PALISADE
CAPITAL

Our Market View in Summary March 2024

The market strength continued in March largely due to a broadening of the sectors contributing to positive performance, despite bond yields increasing and expectations for interest rate cuts being moved further out in the year. Growth equities still contributed to gains, but there was a greater contribution from oil and gas, gold and base metals – some of which are usually sensitive to improvements in economic activity. Weakness has shown up in sectors directly tied to interest rates like telecom, real estate and utilities. We would expect these sectors to bounce in the coming months when we actually see interest rate cuts occur. The Canadian economy has been a little soft and the unemployment rate is ticking up, so we would expect interest rate cuts to start in Canada imminently, providing a potential catalyst to commodity sectors that are typically earning their revenues in US dollars.

Report Summary:

- Canadian sectors outside of large-cap growth are catching up
- Oil and gas, gold, financials, and basic materials have shown notable rallies in the last four to six weeks
- These sectors have rallied despite an increase in bond yields along with reduced expectations for interest rate cuts this year
- As a result, we have seen recent underperformance in the telecom, utilities, and real estate sectors
- Commodity-driven sectors have also benefited from a weaker Canadian dollar, which is down by 3% this year

Near-Term Outlook:

- Continued opportunities for Canadian stocks and previously out-of-favor sectors. The rally in some of these sectors is only two months old. Some extension, based off of value and momentum, and also some catch-up in the underperforming sectors, could keep the rally going
- There will be some pullbacks, but these should be seen as normal course. May need to trim some of the leading names that have become a little expensive
- Economically sensitive commodities sectors should maintain decent returns, in our view
- Interest-sensitive sectors (telecom, utilities and real estate) may improve when we see actual interest rate cuts, rather than the *potential* for interest rate cuts
- Money flowing back and forth between leading and lagging sectors may allow the overall market to continue a general trend higher

The Canadian stock market is poised for continued positive performance through the remainder of the year, supported by strength in commodities and financials, and a potential rebound in telecom and real estate in the back half of the year. In the oil and gas sector, we are particularly focused on companies shifting towards aggressive capital returns. In our view, our Palisade Funds and Palisade Portfolios are well-positioned to capitalize on these market dynamics, balancing caution with proactive strategies with the objective of maximizing risk-adjusted returns for our clients.

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March 2024

Fellow Palisade Investor,

Please find attached our March 2024 Monthly Update, as well as the Fund Fact Sheets for the Palisade Funds. **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.**

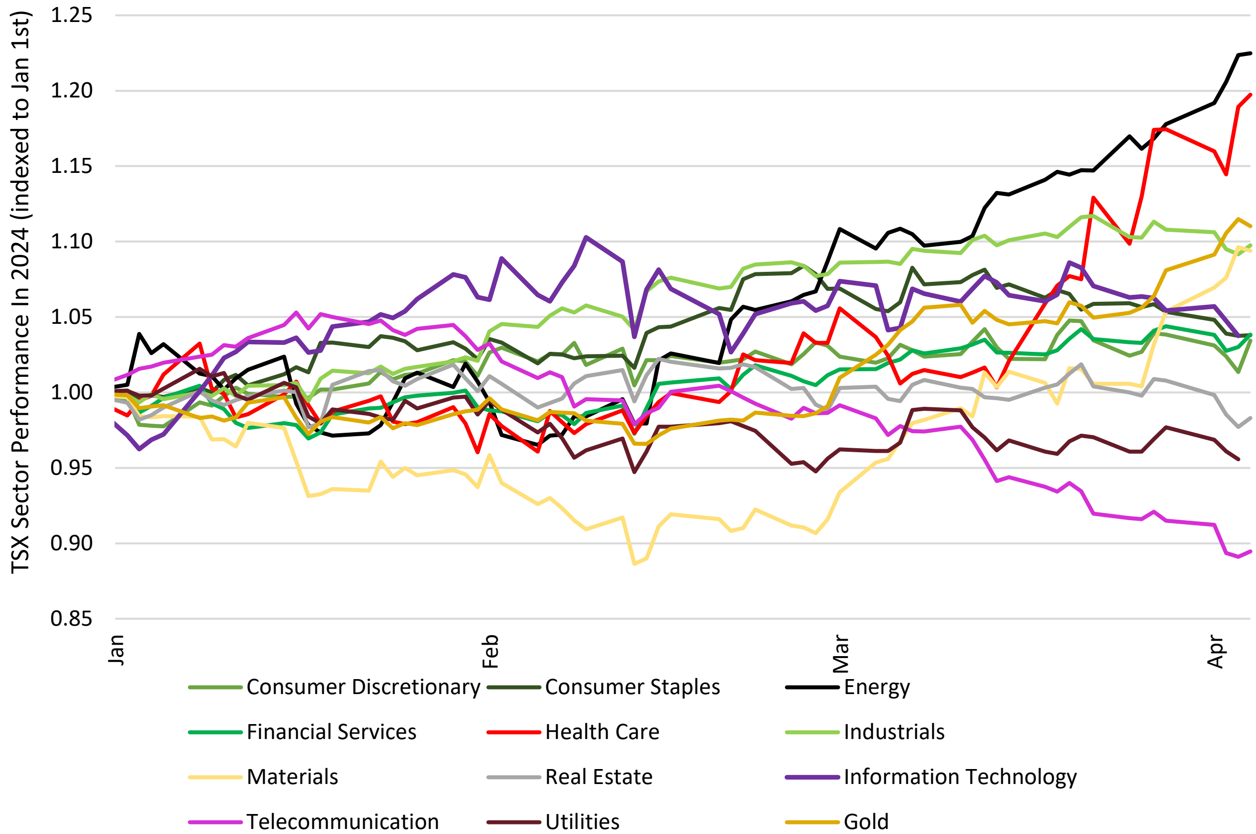
All Fund performance figures are shown net of fees and expenses and include changes in security values and distributions paid. They do not assume the reinvestment of distributions. The Palisade Vantage Fund currently pays a regular quarterly distribution of $0.11 per unit, or $0.44 per unit per year. The Palisade Select Fund and Palisade Absolute Fund pay irregular annual distributions for years in which taxable net income is positive.

