

## Our Market View in Summary

July 2025

## Contacts:

In today's global economy, tariffs dominate the headlines, yet their once-looming threat to markets has faded into a manageable reality. With a baseline tariff of 15% emerging as the norm across trade deals, investors have adapted, shrugging off fears that once sparked sell offs. Markets now accept "modest" tariffs (10%-19%) as a cost of doing business, buoyed by a broader shift in the economic landscape: the relentless pursuit of scale. Businesses that dominate their sectors—think Microsoft, Google, or even Canadian Natural Resources—are rewriting the rules, leveraging scale to secure higher valuations and stable cash flows. As the US flexes its superpower scale in trade, it is causing Canada to rethink its approach, which we believe is a positive dynamic going forward.

### Key Highlights:

- **Resilient Gains:** Markets climbed steadily in July, undeterred by tariff noise and creeping inflation risks, signaling investor confidence in the status quo.
- **Tariff Comfort Zone:** Investors embrace "modest" tariffs (10%-19%), viewing them as compatible with global trade and economic vitality.
- **Scale Drives Valuations:** Dominant firms, especially in technology, command premium multiples as scale trumps cyclicalities, reshaping traditional market dynamics.
- **Canadian Energy:** Companies like Canadian Natural Resources harness scale to boost cash flows and shareholder returns, outperforming peers in a consolidating energy sector.

### Near-Term Outlook:

- **US Trade Strategy:** We largely think tariffs as a market fear are behind us, but it is still possible to see markets respond positively to new trade deals as they are announced.
- **Interest Rates and Economics:** Going forward, we think the key market drivers will be interest rate cuts in the US and ongoing economic data. The Canadian and US economies have been resilient, but still slowing, so any shift in this dynamic should provide a path for stock markets for the balance of the year.
- **Investment Shifts:** AI growth is driving investment returns for any sector that has a tangential relationship to the trend. Other sectors of the economy have been a little more challenged. As interest rates come down, we should see the performance of other sectors improve, at the same time as AI continues to dominate headlines.
- **Open-Minded Approach:** While some US tariff gambits could falter, in our view, their odds of success exceed 50/50—betting against American economic resilience rarely pays off.

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The interplay of tariffs, scale, and global trade is forging a new economic order—one where dominance commands a premium and adaptability is non-negotiable. The US is playing its superpower card boldly, and while Canada may not relish this competitive shift, it's a wake-up call to act in our own best interests. Markets have evolved beyond old playbooks, rewarding those who master scale and punishing those who don't. As investors, we must keep an open mind, recognizing that the US might just pull this off, creating investment opportunities for those tuned in to this dynamic.



July 2025

Fellow Palisade Investors and Friends,

Please find attached our July 2025 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and a performance table for the various Palisade Wealth Management model portfolios. **This month's client conference call is scheduled for Monday, August 11th 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. This call will include information on our investment funds, our broad market outlook, as well as an update on our Wealth Management model portfolios.

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

Let's start off with tariffs. They still comprise a large percentage of the daily financial and political headlines, but in our mind, tariffs as a fear factor in the markets are done. There are enough deals that have been announced, and the general framework has been similar enough across countries, that most investors can see where things are going to land with countries that have yet to sign a deal with the US. A baseline tariff of 15% alongside some additional terms depending on the country has been the standard framework, and generally speaking, investors have been fine with those details. Keep in mind that just before the initial tariffs were announced on Liberation Day (April 2<sup>nd</sup>), there was a false report leaked saying that tariffs were going to be set at 10% across the board, and for a brief couple of minutes stock market futures actually traded up on that news. However, as soon as the market realized that such report was false and President Trump brought out his tariff placards with much higher proposed tariffs, market futures immediately reversed course and started the sell-off that led to the bear market which bottomed on April 7<sup>th</sup>. Investors seem to be fine with a "modest" level of tariffs (10%-19%) and don't see it getting in the way of ongoing global trade and a healthy economy. Time will tell, but in July, markets continued to rise despite ongoing tariff headlines and fears of re-energized inflation risks.

There has been much written about why tariffs are a bad idea and the negative consequences that are surely coming for our economies in the immediate future. This negative hypothesis may turn out to be true, but there is one perspective that we keep coming back to that makes us wonder if it might actually turn out to be okay in the fullness of time. When looking at current markets, many individuals say things like: (1) markets are crazy expensive; (2) most of the gains are coming from a handful of stocks; and (3) markets are ignoring cyclicalities, value stocks will have their day in the sun again, and a mix of other comments based on previous cycles going back decades. However, we think that you have to acknowledge change in the economy and the way business is done on the internet. Business is now about one thing – SCALE. How do you get it as quickly as possible, how do you maintain it? How do you use it to create above average growth? How can you use scale to develop and acquire new technologies to stay relevant?

