

As 2026 unfolds, capital is shifting decisively from US growth dominance towards commodities, international markets, and value sectors — areas that have lagged for a very long period of time. This rotation is a clear tailwind for Canada. While we don't expect a 15-year bull cycle like growth stocks experienced after 2009, we believe that significant runway remains for real assets like oil and real estate and for more industrial sectors like transports. Conversely, extended weakness in software is finally driving prices down to levels where legitimate, fundamental value is re-emerging.

Key Highlights:

- **Momentum in Real Assets:** Energy and industrials are finally trading on the positive changes in their business models and more favorable fundamental outlooks. Investors are now buying dips quickly, signaling that these sectors have established a durable trend independent of broader tech and growth selling.
- **The AI Capex Anomaly:** Hardware remains uncorrelated to the software selloff, buoyed by massive spending. AI capex from just the four large hyperscalers (Microsoft, Amazon, Google and Meta) is expected to be 2% of total US GDP in 2026!!
- **Software Capitulation:** Indiscriminate selling driven by AI displacement fears has pushed sector prices to decade low valuations. The market is ignoring the defensive moats of proprietary systems that cannot be simply "vibe coded" away.
- **Correlated Factors:** Energy, materials, and industrials show tightening correlation, benefiting from shared "value" factors. Government focus on infrastructure and critical mineral security is further driving this structural shift.

Near-Term Outlook:

- **Early Innings for Rotation:** In our view, this rotation into value is the start of a multi-year cycle, not a quarterly blip.
- **Commodity Catch-up:** Equities have moved first in anticipation, but we expect spot commodity prices to catch up in late 2026. As excess supply is absorbed, the physical market should validate current stock valuations with higher commodity prices.
- **Bifurcated Tech Opportunity:** We are targeting "beaten-up" quality software. The market is mispricing complex, integrated platforms as being easily replicable, offering a buying opportunity in resilient business models having stable growth.

While "factors" like momentum drive short-term returns, fundamentals like free cash flow always win in the long run. Commodity sectors are now reaping the rewards of prioritizing these traits, while the indiscriminate sell-off in growth offers a rare chance to acquire quality compounders at distressed prices. Whether through resurgent hard assets or discounted software, our focus remains on capitalizing on these disconnects between market sentiment and business reality.

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Fellow Palisade Investors and Friends,

Please find attached our January 2026 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and commentary regarding the various Palisade Wealth Management model portfolios. **This month's client conference call is scheduled for Thursday, February 12th 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 Horizon Fund pay irregular annual distributions for years in which taxable net income is positive.

MARKET COMMENTARY

As 2026 plays out, we see ongoing rotation under the surface in markets that favor commodities, international markets (i.e. non-US), small cap and value-oriented sectors. This is a clear benefit for Canada, but also for some sectors and strategies that have been out of favor for some time. Small cap stocks have lagged for over a decade but have traded strongly in the last few months. Commodities had been discarded due to fears of excess supply and lack of scale and free cash flow. Commodities sectors had shrunk to a record low percentage weighting of major indices around the world. All sectors were forced to bend the knee to growth stocks and US markets. We are now seeing the reverse of that with commodities leading the way. While we don't think this outperformance in the above factors will continue for 15 years the way that growth outperformed value since the lows of the Global Financial Crisis (GFC) in 2009, we do think there is more runway for sectors like oil and gas, industrials, transportation, real estate and select financials.

On the other side of this rotation, we're seeing some extended weakness in software stocks and other growth stocks which have taken share prices down to levels that exhibit real value (more on this in a moment). As money sloshes back and forth between growth and value, we want to be mindful to pick up some beaten-up names with stable growth projections and defensible competitive positions. In the short and medium-term, momentum and investing "factors" like value or growth or quality can lead the way, but in the long-term, fundamental characteristics like earnings growth, profitability and free cash flow generation tend to win out. In light of this, it has been interesting to see commodities sectors change over the years to pivot their business models to reflect these long-term winning characteristics, and it seems to have been paying off in the last six to 12 months.

