PALISADE CAPITAL

Our Market View in Summary — October 2026

If you only glance at the headline indices, October looked fairly quiet. It wasn't. Under the surface, the AI trade is unwinding, money is rotating into the rest of the market, and the US midterm results have added a fresh dose of volatility. A handful of large AI-related companies have an outsized influence on the indices, so the broad numbers just aren't telling the whole story right now.

Key Highlights:

- The rotation out of large cap growth and AI showed up in a meaningful way. The equal-weight S&P 500 beat the market-cap-weighted version by 6%, while the S&P 500 Index and NASDAQ Index fell 0.9% and 5.3%, respectively, on weakness in semiconductors and mega-caps.
- Energy stocks had a strong month, with the S&P/TSX Capped Energy Index up 12.7% on higher commodity prices, while the WilderHill Clean Energy Index fell 13.1%.
- Dividend-oriented stocks recovered after two months of declines as bond yields moved lower. The S&P/TSX Canadian Dividend Aristocrats Index was up 3.5%, versus 1.2% for the S&P/TSX Composite Index.
- Credit markets are pushing back on the AI build-out. Oracle's credit default swaps have gone from about 75bps in September 2025 to about 350bps, and CoreWeave's bonds trade more than 20% below par. We may have reached the limits of the spend for the AI datacenter build-out.

Near-Term Outlook:

- We're watching whether the damage stays contained to AI or spreads, because that is the difference between a rotation and a true risk-off event. Volatility will likely stay elevated, but a market that stops rewarding every dollar of AI spending is a healthier one.
- The market is betting that the Iran war cost the Republicans the election and as a result, will now end sooner. We don't think it will. Either way, oil companies still generate attractive cash flow with oil between US$70 and $90 per barrel, so weakness in energy stocks is a buying opportunity, in our view.
- We don't think central banks will go crazy raising rates in an economy that is only okay. Inflation is mostly about oil, and higher rates won't end the Iran war any faster. Bond yields already reflect the expected hikes, so dividend stocks should have more room to run through year-end.

We see the rotation out of AI as a positive development for investors broadly. This allows other sectors to attract capital and outperform. Big picture, this is typical of a full market cycle and can be bullish for the overall market as outperformance widens. We're staying constructive and using the early November dip to buy, while keeping a close eye on whether this recent market weakness stays as a rotation between sectors or if the weakness develops into something broader. Our bet is that the weakness will remain contained.

Contacts:

Investment Matters:

James Anderson
Managing Director
(403) 531-2677
james@palisade.ca

John McAleer
Managing Director
(403) 531-2678
john@palisade.ca

Jake Vickers
Associate Advising Representative
(403) 531-2673
jake@palisade.ca

Dan Zhigatov
Portfolio Manager
(403) 531-2674
dan@palisade.ca

Operations and Administration:

Denise MacINNES
Corporate Secretary & Director
(403) 531-2671
denise@palisade.ca

Jamie Duguay
Wealth Management Associate
(403) 531-2670
jamie@palisade.ca

Kseniia Suvorova
Sr. Wealth Management Administrative Assistant
(403) 531-2675
kseniia@palisade.ca

October 2026

Fellow Palisade Investors and Friends,

Please find attached our October 2026 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and commentary regarding the Palisade Wealth Management model portfolios. **This month's client conference call is scheduled for Thursday, November 12th at 11am MT (Alberta).** 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

If you're someone who likes to keep up with the markets, but in a slightly casual way, you might need to dig into the data and headlines you read a little deeper than usual. Broad stock market indices are not telling you the whole story of what's going on day-to-day on the S&P/TSX or S&P 500. The growth and AI trade would appear to be over (at least according to the many short-term traders that focus on momentum as the primary factor in decision-making) and all the large companies that are involved in that trend also have an outsized influence on financial headlines and stock market indices. When you add in the immediate effects of the US midterm election results you have created a cocktail of extreme volatility in the underlying sectors that make up the overall stock market.