We need to acknowledge that there is largely one winner within a specific technology or subsector. One winner controls the distribution of goods in its channel or business model and can use that control to maintain a dominant position. In decades gone by, the physical nature of business might have made the leaders slow down over time, become less nimble and more arrogant in their position, and open up weaknesses that smaller, smarter and more nimble entrepreneurs could take advantage of. Now the leaders like Microsoft, Meta, Google and others have such highly profitable business models that they can buy competitors and early upstarts to maintain competitive positions and not get bogged down by the way things were done in a more physical and asset intensive business model.

Now that so many companies have achieved scale and dominance within their sector, they are taking advantage of that position. Do you enjoy all of those advertisements on your social media accounts? Not really, but there's nowhere else to go. How about the steady increases to the monthly price of Netflix and other streamers? If you're selling items on Amazon or eBay, you have to accept their friendly notice that their percentage take of your revenues is going up. The costs for annual software subscriptions go up every year because in part, there aren't a ton of competitors that are easy to switch to, and if they do emerge, they get acquired by the leading companies as part of business strategy for both the incumbent and the emerging start-up.

Considering a more old-school business, do you like being charged for every possible convenience on an Air Canada flight? Scale and success in an online environment generally leads to oligopolistic outcomes similar to the way some Canadian businesses such as Air Canada and WestJet can "unofficially agree" to not compete as much with each other between western and eastern Canada. Canada doesn't have many businesses that are truly leading and using their scale to their best advantage. Canadian "scale" is created by regulations and oligopolistic business practices across many sectors like airlines, banking and telecommunications. They can increase fees, squeeze suppliers, lower customer service costs and use the limited risk of material competition to maximize profits. The Canadian example is a little beside the point, but the idea is to say that business now is dominated by the largest companies who can move faster and innovate more aggressively due to their profitability and the nature of their business model. They control their distribution channels and how customers use their products more than ever.

This scale is worth something in the long term. It's worth a higher valuation multiple. It's a more dominant competitive position that will generally enable higher profitability and less disruption and therefore more stability of cash flows, which is worth more today through the concept of a discounted cash flow model.

Scale also impacts more traditional businesses like oil and gas. Investors are demanding that oil and gas businesses be run to maximize cash flow and to return that cash flow to shareholders. A company like Canadian Natural Resources would be one of the few energy firms in Canada to be operating at scale and using the related benefits to constantly find ways to increase returns to shareholders. As a result, it trades at a higher valuation than most of its competitors. If more oil and gas companies can achieve better scale and higher profitability, there could be an opportunity to see higher valuation multiples across the board.

There is a whole discussion to be had that is outside of this write-up that would consider whether this focus on scale at any cost is good for broader society, but from an investing perspective, this is what shareholders care about today – how are you going to get to scale before your competitors, and once you get there, how are you going to use that scale to generate more cash flow and use that cash flow to pay dividends to me and buy back more shares? This applies to Microsoft, and it equally applies to Canadian Natural Resources. If a company can get there, it's a very powerful position, so investors are typically willing to give companies that will likely get there a premium valuation. If a company can then get to scale, it will likely grow into its high valuation. But if it doesn't get there, watch out, because the stock will react just as negatively to the downside if it doesn't achieve that scale.

Now, this is a very long introduction to say that we wonder if the US government is approaching global trade with a similar strategy. They can see that business models have changed and that companies are using scale to their maximum advantage, so if you're the largest, most competitive and most capitalist-oriented country on the planet, why not use that scale to your advantage? You want to gain access to our distribution channels (i.e. access the American consumer)? Pay us. Oh, you want the protection of the world's largest military? Pay us. You want to sell new products into the most innovative and technologically focused economy? Pay us.

The US has earned a premium valuation as the planet's only superpower from both a military and economic perspective, and we believe they think they can use that to extract more value from existing trade channels. Say what you want about the US, but betting against them from an economic perspective is a bet you will probably lose every time. Giving them the benefit of the doubt that their introduction of tariffs to the global economy will benefit them without causing things to spin off their

axis is probably an outcome that we should consider with something more than a 50/50 chance of success. We bet that you haven't read that hypothesis on BNN, CNBC, CBC or CNN!