MARKET COMMENTARY

We've entered somewhat of a crossroads in the markets in the last few weeks. As we have discussed at length in the last six months, we have finally seen some catch-up in Canadian sectors outside of large cap growth. The basis for our investment thesis has been that expectations for lower interest rates and ongoing strength in the US economy would set the stage to broaden the rally in stocks to economically sensitive sectors, small cap stocks and more value-oriented stocks. Over the last couple of months, we have seen oil and gas, gold, some financials and basic materials rally, which is great. Interestingly though, we have seen these rallies take place at the same time as expectations for interest rate cuts in both the US and Canada have decreased notably and actual interest rates on US government bonds have increased so far in 2024. So, what to make of that?

Some of the stocks that we thought would go up in the last two months have done so, but without the support of the underlying economic catalysts. Does that mean that those same stocks have to sell off now? If we still see interest rate cuts and lower bond yields in the near future, is that already priced in? Long story short is that we don't think that's the case, but we do think investors might show a little more discretion in the near term and be more mindful of valuations or have a heightened focus on the execution of quarterly results. At the end of the day, it's still the economy that matters most, so as long as things stay strong in the US and don't completely fall apart in Canada, there should still be opportunities for Canadian stocks to outperform and sectors that have been out of favor to catch up through the balance of the year.

The chart below shows the sector performance in Canada so far in 2024. A few takeaways follow the chart.



Source: Bloomberg

1) Tech stocks led until mid-February with other sectors taking the lead in just the last four to six weeks
2) Industrials have been steady performers year-to-date
3) Recent market strength has come from Energy, Health Care (largely cannabis), Basic Materials and Gold
4) Underperformance in Telecommunications, Utilities and Real Estate may be an opportunity when we do eventually see interest rate cuts
5) The commodity-driven sectors may be seeing a positive influence from a weaker Canadian dollar that has traded down by about 3% this year

