

Our Market View in Summary

September 2026

Contacts:

Central banks shifted direction this month, with the US, the EU and others raising interest rates and Canada and the Bank of England hinting they may follow. Inflation has been running a little ahead of target for a few years now, but the real question for us is "why now?" The answer to that question is making us rethink our long-held "glass half full" outlook. We didn't (and still don't) think it was necessary to raise interest rates, but we remain positive overall. We're just watching the data, and the commentary, a little more closely than we have in some time.

Key Highlights:

- The stated reason for the rate hikes is inflation. Most of that inflation can be traced back to higher oil prices, while most other factors, rent in particular, still look reasonably tame in both Canada and the US.
- Higher interest rates will have zero impact on the price of crude or diesel when war, conflict and constrained supply are the elements driving prices higher. The main things that higher rates deliver are higher mortgage payments, higher car payments and higher refinancing costs for companies, and none of those is good for the economy.
- Our best guess at the real reason is the persistently large budget deficits across all major western economies. Bond investors may finally be demanding higher rates to compensate for an ever-growing pile of government debt. That risk has been talked about for decades but has never really shown up in bond yields until now, and it isn't something a central banker could ever say out loud.
- Both 2-year and 10-year yields in Canada and the US are up roughly 1% since the spring, with a meaningful jump in just the last 30 days. The US Federal Reserve has only raised rates by 0.25% over that time, so bond markets have already priced in more than one hike.

Near-Term Outlook:

- If central banks raise rates by 0.50% to 0.75% over the next six months, we don't think that's a big enough change to derail stock markets.
- In that scenario, we'd see the pullback in interest-sensitive and industrial sectors over the last three months as a major buying opportunity, since the market has already priced in such expected hikes.
- Sectors of particular interest at current prices would include pipelines and utilities, real estate, select financials, transportation stocks and oil companies.
- If short-term bond yields keep pushing higher from here, we'd want to play a little defence and see how those higher rates work their way through the broader economy. We'd also keep a shorter leash on names that are more exposed to rising rates.

We've spent a lot of time in these updates cutting through bearish headlines to focus on the data that matters, and the data has mostly supported a positive view. That hasn't changed. But if bond markets are starting to push back on spend-happy governments, it's a shift worth taking seriously. For now, we're staying constructive with a sharper eye out for signs that this rate cycle will run longer, or go further, than what's already priced in.

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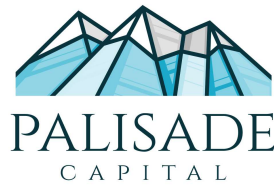
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September 2026

Fellow Palisade Investors and Friends,

Please find attached our September 2026 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and commentary regarding the 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

We have used the term “glass half full” to describe our fundamental outlook many, many times in the last few years. Because our outlook was generally positive, we have used these updates as an opportunity to cut through some of the predominantly bearish headlines we see to focus investors on the data that we think is more important and to support our “glass half full” outlook. Hopefully, our clients have seen this data as helpful in making investment decisions, or even to just feel comfortable in sitting back and trusting that the investing environment will be okay and to enable them to have a little less stress as a result.

In the last few weeks, we have seen numerous global central banks raise interest rates (US, EU and others) or hint at raising interest rates (Canada and Bank of England). The communicated reasoning behind the increase is that they need to do something about inflation, which has been running ahead of target for a few years now. We have laid out in recent updates that inflation, while running a little ahead of target in the US, can be blamed on increased oil prices, while most other factors continue to look reasonably tame, especially rent, which is a large component of the overall inflation reading in both Canada and the US.

Last month, we discussed our view that this interest rate increase is unnecessary and how we disagreed with the move by the US Federal Reserve, which made us think a little more about the “why now?” of the decision to raise rates and the duration of the rate increase cycle that we now find ourselves in. If the Iran conflict ended tomorrow, we would likely see crude prices decline, which would take the pressure off a lot of prices, at least at the margin. It is also highly important to understand that an increase in interest rates is going to have zero impact on the price of crude oil (or diesel), when the reasons for the higher prices are war, conflict and constrained supply and transportation capabilities.

