PALISADE CAPITAL

Our Market View in Summary — December 2025

2026 is kicking off much like 2025: aggressive headlines and policy-by-tweet creating surface-level confusion while markets quietly grind higher. We believe this noise obscures the real story—a shift toward pro-growth policies and lower interest rates. The US is poised to lead global economic expansion, effectively forcing other nations to address stagnant productivity and restrictive regulations. While the news cycle suggests chaos, the investing environment is setting up for a solid year driven by profit growth and a much-needed pivot in economic policy across Western markets.

Key Highlights:

- Defying Sentiment: 2025 defied bearish expectations regarding tariffs and housing - the S&P 500 Index rose 16.4%, while the S&P/TSX Composite Index (+28%) and International markets (+27 to 31%) significantly outperformed.
- US Acceleration: The US economy is gaining speed, with Q3 GDP growing at an annualized 4.3% and Atlanta Fed estimates for Q4 suggesting a potential surge to 5.4%.
- Inflation Normalized: Risks here are overstated. M2 money supply growth has returned to historical trends (1995–2019 levels). Inflation being under control is also supported by moderating rents and wage growth.
- Quality Disconnect: Despite broad index strength, we saw valuation compression in high-quality leading Canadian companies in 2025, with some trading at depressed multiples not seen since 2013.

Near-Term Outlook:

- Headline Volatility: We anticipate a "headline rollercoaster" but a positive baseline for returns in 2026. Broad economic growth combined with ongoing impacts of AI are expected to drive corporate profitability growth and move stocks higher.
- Energy Realities: While US moves regarding Venezuela present a sentiment headwind for Canadian heavy oil, the risk is exaggerated. Ramping Venezuelan oil supply will take years and billions in capex, resulting in minimal impact on near-term global balances.
- Policy Tailwinds: We are in the early innings of a regulatory shift. Governments are gaining the "social license" to reverse restrictive economic policies, creating a long runway for better operating environments.
- Thematic Growth: AI remains the dominant growth theme of the decade, with impacts continuing to surprise to the upside beyond just the core hardware providers.

We expect 2026 to be noisy, but profitable. With the US administration laser-focused on growth and the US Federal Reserve likely to cut interest rates further, the ingredients are in place for a booming economic environment. Profit growth and economic momentum can quickly make today’s valuations look reasonable. From an investing perspective, the pieces are in place to generate attractive total returns in both Canada and the US, provided we look past the daily volatility and focus on the accelerating economic data.

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December 2025

Fellow Palisade Investors and Friends,

Please find attached our December 2025 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and commentary regarding the various Palisade Wealth Management model portfolios. Per our schedule of holding two client conference calls per quarter, we are not planning a call for this month. That said, we are always happy to answer questions about the markets, so please feel free to reach out at any time.

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

Well, 2026 is off to a start that is reminiscent of the full year of 2025. Tweets being fired off at a furious rate determining US government policy without much or any collaboration, hot takes being splattered all over the financial and news media outlets, and all the while the stock market takes the news in stride on the surface, which obscures more material moves happening in individual sectors under the surface. We think this will continue to be the theme for investors throughout 2026 – splashy and fearful headlines, lots of confusion and nervousness about the outlook for markets, but through it all markets will end up in a decent spot at the end of the year. We expect this due to profit growth - not only in the US, but also in international markets - lower interest rates and a focus on US economic growth from the White House and also in non-US markets as governments (most notably Canada) are forced to deal with long standing issues around stagnant productivity, lack of innovation, invasive regulatory environments and stifling tax regimes.