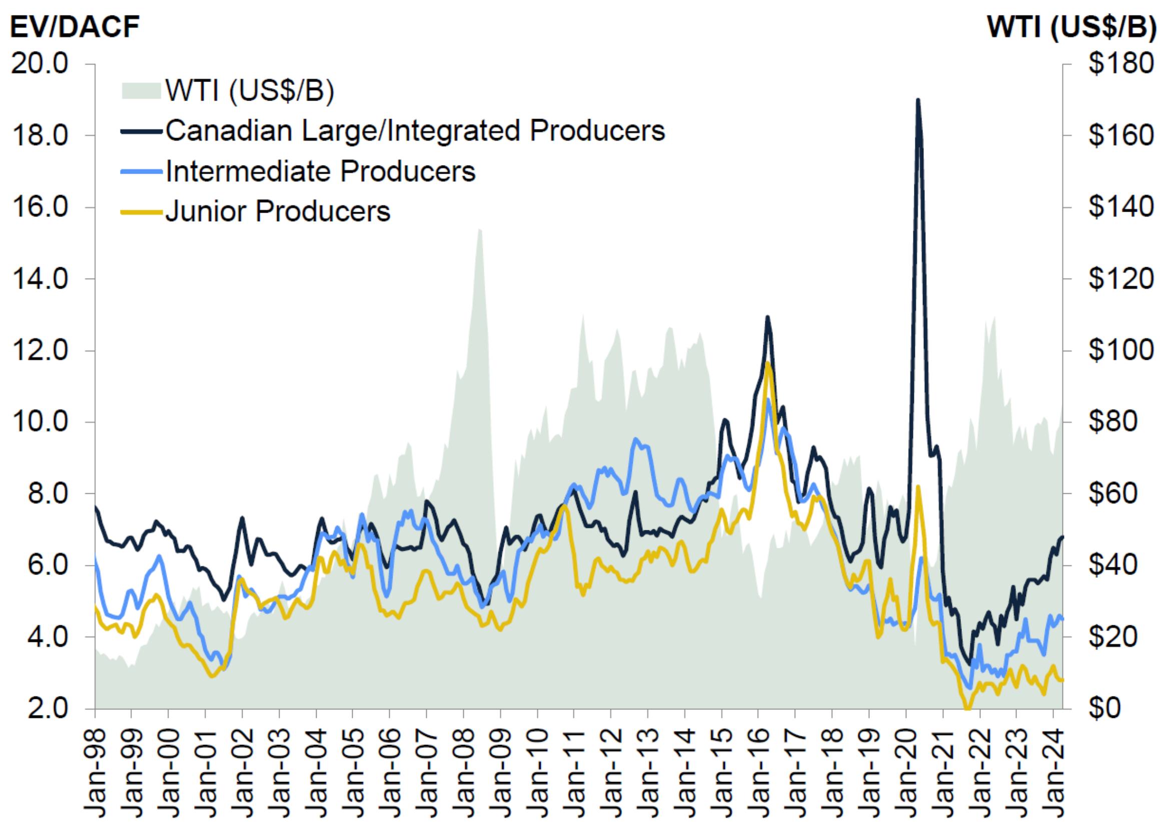
So, we have seen the broadening of positive performance that we've been expecting, but thankfully it's still only been a few months, so despite what feels like a pretty strong rally in a short period of time, we do think there should be room for further gains in these sectors through the balance of the year. Of course, some pullbacks should be expected along the way. It may work out that the economically sensitive, commodities-oriented sectors that have performed well in the last four to six weeks could continue to provide decent returns and have the broader market returns supplemented by better performance from the interest sensitive sectors such as telecom, utilities and real estate that have lagged in the last couple of months as bond yield have moved higher.

The economic factors that we thought would contribute to a better stock market in Canada have partially played out and the sectors most sensitive to those changes have partially gone higher. We should see a back-and-forth through the balance of the year where other factors change and we see improvements in lagging sectors. At the same time, where stocks have run up, we will likely see a little selling and rotation into these lagging sectors. We have seen that over the last six weeks with some of the large cap growth stocks going sideways while oil and gas stocks have moved higher. Ideally, this back-and-forth rotation will continue, which will lead to an overall higher Canadian stock market by the end of the year with continued strength in commodities and financials and a bounce back in telecom and real estate. This would benefit all three Palisade Funds and provide a positive backdrop for the Palisade Portfolios.

With regards to oil and gas, last month we wrote about the positive changes we were seeing in the investment narrative for Canadian oil and gas stocks. It felt like we were seeing investors consider the sector in a more positive light, in part due to the success of leader Canadian Natural Resources in executing on the business model of maximizing the return of capital to shareholders via debt repayment, dividend growth and share buybacks. That change in tone and recognition of the benefits of the return of capital business model should be a catalyst for higher valuations in other companies that can successfully execute that strategy.