In summary, as Canadians, we don't love that we find ourselves in a much more competitive relationship with our largest trading partner, but we do recognize the way business has changed and that it can be instructive to explore different ways of doing business with our best interests in mind. It is most important from an investing perspective to better understand how markets have evolved and to recognize that opportunities going forward might look different than in cycles gone by. Keeping an open mind to the way decisions are being made by the US government doesn't mean that we're ignoring the fact that they might be wrong, but we're keeping an open mind to the possibility that they might be right - at least for their best interests. If the decisions that the US makes in its own best interests force us to increasingly make decisions that are in our best interests, then we should come out of this challenging period in a better spot from an investing perspective.

## PALISADE MODEL PORTFOLIOS UPDATE (Returns to May 31, 2025) Important Footnotes Below\*

Below are the performance numbers for the various Palisade model portfolios to May 31<sup>st</sup>. 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 these model portfolios exhibit much less volatility month-to-month, and most importantly, much less downside through challenging stock market periods.

|                         | 1-Yr | 3-Yr | 5-Yr  | Description                                |
|-------------------------|------|------|-------|--|
| Growth+ Portfolio       | 7.7% | 9.2% | 13.0% | Long-Term Growth Focus                     |
| Inflation+ Portfolio    | 7.5% | 8.0% | 9.6%  | Low Volatility Growth/Inflation Protection |
| Income+ Portfolio       | 8.5% | 6.2% | 8.5%  | Income / Moderate Growth Focus             |
| Preservation+ Portfolio | 6.4% | 4.7% | 5.9%  | Capital Preservation Focus                 |
| Alternative+ Portfolio  | 7.3% | 6.5% | 9.1%  | Uncorrelated Growth/Capital Protection     |
| Endowment+ Portfolio    | 8.7% | 7.5% | 8.1%  | Very Low Volatility/Capital Protection     |

\*Returns for periods longer than one year are annualized.

Please see the Model Portfolios Hypothetical Performance Disclaimer below.

The May 2025 monthly return for two constituent funds that are included in the Income+, Growth+ and Alternative+ Portfolios has been assumed as 0%.

## PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 2.7% in July. The S&P/TSX Capped Energy Index ("Energy Index") was up 3.9% and the WilderHill Clean Energy Index ("ECO") was up 13.9% for the month.

We were a little behind the Energy Index in July for the first time in a while due to our overweight position in natural gas-oriented producers. We had trimmed some natural gas names a little earlier in the month and continued to do that near the end of the month. We trimmed names like Kelt and Advantage and carried some cash during the month, but by the end of the month we had redeployed most of that cash into more oil-oriented producers. This rotation towards oil doesn't change our conviction towards natural gas in the medium and long-term - the demand growth thesis for natural gas is very much intact.

There is a side discussion to have that the S&P/TSX Capped Energy Index isn't a very valid benchmark, mostly due to the fact that almost half of this index is comprised of just two stocks - Canadian Natural Resources and Suncor. Of course, there's nothing we can do about that, so we're just making note of it here. The Energy Index is very heavily weighted towards crude oil and large caps, which is worth keeping in the back of your mind as you read our commentaries month-to-month.

Lastly, we have recently seen OPEC+ announce a 547,000 barrels per day increase to its production quota starting in September. This announcement was largely expected, and now eliminates all of the group's voluntary production cuts of 2.2 million barrels per day which were originally implemented in 2023. On the one hand, an increased production quota would seem to be negative for oil prices, but such increases have been steadily announced all year, and faster than originally expected, yet oil

prices have certainly not gone into freefall. The global economy is doing well and oil inventories are low, so higher production from OPEC+ has been absorbed without much pain. On the positive side, with this production back in the market and production growth from western nations largely non-existent, it makes the supply/demand balance tighter as global demand continues to increase. In other words, with OPEC+ production cuts having been significantly reduced, there are less pressure-release valves available as demand continues to push higher. We see this as a very constructive dynamic going forward.

The **Palisade Absolute Fund** ("PAF") was up 0.9% in July. Those of you who are invested in the PAF will have recently received notice from Palisade that we are changing the mandate of the Fund to focus on long positions in compounding names that are highlighted by our Canadian and US growth screens. Such changes will be effective on September 2<sup>nd</sup>. August will therefore be the last month for the PAF and the Fund's name will change to the Palisade Horizon Fund in September. We're excited to implement these changes and if you have any questions in this regard, please feel free to reach out to us at any time.

The **Palisade Vantage Fund** ("PVF") was up 0.5% in July. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was up 1.3%, while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 1.7%.