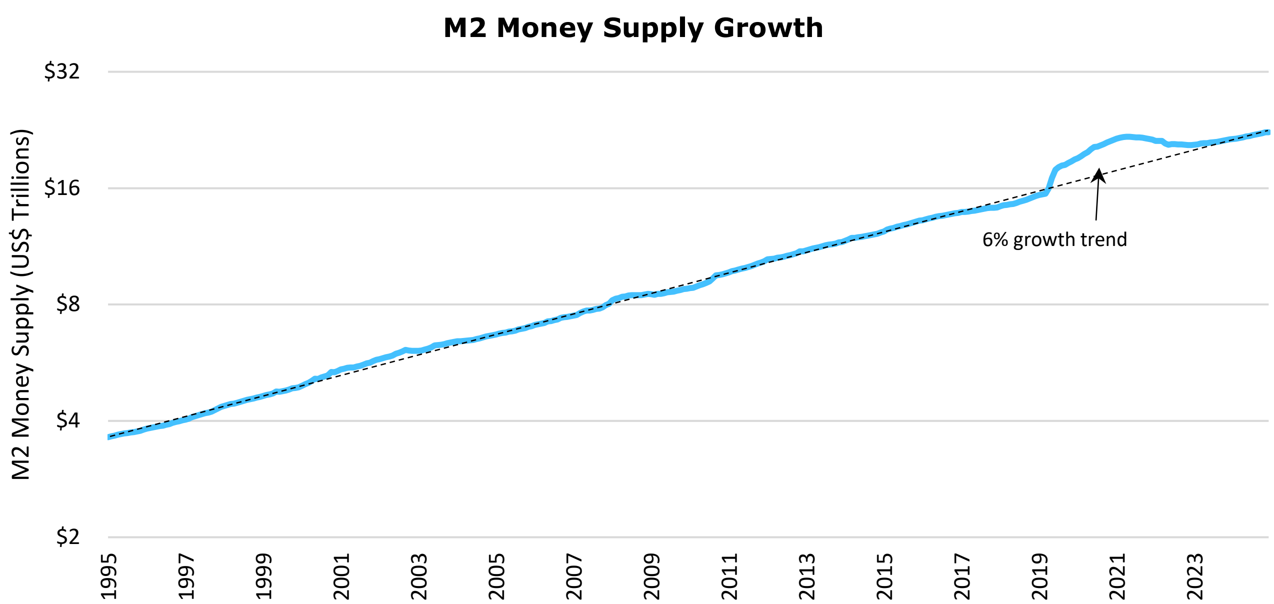
Negative news headlines highlight the concerns and are the catalyst for much needed policy change and allow governments the social license to change long standing policies (economic and environmental) that had morphed almost into cultural monoliths across many western countries. Policies and regulations moved in one direction for many decades (more of each, with less concern for economic outcomes as a secondary component of this trend) so the fact that we are in the early innings of change in the opposite direction should give investors a comfortably long window during which to expect incrementally better operating environments for all types of businesses. The US is poised to lead the pack in economic growth in 2026 and that will force/pull other countries along for the ride in one way or another.

2025 was a good year for US stocks, with the S&P 500 Index up 16.4% for the year, but it was an even better year for international and emerging markets stocks. The iShares MSCI EAFE (Europe, Australasia, Far East) ETF was up 27% and the iShares MSCI Emerging Markets ETF was up 31%. It's also important to note that the S&P/TSX Composite Index was up 28% in 2025. This was certainly not the outcome expected by many earlier in the year when tariffs were expected to have a major negative impact on the Canadian economy and the housing markets, particularly in Ontario and British Columbia, weakened notably, even as interest rates were lowered throughout the year. Throughout 2025 we typically saw more bearish than bullish investor sentiment readings, yet stock markets performed well. This is not normal behavior - and we expect more of the same in 2026.

We're going to see more focus on economic policies and lower interest rates in 2026. This is a positive baseline for return expectations over the next 12 months. And while valuations are high in some parts of the market, there is still sufficient value in small caps, resources, international markets and other pockets of the market to facilitate ongoing rotation between sectors and to keep that money in the market as time passes, rather than just seeing money move into or out of stocks. In addition, AI continues to be the dominant growth theme of the decade which continues to surprise to the upside in terms of impact to sectors outside of the core software and equipment providers like NVIDIA and Microsoft.