The chart below highlights the improvements that we have seen in valuations for Canadian producers, in particular the larger companies. From a big picture perspective, despite valuations that have increased over the past two years, especially in large cap names, valuations are still near the lows of the previous valuation range before COVID hit in 2020. Large cap valuations have improved the most, which is largely due to the greater scale that those companies possess and thus their ability to more quickly and consistently return capital to shareholders.

Canadian Energy Stocks - Valuation By Size



Sources: Bloomberg and Peters & Co. Limited estimates.

Intermediate-sized companies have also seen valuations improve, but not at the same rate as the large caps. We think there is room for further improvement in the valuations of these companies, especially for names that are now just entering the phase of the business model that will see the transition to more aggressive share buybacks and the introduction of dividends. The more challenged part of the oil and gas sector is the junior producers. Valuations there really haven't improved at all and still reside near multi-decade lows. They don't have the size and scale to enact meaningful dividends or share buybacks and must focus on growth in a market that doesn't necessarily want to provide capital to deploy towards exploration drilling. In addition, there are few investors, either institutional or retail, that are focused on this part of the market, so it's hard to find incremental buyers for junior oil and gas stocks. Never say never, but for now they remain out of favor.

For these reasons, we will continue to focus on companies that are entering a more aggressive return of capital phase in their business model and are of a size that will attract investor capital. Stocks like MEG Energy, Cenovus, Crescent Point and private company Spur Energy (among others) should continue to benefit from increased investor interest through the balance of the year, even if oil prices were to stay flat. Combined with investors' recognition of the challenges for renewable energy projects and slower than expected electric vehicle (EV) adoption, we think there should be positive tailwinds for the sector through the balance of the year.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 4.8% in March. The S&P/TSX Capped Energy Index ("Energy Index") was up 8.4%. The WilderHill Clean Energy Index "(ECO") was down 2.5% for the month.

There was some delineation in the performance of the oil and gas stocks this month that warrants highlighting. While February saw decent performance across most subsectors, in March it narrowed to largely oil producers. A large percentage of energy services stocks, with the exception of Precision Drilling, were flat to down. In the case of the gas producers, it was more sideways (to slightly up) trading action for the month, but many of the leaders like ARC Resources remained near the 52-week highs that they achieved in the previous month. As such, while we didn't see massive contributions from these subsectors this month, we are still happy to own shares in companies like ARC and think we will see a resumption of the upward trend in the short term. There was specific weakness in the stock prices of Paramount Resources and Calfrac that held back PSF performance this month, but again we think that we will see capital flow back into those stocks as the need for natural gas production to meet LNG Canada demand and improved commodity pricing should prevail through the back half of the year.

The **Palisade Absolute Fund** ("PAF") was up 0.9% in March. What's most important to highlight are some additional changes that we have made to the composition of the holdings in the Fund. A few months ago, we highlighted a new screen that we had implemented that focused on growth/quality stocks in Canada. Those names have been working well, so we have decided to expand the use of that screen and add a US version that has required more work to refine the factors to high grade a list of manageable names. On a combined basis we will have approximately 20 names in the Fund as a direct result of the screens, leaving a smaller amount of exposure for smaller cap names and broader sector themes. The back tested results for both the Canadian and US versions of the screens are exceptionally attractive and are more reflective of the factors and themes that are driving the current capital markets. At the end of the day, we want to dedicate a much larger portion of the Fund to factors that are working in the current market environment in order to increase the return profile of the Fund.

The **Palisade Vantage Fund** ("PVF") was up 2.9% in March, continuing the recent trend of following more closely (and outperforming) the S&P/TSX Canadian Dividend Aristocrats Index, rather than the broader S&P/TSX Composite Total Return Index. For the month, the S&P/TSX Composite Total Return Index was up 4.1% and the S&P/TSX Canadian Dividend Aristocrats Index was up 1.8%. As mentioned earlier in this commentary, some of the more rate sensitive sectors such as utilities, telecommunications and real estate generally underperformed over the course of the month and year-to-date as a whole. We have trimmed some of our telecommunications exposure as we wait for the market to catch a bid on names like Rogers and Telus, and have had our real estate exposure trade relatively independent of the market with holdings such as Boardwalk, Chartwell and Sienna Senior Living outperforming the broader sector. Overall, we believe there will be great opportunities in these sectors as we approach the beginning of an interest rate cutting regime, with the first rate cut expected sometime around the middle of this year.

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. They do not assume 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.