Even though it has been telegraphed for months that the Republicans were likely to lose the US Senate and House of Representatives, the results of Tuesday's election have still had a meaningful impact on markets post the official election results. Most sectors bounced on the first day after the election, but anything to do with AI and oil and gas fell. The interpretation is that the Democrats are going to try to limit the growth of AI and put significant rules and regulations in place to control the build out of datacenters and the software development of the LLMs themselves. This would be a mistake in our minds and is not necessarily a given just because the Democrats control two out of the three Chambers of Congress in the US government.

In the case of oil, the expectation is that the Iran war was the primary reason that the Republicans lost the election and thus President Trump may be more likely to attempt to end the war sooner rather than later. That is also not a given, and generally speaking we are not particularly concerned with the "go or no go" decision of continuing the war in Iran. If it ends soon, we would certainly expect the price of oil to come down, which we would use as a buying opportunity because the cash flow generating capabilities of these companies are still attractive if oil were to bounce around between US$70 and $90 per barrel.

The ongoing war has continued to tighten the supply/demand balance and thus extended the runway for above average oil prices and continued attractive returns for shareholders. If the Iran war were to continue for an extended period (which has never been our expectation) then we'll see a bounce back fairly quickly from the early November declines. This bounce would likely happen faster than the bounce related to long-term fundamentals, share buybacks and free cash flow generation, but in the longer-term outlook we feel like we'll end up in a similar spot, even though the path to get there will be different.

The clearest illustration of how fragile sentiment around AI has become came on Thursday, when the S&P 500 Index fell 4.4%, its steepest one-day decline since the April 2025 tariff announcement. The

NASDAQ Composite Index dropped 5.5%, and the Philadelphia Semiconductor Index fell more than 12% in a single session. Roughly US$2.5 trillion of market value was erased in a day, and the move wiped out the previous day's post-election gains and then some. The catalyst was largely the political concern outlined above, that a Democratic Congress will slow the data center build out, but the size of the move says more about how crowded the AI trade had become than about any specific piece of legislation that may or may not ever pass. When a handful of companies make up such a large share of the index, a violent move in those names is enough to drag the headline numbers down regardless of what the average stock is doing, which is the same reason we keep cautioning that broad indices don't tell the whole story.

Over the coming days we'll be watching whether the damage stays contained to the AI complex or spreads to the rest of the market, because that is the difference between a rotation and a true risk-off event. This rotation out of large-cap growth and AI is a positive development for investors broadly, and some of the Palisade funds specifically, because more money looking for opportunities outside AI should drive above-average performance in other parts of the market, which you can see in the monthly performance of the individual Palisade funds discussed below. On some measures, the performance of individual stocks has never been more varied versus the performance of market indices, and in a way that is what we want to see.

The takeaway from a week like this is that volatility is likely to stay elevated while the market works out how much of the AI build-out is already priced in and how much political and financial scrutiny it will face. We don't see that as a reason to panic. A market that stops rewarding every dollar of AI spending is a healthier one, and as we discussed earlier, tighter financing conditions and a more disciplined pace of investment are what ultimately allow businesses outside the AI complex to be judged on their own earnings and cash flow. We also don't think that the Iran war is going to be ending sooner than it would have otherwise, so weakness in energy stocks would be a buying opportunity.

PALISADE MODEL PORTFOLIOS UPDATE

As we've discussed for a number of months now, the returns for many alternative investment strategies have moderated from their historical levels and we continue to adjust our model portfolios to reflect that dynamic. In our view, the recent volatility of equity markets has underscored the value of alternative strategies within long-term investment portfolios through their targeted benefits of increased diversification, reduced volatility and enhanced capital protection.

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 8.5% in October. The S&P/TSX Capped Energy Index ("Energy Index") was up 12.7% and the WilderHill Clean Energy Index ("ECO") was down 13.1% for the month.