As we mentioned in last month's commentary, we continue to expect to see lower interest rates in the back half of 2025 and into 2026, which should be a key driver of outperformance for interest rate sensitive stocks. The PVF is focused on high-quality dividend growth names that perform best when interest rates are moving lower. Recent jobs data in the US came out weaker than expected, which has increased the chances of a rate cut by the US Federal Reserve at their September meeting. In sympathy, the yield on 2-year US government bonds declined from almost 4% to approximately 3.7% in the last week. Generally speaking, the 2-year bond rate and the central bank rate will generally be in the ballpark of each other. Historically, the bond yield has been a precursor to the overnight rate from the US central bank.

In the US, the Fed Funds Rate is now 4.33%, leaving approximately 0.5% of potential cuts to get the US Fed in line with the bond market. In Canada, the overnight rate of 2.75% and the 2-year bond rate of 2.7% are almost equal, indicating less chance of a near-term rate cut in Canada. For Canadian interest sensitive stocks, the ideal scenario would be lower interest rates from the Bank of Canada, but lower rates in the US would certainly be an incremental positive. We also believe that as time passes and weakness in the real estate markets in Ontario and BC have a wider impact, the chance of a Bank of Canada rate cut will also increase.

Given the ongoing market uncertainty, we would encourage you to reach out at any time if you have questions about the markets or your investments with us.

## **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](mailto: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](mailto: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.*

### **Model Portfolios Hypothetical Performance Disclaimer:**

The performance data presented for the Palisade Portfolios is hypothetical, is for illustrative purposes only, and does not constitute a live track record or any investor's actual experience. Its purpose is to demonstrate what the historical performance would have been for the Palisade Portfolios, effective the noted date, based on their constituent investment funds/strategies over time. The data is presented for a longer period of time than the Palisade Portfolios were actually available for investment. An investor's actual experience will vary due to, among other factors, investment timing, constituent security weightings, rebalancing frequency, the presence of securities beyond the Palisade Model Portfolios, and account fees and expenses.

The performance data is presented only for readers that have sophisticated investment knowledge sufficient to fully understand the risks and limitations of the hypothetical performance data. Readers with insufficient investment knowledge are strongly cautioned that they may not fully understand the risks and limitations of the hypothetical performance data and may reach unreliable conclusions in their review and interpretation of the data. The cautions, risks and limitations of hypothetical performance data outlined below may be insufficient to provide a reader with the understanding required to safely review and interpret the data in order to reach reliable conclusions relevant to their specific situation. Readers are strongly encouraged to discuss the hypothetical performance data with a Palisade Capital Advising Representative to ensure their understanding of the risks and limitations of such data.

Hypothetical performance results have many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. No representation is being made that the Palisade Portfolios will achieve returns similar to those shown.

As the hypothetical performance data does not constitute a live track record, these returns may have under- or over-compensated for the impact, if any, of certain factors, such as lack of liquidity, taxes or the impact that material economic and market factors might have had on decision-making if investing real capital.

Performance does not include portfolio management fees, custodian fees or other related fees and expenses that an investor would have paid or actually paid, but is net of fees and expenses pertaining to the underlying investment fund holdings. Any mutual fund performance assumes the reinvestment of distributions while any exchange traded fund performance does not include transaction fees.

Performance integrates the earliest price date available for each holding and assumes monthly rebalancing. Some holdings may not have existed for the entire period shown. The holdings of the Palisade Portfolios are subject to change due to changes in Palisade Capital's views resulting from changing market and economic conditions or the performance of, or outlook for, the constituent holdings. The historical composition of the Palisade Portfolios may have differed from that currently presented.

Any information regarding past performance does not indicate or imply any guarantee of future performance. Further, investment results may vary substantially on a monthly, quarterly or annual basis. There can be no assurance that the Palisade Portfolios' investment objectives and net target returns will be achieved or that investors will receive a return on, or of, their capital. Actual results may differ. An investor may lose all of its investment in the Palisade Portfolios.

Hypothetical performance information shown in text, charts, tables and graphs is provided for informational and discussion purposes only and should not be considered investment advice or a recommendation to buy or sell any types of securities. An investor's actual portfolio must conform to their Investment Policy Statement established with their portfolio manager based on suitability determined through the portfolio manager's Know-Your-Client process.

The views expressed, including the descriptions and objectives of the Palisade Portfolios, are those of Palisade Capital Management Ltd. and are subject to change due to changing market and economic conditions and may not necessarily come to pass. There can be no assurance that the Palisade Portfolios will be able to achieve their objectives.