In Q3 of 2025 the US economy grew at an annualized rate of 4.3%, led by strong consumer spending and a big increase in exports of 8.8%. The US administration is hyper-focused on economic growth. While there are many negatives associated with the current US administration, from an investing perspective we need to keep focused on the economic data, and that data is clearly accelerating. Current estimates for Q4 2025 GDP growth from the Atlanta Federal Reserve are at 5.4%! We have mentioned these estimates regularly in the past and note that historically they can be a little on the high side, but even if the number for Q4 were to come in below current estimates it will surely be a strong number regardless. If you add in the fact that the US Federal Reserve is likely to cut interest rates further, the recipe is in place for 2026 to be a booming economic environment in the US. Profit growth and economic momentum can make stocks that currently look expensive much more reasonably priced as earnings estimates grow alongside the broader economy.

You might say "Well what about inflation? Isn't that a major risk if the economy is growing strongly?" and to that we say yes, that may be a risk, but we think the risk is overblown. Inflation is largely driven by money supply growth, which happens naturally as the economy grows, but happened much more quickly and dramatically during COVID, which was the primary driver of the inflation we saw in 2021 and 2022. The chart below shows the growth of money supply in the US going back 30 years and as you can see, current levels of M2 money supply are right on track with historical growth trends going back to 1995. There was an outsized acceleration in that growth rate starting in 2020, which led to outsized inflation in subsequent years. The US Federal Reserve worked to control money supply in 2022 and 2023 which produced a rarely seen decline in M2 money supply and now the growth rate has resumed at a normal level. This isn't to say that there is no risk from inflation, but rents are down, gasoline prices are down and wage growth has moderated, which should limit the risk of ongoing upward surprises in inflation rates.



Source: Bloomberg

We expect 2026 to be a rollercoaster from a headlines perspective, but from an investing perspective there are many pieces in place to create an attractive total return over the next 12 months in both Canada and the US.

PALISADE MODEL PORTFOLIOS UPDATE

The Palisade model portfolios are constructed largely using third-party investment funds from a collection of managers with long-term track records that we view as having attractive risk/return profiles. An important point to emphasize is that the allocations of our model portfolios include a large number of investments that are not tied to the daily performance of the stock market, which should generally see the model portfolios exhibit much less volatility month-to-month, and most importantly, much less downside through challenging stock market periods. Over the last few months, we have seen returns across various investment strategies moderate. Real estate, risk arbitrage, private equity and others are seeing returns in 2025 below their historical averages. While our investment portfolios remain focused on quality, we are making some changes to our models to bring in new funds whose strategies have produced a higher return profile in recent years. Overall, we view our model portfolio returns as continuing to be attractive from a risk/reward perspective, but we are integrating new managers in the long/short strategy, business loans and private equity secondaries to continue to target enhanced returns with lower volatility than the stock market.

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 down 0.5% in December. The S&P/TSX Capped Energy Index ("Energy Index") was down 3.3% and the WilderHill Clean Energy Index ("ECO") was down 2.8% for the month.

Despite the US actions in Venezuela occurring in the month of January, we think it's best to focus on those developments rather than what occurred in December, largely because the investing environment has changed notably since the end of the year.

If you're reading this monthly update, you're likely already up to speed on much of the commentary and details regarding the practical takeover of the Venezuelan oil and gas industry by the US government. Clearly this is an incremental headwind to certain parts of the Canadian oil and gas industry, most specifically the heavy oil producers. As of writing, we haven't made any material changes to the holdings of PSF, but it is likely that we will trim some of our holdings in the heavy oil exposed names. The emotion is very high and very negative at this exact moment, and that historically has not been the best time to sell, but in the coming days and weeks we may trim some names. Sentiment and headlines were already very negative towards oil (i.e. near record short futures positions in crude oil, etc) and this development has tipped that sentiment into more extreme territory. It wouldn't be totally shocking to see a small bounce in the Canadian energy space given the extreme pessimism being exhibited at the moment, but that bounce would likely be used as an opportunity to rotate some exposure in PSF as laid out below.