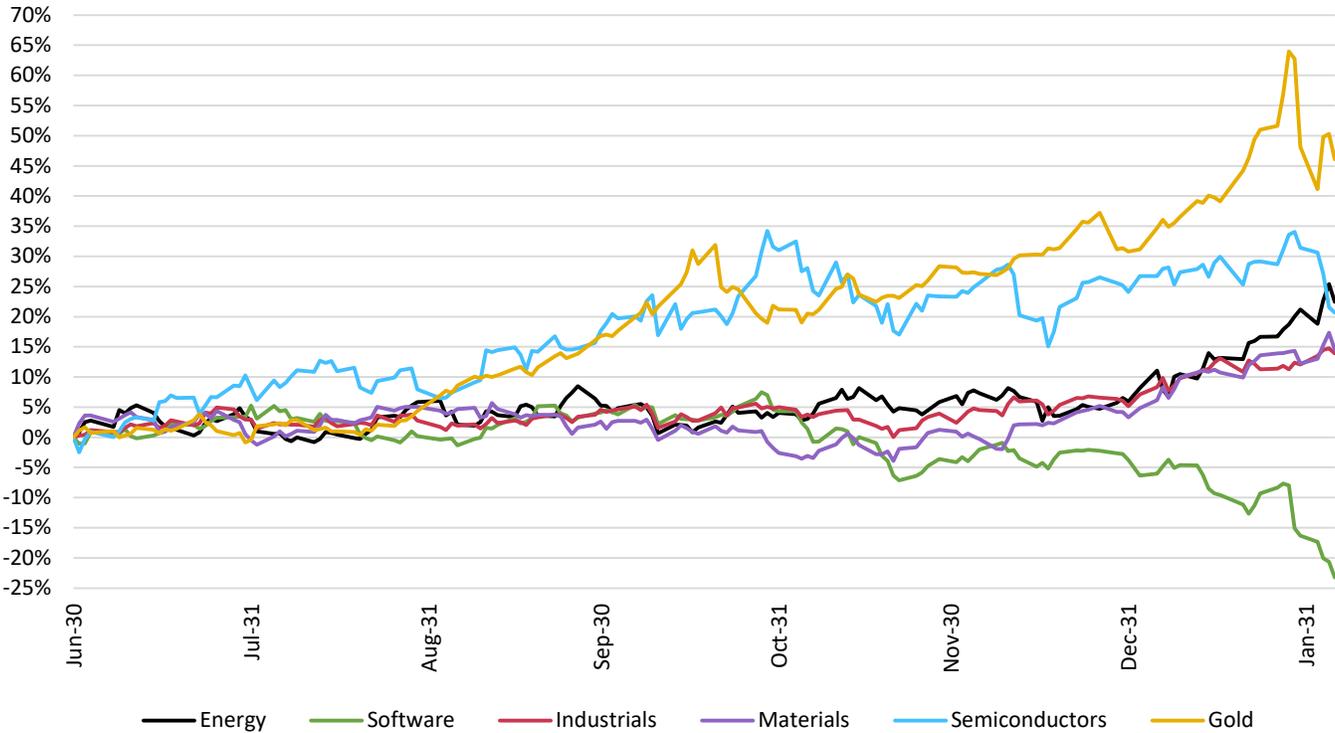
We want to illustrate more directly how aggressive the rotation has been under the surface in the last few months. The following chart shows the progress of stocks associated with the factors noted above over the last seven months. The chart shows subsector performance in the US. Not surprisingly, gold is at the top of the chart, with consistently higher prices until just the last few weeks. The bottom line is software, where stock performance has been accelerating lower in the last few weeks, to the point that some legitimate value is appearing. The performance gap between gold and software is now 70% in only seven months! Some reversion to the mean is likely.

Interestingly, technology hardware (the light blue semiconductor line) has been doing its own thing over that time frame, performing reasonably well and not really correlated to any other sector. These names have benefited from the ever-growing amount of money being dedicated to the buildout of AI infrastructure. Considering current estimates from the large players like Microsoft and Google, such capex spend will be greater than 1% of the entire US economy!

In the middle of the chart, you see some of the commodity and industrial sectors providing a more recent rally over the last three months, which we think has room to run. Energy, materials and

industrials have been reasonably highly correlated over that time due to the common traits they share across stock market factors. It's also helpful to see more focus from governments on infrastructure buildout, critical mineral security and new trade relationships that should help to drive these stocks forward for longer than a few quarters.

S&P 500 Sector Performance Indexed to June 30th 2025



Source: Bloomberg

Stock markets often follow Newton’s First Law of Motion “An object in motion stays in motion”. This speaks directly to momentum factors that have worked so well since the GFC lows in 2009. Growth stocks got in motion after the GFC and they largely stayed in motion for the next 16 years. What makes the current situation interesting is that we are seeing other parts of the market (value, commodities, etc.) work well for the first time in many years, with stocks trending higher on their own characteristics and investors committing to those moves and buying dips quickly when they occurred over the last few months. While these sectors have been working well for the past six to nine months, that is still early days from a stock market cycle perspective. We could easily see these sectors outperform for a few years as these “objects” have just now got into motion and could stay in motion to the benefit of Canadian and global investors for the next few years.