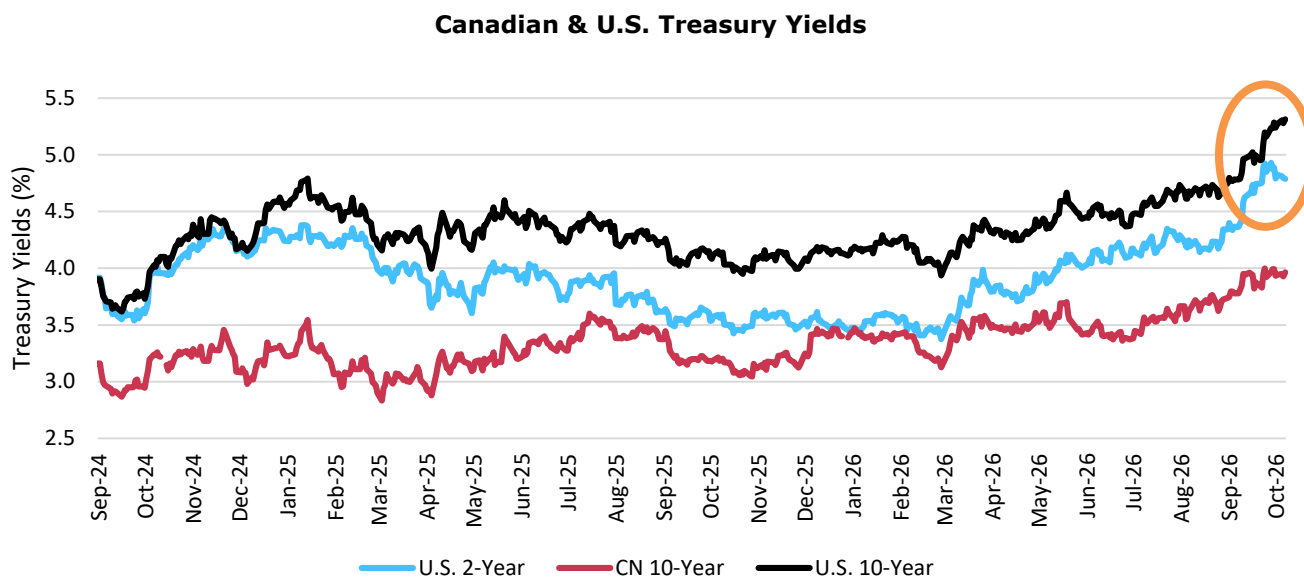
So, is there a fear that the conflicts in Iran and Ukraine/Russia will continue unabated? Maybe. Is there a fear that the US economy on an evident upswing will drive inflation? Maybe, but unlikely. So, why increase rates when the reason for higher inflation will not be impacted by such higher rates? The price of crude oil isn't going to decrease because interest rates are 0.25% higher. Our view is that the only outcome of higher rates is higher mortgage payments, higher car payments and higher funding costs for companies that are looking to refinance debt. All of these things are bad for the economy and again, will have little to no impact on the price of oil.

So, why raise rates then? The only thing we can think of is the constant and elevated level of budget deficits in all major western economies. Higher budget deficits are a cause of inflation, because big deficits need to be funded with an increased amount of government debt, and at some point, that debt will work its way into the economy's money supply and will potentially drive inflation higher. With all major western countries running aggressive deficits, are we finally seeing investors demand higher

interest rates on new debt issuance to offset the increased risk that comes from an ever-growing pile of debt around the world? Quite possibly. This risk has been talked about for years, if not decades, but has never really shown up in bond market interest rates previously. Are we finally seeing the first signs that investors are demanding a higher interest rate from spend-happy governments? If so, what will be the resulting impact on equity investors and stock markets more generally?

As you can imagine, a central banker would never be able to say this out loud because it would cause a major hit to public confidence in the stability of the financial system. Can you imagine Kevin Warsh, the Chairman of the US Federal Reserve, saying “We had to raise interest rates to make US debt more attractive to institutional and foreign investors because we were seeing weaker demand at recent auctions and the bond market has been forcing our hand by selling US bonds and driving up interest rates more aggressively in the last few months”? That would, of course, not go over particularly well in the stock market.

This has us re-thinking our “glass half full” view on the investing environment. Before we get into it in a little more detail, we still remain positive in our outlook, but we are just keeping a shorter leash on some names within our portfolios and keeping a sharper eye out for incrementally negative news and commentary that might point towards a rate hiking cycle that lasts longer than 0.50% to 0.75% over the coming six months. If central banks increase rates by this amount over the next six months, then we don’t think that would be a big enough change to derail stock markets. If anything, we would see the current pullback that we have seen in interest sensitive and industrial sectors over the last three months as a major buying opportunity, as in our view the market has already priced in such expected rate hikes. However, if we saw short term bond yields increase further from here, we would likely want to play a little defense and see how these higher rates impact the broader economy.