Big picture, there are many reasons why this news is overblown for oil producers (we don't see this event changing the outlook for natural gas names). You've likely seen some of these comments already, but a quick summary of the reasons is as follows:

1) It will take many years and over US$100 billion dollars to get Venezuelan production up to peak levels, which they were last at in the mid-2000's and in the early 1970's;
2) Many US refiners, particularly in the Midwest who take Canadian heavy oil, are not set up to receive Venezuelan crude. Gulf Coast refiners are not in the same position. Infrastructure changes would be required for the Midwest refiners and pipelines would have to be built, which might not be worth it, especially in the current low crude price environment;
3) Current oil prices in general (WTI, WCS and otherwise) are not at levels that create attractive returns and incentivize further drilling. Broad US and Canadian production is not going to grow dramatically at current price levels; and
4) Current global oil demand is almost 107 million barrels per day. While an increase of 1 to 2 million barrels per day of supply from Venezuela is not insignificant, it will have less impact as demand continues to grow year-after-year.

On the other side of these events, there are also opportunities created. We already own ExxonMobil, which is a prime beneficiary of these changes, not only because of the opportunity to get back into Venezuela, but also due to the massive de-risking of their Guyana assets, which were threatened by the Maduro regime. Chevron, which we don't own currently, but have in the past, would also benefit due to the Guyana de-risking, and also because of their ongoing operations in Venezuela. Other beneficiaries would be US service providers like Halliburton and Schlumberger and US Gulf Coast refiners. We have owned names in these subsectors at various points in the past, so having the flexibility to rotate some exposure from Canadian heavy producers to such names is a massive benefit as we work our way through an uncertain time period. Big picture, we still see opportunities in oil and natural gas in 2026. It will just require some rotation between some names in our portfolio, which will be happening in the coming days and weeks.

The **Palisade Horizon Fund** ("PHF") was down 1.5% in December. Over the past two months, we have been keeping a close eye on a short list of some of the high-quality Canadian names that have been out of favor during the latter half of 2025. The expectation is to take advantage of tax loss selling season and valuation compression of what are otherwise solid and staple Canadian companies and to take advantage of the general weakness that we have been seeing related to the "quality" factor on which this fund's screens are largely based. These companies include names such as Descartes (DSG), CGI Group (GIB.A), Constellation Software (CSU), Alimentation Couche-Tard (ATD), WSP Global (WSP) and Thompson Reuters (TRI).

While some of these names have company specific events related to them, such as the succession questions around the retirement of CSU's CEO, or questions around US government spend related to CGI's US government consulting contracts as the Trump administration plans to cut costs within the government – we do not believe that the drawdowns that we have seen, such as a ~40% pullback for CSU or DSG's stock price getting cut by nearly a third from its peak, are justified relative to their magnitude.

To put that into perspective, CSU currently trades at ~11.4x Forward EV/EBITDA. Prior to its recent drawdown, CSU traded at ~21x Forward EV/EBITDA, and the last time it traded at its current levels was in 2013. In the same fashion, DSG's Forward EV/EBITDA currently sits close to the same levels as it did at the bottom of the COVID pullback in early 2020.

Over the past three weeks, we have accumulated a basket of the names mentioned above as well as a position in TFI International (TFII) and CP Rail (CP) to go alongside our usual screen outputs. So far, we have already seen some positive price action coming into the new year out of names like WSP and CGI Group. With the turn of the calendar, we expect to see the pressure come off these names and the quality factor to provide improved returns. In the early days of January, we are seeing that play out.

The **Palisade Vantage Fund** ("PVF") was up 0.6% in December. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was up 1.1%, while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 1.3%.

Dividend paying stocks have been a little out of favor versus the broader TSX Composite this month, and largely throughout the year. We have seen strong performance in Canada from resources stocks like gold, copper and natural gas, but these types of stocks generally don't qualify for the PVF due to their lack of a dividend (or their very small dividend payouts). We are happy with the performance this month and through the year as the PVF produced a strong total return of 14.2% with lower volatility.

The largest weights in the PVF are Canadian core holdings that had come under some pressure leading into tax loss selling season like Intact Financial, financials and banks like Royal Bank and Power Corp (that should benefit from lower interest rates), resource royalty companies like Topaz Energy (which should benefit from stronger natural gas pricing and a general market rotation towards resource and commodity stocks), and REITs with operating momentum (which also benefit from lower rates) like Chartwell Retirement Residences.

We hope you had a great Christmas season and were able to spend quality time with family and friends. We appreciate your support and look forward to catching up in 2026. We think it will be a good year!

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.