PALISADE MODEL PORTFOLIOS UPDATE

The Palisade Portfolios are built on a foundation of external investment funds chosen for their enduring track records and strong risk-adjusted potential. A key advantage of our structure is the heavy weight given to non-correlated investments, which helps to insulate the portfolios from daily market noise and target the minimization of downside risk during equity corrections. Although performance in areas like real estate, risk arbitrage, and private equity has been softer than usual in the last year, we view the overall opportunity set as compelling. We are currently optimizing the portfolios by onboarding new managers in high-performing categories such as private equity secondaries, business loans, and long/short equity. These adjustments are intended to boost return potential while preserving the low-volatility characteristic that defines our strategy.

Further details regarding our model portfolios are available on our website under “Investment Offerings” (www.palisade.ca).

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 6.6% in January. The S&P/TSX Capped Energy Index ("Energy Index") was up 11.2% and the WilderHill Clean Energy Index ("ECO") was up 10.5% for the month.

Interestingly, despite the US actions in Venezuela (starting the sale of Venezuelan oil inventory), which could be seen as bearish, and a cold snap in North America (bullish) that saw natural gas prices more than double in a week, we saw crude oil prices and oil stocks outperform, while natural gas oriented equities underperformed this month. These are all short-term movements that don't impact our positive medium-term outlook for both commodities, but it is interesting to see the market make it as difficult as possible for investors on a short-term trading basis.

Overall, the PSF had a good month, but lagged the Energy Index because PSF has more exposure to natural gas names, while the Energy Index is significantly weighted towards large cap oil stocks like Canadian Natural Resources, Suncor, Cenovus and Imperial Oil. We had made some changes in the middle of the month that saw us sell around 10% exposure in oil weighted names that was then allocated towards US refiners and some energy service stocks. Those new positions still made us some money this month, but less so than some of those sold oil-oriented positions.

Big picture, in our view, the bullish investment thesis for both oil and gas remains intact and we expect the sector to continue to perform well in 2026. That said, we do need to see some commodity price support at some point in the back half of the year. It is normal course in commodity investing to have the stocks move up first in anticipation of higher commodity prices later as the supply/demand dynamic tightens. We have seen both oil and gas stocks trade well over the last six to nine months, so we expect to see commodity price strength to sustainably show up later in 2026.

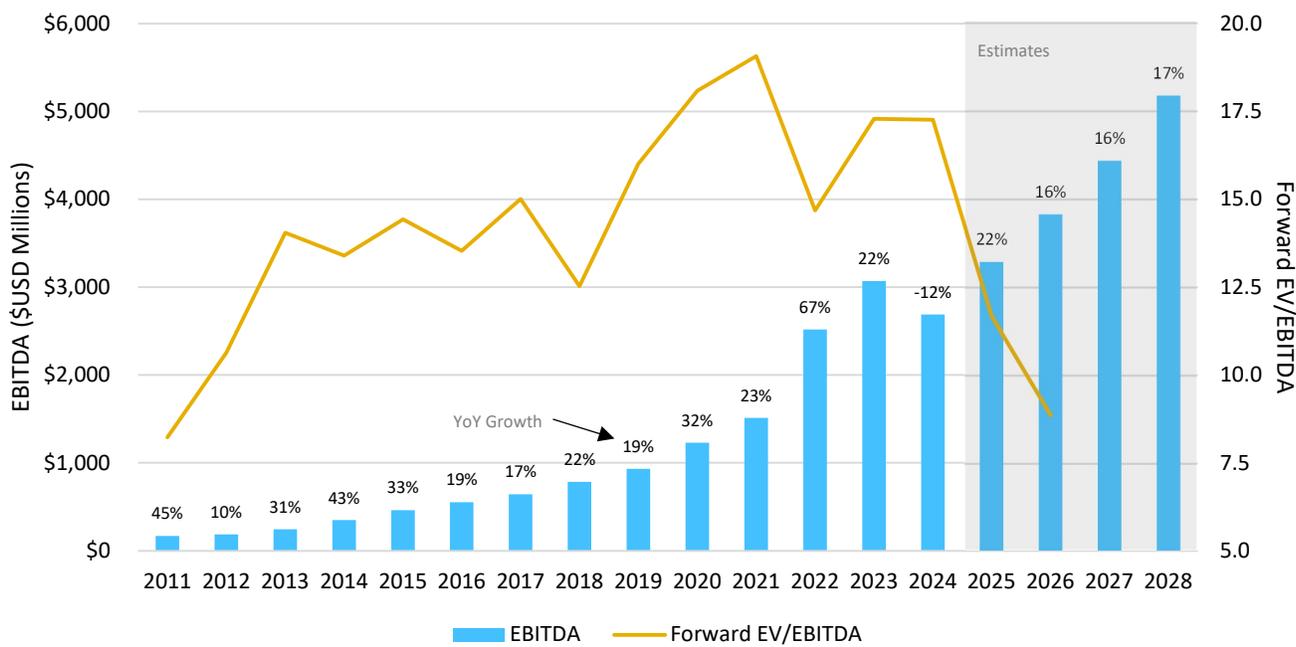
Oil prices have traded very well since the announcement of the US taking control of Venezuelan oil supplies (which should have been a bearish development). Sources of excess supply keep getting added to the market (Iran sanctions, OPEC+ production cuts, Venezuelan floating storage, etc) without wiping out the price of crude oil. As demand continues to grow and less excess supply is available to the market, we think a natural tightening of supply vs demand is ongoing, which should lead to higher oil prices sometime in 2026. It is also helpful to have stock market momentum attached to key factors that are beneficial to oil and gas stocks – currently constructive factors such as "value", "small cap", "international" and "commodities" are all associated with the energy sector to one degree or another. Our bullish outlook for the sector remains intact.