Source: Bloomberg

In the chart above, you can see how two-year and 10-year bond yields have increased notably since the spring. Importantly, we also showed this chart just last month, but we’ve seen a meaningful increase in yields in just the last 30 days. 10-year yields are up over 1%, and two-year yields are up a similar amount since the spring. Keep in mind that the US Federal Reserve has only increased interest rates by 0.25% over that time, and while these numbers don’t have to move in lock step (especially comparing to the two-year yields), it’s not a leap to say that bond markets have already priced in more than one rate hike.

While we didn’t think that the recent US rate hike was necessary and the inferred reasoning behind the hike is incrementally bearish, we don’t think the impact to markets will be overly negative, as long as future increases are small and measured. In 2022, the US Federal Reserve caused a bear market in part due to the fact that they raised rates very aggressively and very quickly. At four meetings in a row, they raised rates by 0.75%. If this rate hike cycle is only 0.75% total and takes place over six months, it won’t be meaningful enough to disrupt the positive economic projections, but we are a little

more cautious now than we would have otherwise been without the rate hikes. We see opportunity in interest sensitive stocks that have sold off in the last month, as well as in oil stocks, software stocks, transportation stocks and select industrials. While we haven't become fully bearish, we do think it makes sense to communicate to our investors that we are incrementally more cautious now than we were last month, even though that doesn't throw us off of our "glass half full" outlook that has been in place for the last few years.

PALISADE MODEL PORTFOLIOS UPDATE

We have actively discussed the moderating return profiles of many alternative assets classes like real estate, private equity, private credit and long/short strategies over the last year. To reiterate, we have been making adjustments to our model portfolios to account for that, but in a few cases that has not been possible as some funds (predominantly real estate focused) have been "gated". This means that redemptions have been temporarily reduced or paused altogether to allow for orderly asset sales to meet redemption requests, which impacts our ability to sell the funds and implement planned changes to our models. In the last month, we have seen early signs of fund managers putting together processes to allow for the removal of gates in the next six months. It's still early and the investing environment can change in the coming months, but this is the first sign we've seen of positive progress towards fund re-openings since the gatings started a little over a year ago.

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 1.4% in September. The S&P/TSX Capped Energy Index ("Energy Index") was down 1.5% and the WilderHill Clean Energy Index ("ECO") was down 7.2% for the month.

The higher interest rate environment noted above would be supportive of higher oil and gas stock prices, plus ongoing challenges in Iran and Ukraine make the medium term price outlook more buoyant than it would be otherwise. We would like to see an end to the Iran conflict in particular, so that investors can focus on the medium and longer-term economic returns of oil companies in a USD \$70-\$90 per barrel oil price environment. In the meantime, though, elevated oil prices will certainly be a welcome additional source of cash for producers to continue share buybacks. We have seen some of the larger producers buying back up to 3% of their outstanding shares in just a single month, so the longer the commodity price remains elevated, the more shares that will be bought back and cancelled, which means higher cash flow per share and hopefully higher stock prices as a result.