US election results have had an immediate impact on the price of crude oil and the underlying equities. The knee-jerk reaction would have you think that the Iran war is now closer to being resolved due to the widespread belief that it's the primary reason the Republicans were dominated in the mid-term elections. In a way, we don't really care one way or the other. We have written many times in the last few months that we want the war to end so that investors can focus on the fundamentals of the energy companies and recognize the attractive total return proposition of your standard oil and gas company when oil prices are between US$70 and $90 per barrel. The positive returns in October due to a run up in commodity prices likely pulled forward the returns we would have expected from here into early 2027, but the ongoing supply constraints have also increased the floor price expectations for 2027. We still expect energy stocks to perform well into 2027 after we move through this post-election shake out.

The commodity and stock weakness we have seen in the first few days of November have given back most of the gains made in October, but we had raised a little cash during the month and were the beneficiaries of Cenovus Energy's takeover bid for Athabasca, which was announced in early October.

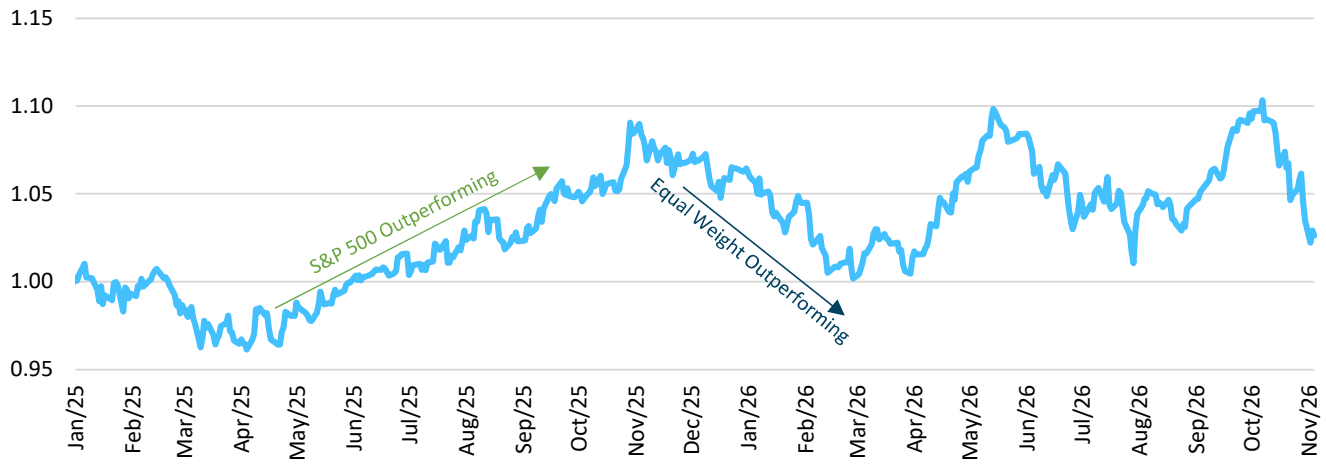
As such, the combined cash plus the sale of our Athabasca shares provided about 11% of PSF assets in cash that we started to deploy into beaten up oil names in the back half of the first week of November. Our purchases have been focused on oil-weighted companies whose share prices have seen the greatest declines in the first few days of the month. We have purchased new or additional positions in Whitecap (WCP), Cenovus (CVE), Baytex (BTE) and Strathcona (SCR), in addition to smaller purchases in a handful of other names. Let's see where things stand at the end of November. Big picture, the energy fundamentals still look good, volatility has always been a part of investing in oil and gas, and long-term if we use these dips to buy we should increase the return potential of the PSF over a 12 to 18 month time horizon.

The **Palisade Horizon Fund** ("PHF") was up 3.5% in October. The topic of rotation has been a recurring theme in our write-ups over the past year, both in relation to broader market themes and, more specifically, to PHF. In October, we saw that rotation play out in a meaningful way, with the equal-weight S&P 500 outperforming its market-cap-weighted counterpart (being the version of the index more impacted by the largest and AI-oriented companies) by 6% for the month, as shown in the chart below. Over the same period, the S&P 500 Index and NASDAQ Composite Index were down 0.9% and 5.3%, respectively, largely driven by a pullback in semiconductor names and some mega-cap weakness. In other words, non-AI stocks are starting to outperform and gain interest from investors.