The **Palisade Horizon Fund** ("PHF") was down 2.9% in January. The course of the month has resulted in a mixed bag of strategy payout and sector rotation. In the previous month, we added a basket of beaten-up quality Canadian names like Constellation Software, TFI International, Descartes, CGI Group and WSP Global in order to complement our screen outputs and to take advantage of the tax loss selling pullback that occurred during November and December. However, the success of that strategy has been bifurcated into two baskets of performance. While we did see a recovery in the industrial and transports names like TFII, WSP, Stantec and RB Global, we were negatively impacted by a broad and indiscriminate selloff in software names due to broad fears of all software "being replaced" by cheap AI-made code.

In our opinion, this broad software selloff is unjustified due to the variation in business models across the software providers, resulting in varying degrees of vulnerability. The AI risk of software comes down to whether the software is just a wrapper on an otherwise easily accessible data source, if the data source itself is proprietary, if the network effects of the software are too complex to replicate, or if the software is tied to a physical reality that cannot be vite coded. For example, in Shopify's case, it might now be easier to make a website design platform (even though one could argue that even that product alone has become incredibly complex), but it is much harder to replicate their other cohesive products of payments, logistics, accounting and other products/networks that work in unity which would be required to make a clone of the business model. These types of integrated systems cannot be simply replicated through code alone. Notwithstanding, this has not stopped the general risk-off attitude that we have seen across the sector which has led to double digit software company declines in January alone.

As a case study for the indiscriminate sell off that we have seen in the software space, below is a chart of Constellation Software’s historical and forecasted EBITDA growth along with its forward EV/EBITDA valuation. Following the ~53% selloff from its peak in May 2025, CSU now trades at the same valuation it had in 2012, while having grown its EBITDA by over 17 times since then, from being an early-stage acquirer to being one of Canada’s largest conglomerates. The company is currently expected to continue growing its EBITDA at an average of ~16% per year over the next three years. All this while trading at a valuation that would otherwise signal a business model in distress...!

Constellation Software Historical & Forecasted EBITDA & Forward EV/EBITDA Multiple



Source: Bloomberg

Overall, while frustrating in the short term, this dynamic should afford us opportunities to take advantage of some of the pullbacks that we are seeing in the more resilient business models across the software space. Throughout the month we have increased our CSU and SHOP positions, and we will continue to monitor for other attractive opportunities as a potential bounce in these names becomes more visible.

The **Palisade Vantage Fund** (“PVF”) was up 0.8% in January. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index (“Aristocrats Index”) was up 1.9%, while the S&P/TSX Composite Total Return Index (“TSX Composite”) was up 0.8%.

The PVF is in a somewhat unique situation, in that it benefits from the trade towards Canada and the value factor, but not in an overly volatile way because we generally don’t include too much direct commodity exposure in the fund. There is some oil and gas exposure through royalty companies and energy infrastructure, but those companies are typically much less volatile than the direct commodity producers. We want some of that exposure in order to take advantage of the momentum in those sectors, so we maintain holdings in Topaz Energy, Freehold Royalties and even Russel Metals, but we also like those names because they pay a higher dividend yield and continue to execute well from a management perspective.

Lower interest rates are starting to wane as a driving force in the stock market, but we do think that some degree of lower rates will happen in the US in the coming months. This might not have much of an impact on Canadian rates likely being maintained at the current level of 2.25%. For this reason, we want a little more industrial exposure in PVF and focus on companies with operating momentum in interest sensitive sectors like real estate. In such case, our holdings in Chartwell and Granite REITs should continue to benefit, even if rates don’t go down much more from here.

We hope your year is off to a great start. We appreciate your support and we're always open to chat about any questions you may have.

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 Kseniia Suvorova at (403) 531-2675 or kseniia@palisade.ca to provide any such updates. If you no longer wish to receive the Monthly Update, please send an email to clientservice@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.