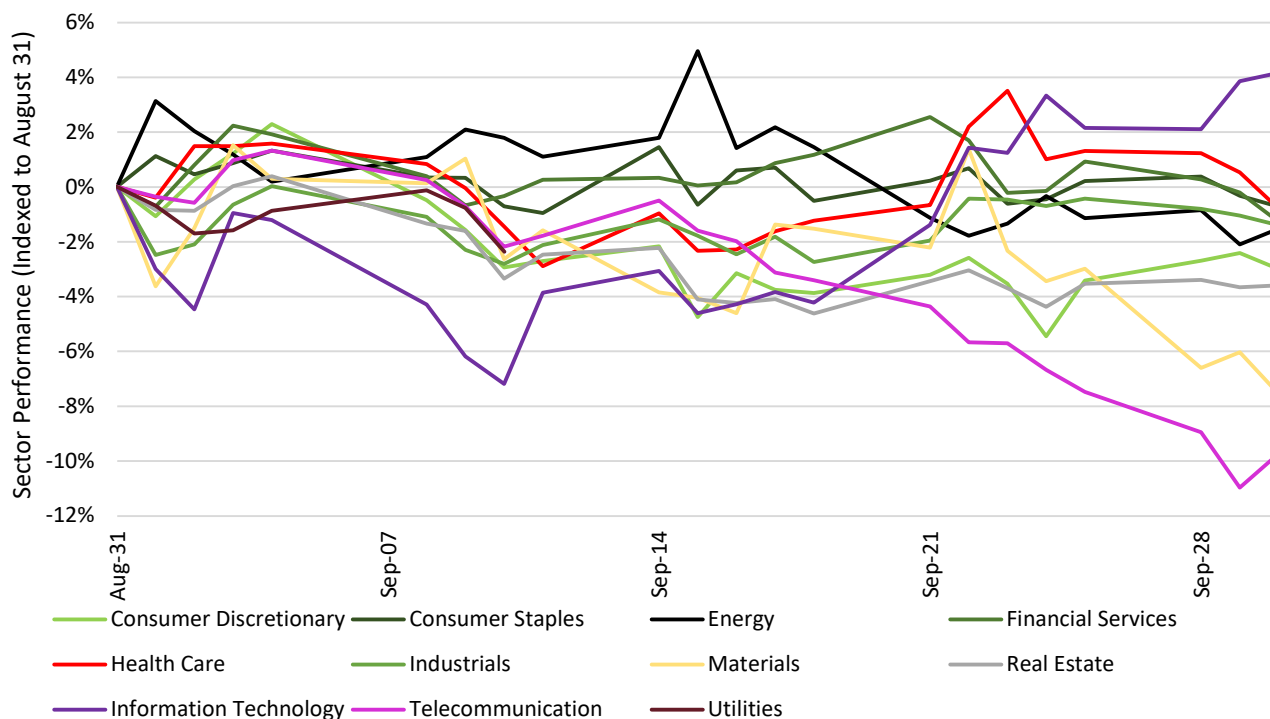
A piece of news that happened in October, but is certainly worthy of mention now, is the acquisition of Athabasca Oil Sands by Cenovus Energy at a 12% premium to its previous day's trading price. We had a 5% fund weighting in Athabasca prior to the announcement, so we are pleased to see this premium on a meaningful weight in the PSF. Consolidation has been a key and ongoing trend in the sector in the past year, and we expect it to continue going forward. We also saw the announcement of a merger between Tamarack Valley Energy and Headwater Exploration, which are the only two public companies of meaningful size to offer investors exposure to the highly economic Clearwater oil play that was initially developed by private company (and PSF holding) Spur Petroleum. We owned both Tamarack and Headwater, but this merger announcement had little impact on the trading price of either company. In the fullness of time, we do expect to see the merged entity (Tamarack Valley) trade higher as it becomes the only way for public company investors to access the Clearwater play and as they announce ongoing operational updates and synergies. We expect more of these value-enhancing transactions to come.

The **Palisade Horizon Fund** ("PHF") was up 0.9% in September. As can be seen in the chart below, every sector outside of technology within the S&P/TSX finished in the negative in the month of September. This was due to the above-mentioned ongoing Iran conflict's inflation pressures, and the rapid US Treasury bond rate escalation during the month. PHF was able to perform independently this month despite the bad breadth in the market, largely due to two themes. Firstly, we benefitted from our exposure to AI centric names like Celestica (CLS) and Toromont (TIH) as a wave of new AI models from leading labs as well as an agentic, consumer focused platform from Meta renewed positive

sentiment for the continual needs of compute capacity growth. The second was a rally in biotech centered names in the US, to which we had exposure through our screen names of Agilent Technologies (A), Thermo Fisher Scientific (TMO) and West Pharmaceutical Services (WST).

The PHF screens have subsequently rotated out of our biotech holdings, save for Agilent Technologies. Other screen-based changes included the sale of Netflix (NFLX) and the addition of The TJX Companies (TJX), RTX Corp (RTX) and MSCI (MSCI), which are all names that have been on the screens in previous months.

S&P/TSX September 2026 Performance by Sector



Source: Bloomberg

The **Palisade Vantage Fund** ("PVF") was down 2.6% in September. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was down 1.5%, while the S&P/TSX Composite Total Return Index ("TSX Composite") was down 2.6%.

As discussed above, as long as we don't see central banks raise interest rates by more than another 0.5% in the next few months we think that interest sensitive dividend paying stocks are absolutely a buy at current levels. We have seen these stocks sell off for the last few months as the yields on government bonds went higher in anticipation of US Federal Reserve rate hikes. Much of the expected hikes have been priced-in at current levels and we have been selectively adding to positions on this weakness.

A couple of examples of recent additions would include Enbridge (ENB) and Alaris Equity Partners (AD.UN), where we added near lows during the month of September. There are other names that we are keeping an eye on in the real estate and energy sectors that may constitute attractive buying opportunities in the coming weeks. Higher interest rates aren't necessarily a long-term risk, as long as rates go up in a small and measured fashion. The pullback that we have seen in dividend stocks (and PVF) in the last few months is normal and has created some attractive entry points.

We hope that you and your families had a good summer. As always, we are available to discuss any questions that 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.