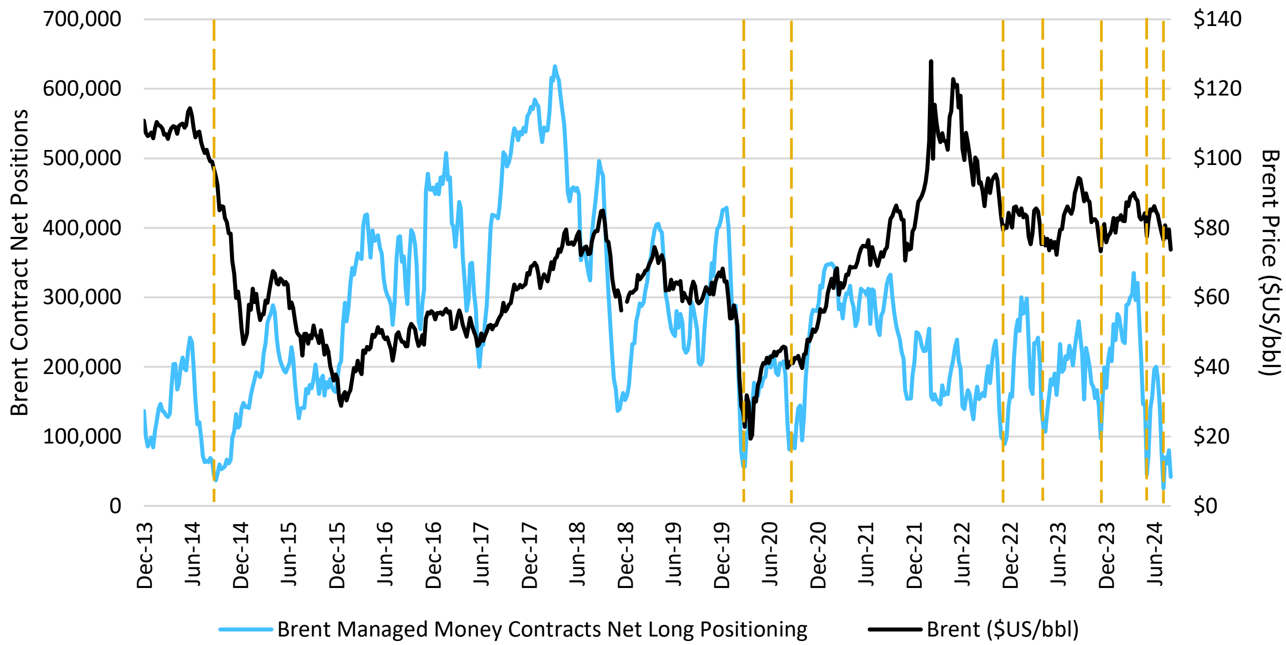
Over the last few months, we've been highlighting what we think is a "normalizing" of some of the core economic data in the United States. Job openings moving down from a record high to a still strong, but much more normal level over the last two years; the unemployment rate ticking up, but still within the historical range; credit delinquencies moving a little higher, etc. As we said above, we have viewed these changes as a move back to a more "normal" economic environment after four years of COVID, zero interest rates, global logistics nightmares, the first outsized bout of inflation in 40 years and the quickest increase in interest rates in the modern investing era. We continue to maintain this view.

Now in the last six weeks we have seen investors viewing the exact same data as a warning that a recession may be on the way in the United States. Same data, different interpretation. Throughout this recent cycle of weakening economic data, we have held our view that recession risk is still very limited. We still maintain that view today for the following reasons:

1) Interest rates are down 0.75% in Canada and the US is just about to embark on an interest rate cutting cycle that will act as a buffer to the broad economy
2) The US consumer has been in a strong financial position for the last decade as the pain felt in the Global Financial Crisis in 2008-09 changed habits around spending and saving that resulted in personal balance sheets being as strong as they have been in over 40 years
3) The US economy has changed to the point that it is driven on innovation and technology, which is less prone to traditional economic cycles
4) Other economic data points continue to point to a resilient economy – the ISM Services index remains in an expansionary phase, US Job Cuts are basically flat year-over-year and Initial Jobless Claims, while up slightly, are still near historic lows

These recession fears have not only brought down growth stocks in the last two months, but also economically sensitive stocks, which in the context of this commentary, means oil and gas stocks. We had previously felt that lower interest rates would buoy the price of crude oil because we felt the risk of demand destruction would be lessened if the US economy was protected by lower interest rates.

Again, same data, different interpretation. In the short term, we have seen speculative traders push bearish bets on the price of oil to extremes, all on the fears of a US recession brewing for 2025. Below is a chart of net contract positions in the Brent crude trading markets. As you can see, we haven't seen net long positioning this low in the last ten years. The current net long position is roughly equal to previous lows in 2014 and the COVID lows of 2020. More recently, traders are now more bearishly positioned than previous lows in January 2024 and May of 2023, among others. Each time that we've seen a similar level of bearishness, the price of crude oil bounced within a few weeks' time. The clear outlier is 2014 when the price of oil continued to decline, but in that world we had unfettered production growth and more competition for market share between OPEC+ and western producers. The operating market then was completely different than the current environment, especially if we have a resilient US economy.