It's worth emphasizing how important this rotation is to the prospects for PHF's performance. We first highlighted the early rotation toward PHF names in the summer, when PHF acted independently of the broad market on many days. There was little follow-through after those positive days, but that has slowly improved, to the point that this month the Fund is up strongly while most broad market indices are flat to down and many stocks are underperforming beneath the surface. Money is rotating into the names flagged by the screens we use to determine most of PHF's holdings, so we are increasingly excited about the Fund's near-term prospects.

Beneath the surface, there have been some strong non-AI winners, which have allowed PHF to trade independently of the broader market and reinforced our conviction in the portfolio's mandate. Some of the largest contributors to performance this month were Aritzia (+30%), Constellation Software (+17%), Mastercard (+16%) and TMX (+15%). Conversely, some of the largest detractors were Celestica (-28%) and Toromont (-15%), both of which have varying degrees of exposure to the AI buildout. As of November, Celestica is the only AI-tangential name that remains in the portfolio.

S&P500 vs S&P500 Equal Weight Performance Indexed to Dec 31, 2024



Source: Bloomberg

The main concern going into November is whether the rout in AI stocks will trigger a wider market panic. At the start of November, the broad market saw more risk-off momentum across most sectors than during the "DeepSeek moment" in January 2025, which caused a temporary panic in AI names over the possibility that models would become cheaper, faster than AI companies could extract rent

from them. Barring a broadly negative outcome, we welcome a tightening of risk parameters around capital allocation to these projects. It should force a more disciplined buildout, rather than the exponential growth and rising price expectations for components, materials and labor that have driven the market so far.

One example of this tightening is Oracle's credit default swaps (default insurance), which have gone from ~75bps in September 2025 to ~350bps currently. The market is clearly signaling that investors will not serve as an infinite source of debt without demanding higher returns, even from established, cash-flow-stable businesses. A more severe example is the "neocloud" firms such as CoreWeave (CRWV), whose bonds are trading more than 20% below par at yields of 10% to 13%. Weakness in these names has generally been a positive for PHF. Going forward, a more normalized AI investing environment will allow PHF positions to trade on their own merits, rather than waiting for investor capital to be distracted from the AI names that have hoarded much of the new money invested over the last couple of years.

The **Palisade Vantage Fund** ("PVF") was up 4.5% in October. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was up 3.5%, while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 1.2%.

After two months of declining stock prices for dividend-oriented stocks, we saw a strong recovery in October, in part due to bond yields reversing course and going lower. The previous two months saw bond yields in the US and Canada increase somewhat quickly as investors realized that the US Federal Reserve, and then later the Bank of Canada, would be raising interest rates to combat persistently high inflation, which was due in large part to higher oil prices.

We don't think that central banks will go crazy raising rates in an economy that is only okay and not yet booming. It makes even less sense to raise rates significantly from here when you consider that the primary reason for higher inflation is the price of oil, which is higher due to mechanical reasons only. Higher interest rates are not going to bring the Iran war to an end any faster, so there should be little need to raise rates when real estate in both Canada and the US is struggling and the US consumer may be weakening slightly after a strong first half to the year. Raising rates too far would be the economic equivalent of cutting off your nose to spite your face. For this reason, we think that the recent increase in bond yields is already reflecting market expectations for future interest rate hikes from the central banks in Canada and the US, and as a result we feel that the recent weakness in dividend-oriented stocks is a significant buying opportunity. That investment thesis was proved right in October, and we think there should be more room to run higher through the balance of the year.

We hope your Thanksgiving was thankful and your Halloween spooky. As always, we are available to discuss any questions that you may have. Please feel free to reach out at any time.

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.