Source: Bloomberg

Concurrent to these extremely bearish positions, we have also seen large draws in US crude inventories, US oil production flatlining for the last 10 months, crude inventories trending near the low end of the five-year range and OPEC+ delaying their plan to bring incremental production back onstream. As a result, we would expect to see an improvement in the price of crude oil in the coming weeks.

At the end of the day, the economic data is what it is – we're all looking at the same data. In the short term, the market has chosen to view the same data that we have interpreted as a "normalizing" of the economy in a more bearish light. We continue to think that the US (and Canadian) economies will continue to grow and avoid a recession in 2025. In our view, the current pullback in oil stocks, small capitalization stocks and select growth stocks should be seen as a buying opportunity, or at the very least as short-term noise in the context of normal stock market behavior that typically sees a couple of high single digit pullbacks per year.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was down 2.8% in August. The S&P/TSX Capped Energy Index ("Energy Index") was down 2.3% and the WilderHill Clean Energy Index ("ECO") was down 10.4% for the month. As discussed above, recession fears have pulled oil and gas stocks lower over the last month and during the early days of September. We think those recession fears are unfounded and are masking a positive underlying improvement in the supply/demand balance for oil. We have seen healthy inventory draws in an already low inventory environment, flat US production over the last 10 months, OPEC+ announcing that it will not bring production back online for at least the next two months (which we think is more appropriately viewed as an ongoing willingness to manage supply to support a healthy oil price), and we currently sit with excessive bearish sentiment in the crude oil trading markets, which has typically preceded an oil price rally in the subsequent two to three month period. We all know that oil stocks can be volatile, but as we focus on the medium term and the underlying fundamentals, we think that we are setting up for a strong rally. There have been limited changes to the PSF in the last month, as the holdings remain focused on oil over gas, mid and larger capitalization over small capitalization, and high quality over low quality.

The **Palisade Absolute Fund** (“PAF”) was down 0.6% in August. The changes in the holdings of the PAF that we reported last month continued this month. We added more interest sensitive names and lowered the exposure to growth-oriented names through August and the early part of September. We have sold our entire positions in Dollarama and Constellation Software and have added more exposure to interest sensitive names like Sienna Seniors Living, Brookfield Renewable Partners and Fortis. On the US side of the portfolio, we similarly trimmed more growth names but have maintained exposure to financial/consumer companies like Visa, Mastercard and Goldman Sachs, which have been highlighted in our stock selection screens for many months. We remain committed to our screens and have kept overall exposure a little lower than usual with net exposure currently around 60%, being mindful of the increased volatility in the markets and the quick rotations between sectors/themes that are happening under the surface.

The **Palisade Vantage Fund** (“PVF”) was up 3.1% in August. For the month, the S&P/TSX Canadian Dividend Aristocrats Index was up 1.6% while the S&P/TSX Composite Total Return Index was up 2.4%. As a continued tailwind for the PVF, interest sensitive stocks were a positive standout this month versus some broader volatility in other sectors. PVF is up approximately 9.5% in the last two months (19.5% in the last year), and we continue to believe that it’s still early days for the positive move in interest sensitive stocks that began in July. The US Federal Reserve will cut interest rates on September 18th and the Bank of Canada has already cut rates three times in 2024 (0.75% of total cuts) and will continue to cut rates at upcoming meetings. The market has certainly priced in some of those moves, but we expect more upside from interest sensitive equities, which represent the large majority of PVF, through the balance of 2024 and into 2025.

If you have any questions, please feel free to reach out at any time.

All the best,

THE PALISADE CAPITAL MANAGEMENT TEAM

Please note that it is the responsibility of each investor to inform Palisade Capital of any changes to the information provided to us on the most recently completed Know Your Client (“KYC”) information form or subscription agreement. Please contact Marni Friesen at (403) 531-2673 or marni@palisade.ca to provide any such updates. If you no longer wish to receive the Monthly Update, please send an email to info@palisade.ca.

All Palisade Fund performance figures are shown net of fees and expenses and include changes in security values and distributions paid. Palisade Vantage Fund performance figures include the reinvestment of distributions. Income taxes would have reduced returns. The Funds are not guaranteed. Performance of the Funds will fluctuate and past performance may not be repeated. To establish relative performance yardsticks for the Palisade Funds, we provide comparative references to the S&P/TSX Composite Total Return Index (“TSXTR”), the S&P/TSX Capped Energy Index (“Energy Index”) and the WilderHill Clean Energy Index (“ECO Index”). Those indices are relevant to our portfolio content however the TSXTR, Energy Index and ECO Index data is provided for general reference purposes and their content should not be construed as directly comparable to the content of the Palisade Funds.