PALISADE CAPITAL

Our Market View in Summary — July 2024

July was a volatile month in the stock market, marked by a notable divergence among the broader market indices. The US inflation report on July 11th, which came in below expectations, influenced the US Federal Reserve's outlook towards potential interest rate cuts, prompting significant market shifts across various factors and economic sectors.

Key Highlights:

- **Shift in Investment Trends:** Following the inflation report, there was a rotation from growth stocks to interest-sensitive and previously underperforming stocks.
- **Sector Rebalancing:** Technology stocks, which had been strong performers, underperformed relative to sectors like real estate, which gained from the new interest rate outlook.
- **Intra-Sector Performance Shifts:** Specific stocks within sectors saw reversals in performance, such as Canadian Natural Resources lagging Cenovus, and CP Rail outperforming CN Rail.
- **Regional Market Performances:** The Canadian S&P/TSX Composite outperformed the US S&P 500 and NASDAQ, benefitting from a heavier weighting towards interest-sensitive stocks.

Near-Term Outlook:

- **Expectation of Continued Rotation:** We anticipate further rotation into interest-sensitive and Canadian stocks, driven by lower future interest rates and ongoing adjustments in quantitative investment models.
- **Economic Outlook:** Weakening US economic data may lead to further interest rate cuts, potentially boosting sectors like oil and gas, despite recent volatility.
- **Investment Strategy Adjustments:** In the Palisade Funds, we plan to keep a lower exposure in growth-oriented stocks while increasing investments in interest-sensitive stocks, adapting to the shifts seen in July. In this regard, no changes are currently anticipated for the Palisade Portfolios which already integrate a balanced approach specific to their mandates.

The anticipation of reduced US interest rates played a significant role in realigning market sectors and geographical stock performance in July, particularly favoring Canadian and interest-sensitive stocks. Our Palisade Funds are strategically positioned to leverage these trends, aiming to balance emerging opportunities with exposure management as we adapt to ongoing economic and market changes. The asset allocations within the Palisade Portfolios continue to target favorable risk-adjusted returns in the context of their respective investment mandates.

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July 2024

Fellow Palisade Investors and Friends,

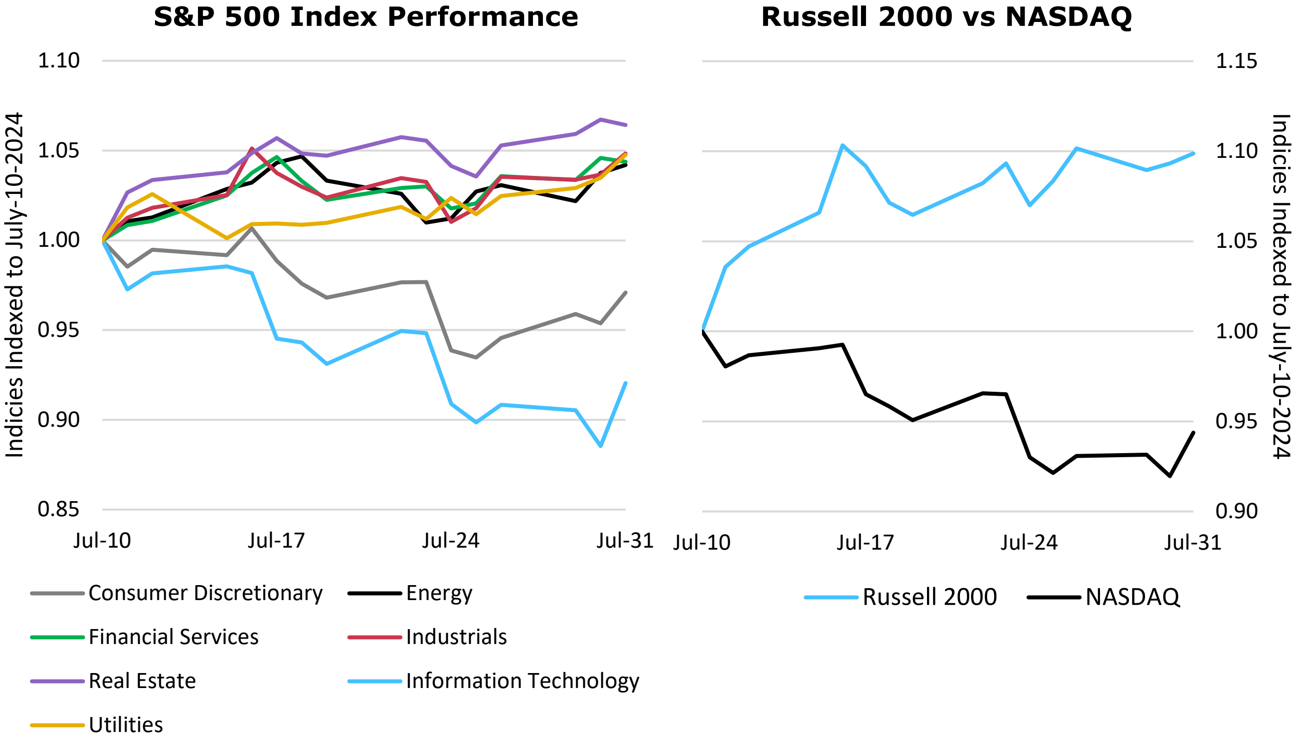
Please find attached our July 2024 Monthly Update, as well as the Fund Fact Sheets for the Palisade Funds. **This month's client conference call is scheduled for Wednesday, August 21st at 11am MT.** The Teams meeting details will be provided the morning of the call. In conjunction with this call, we will be emailing out a presentation that contains data and charts to further detail our thought process and outlook. This conference call will also serve as our Annual Meeting for the Palisade Funds. 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. 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

July was a wild month in the stock market if you looked under the surface of the broad market indices. On July 11th, the US inflation data for June came in slightly below market expectations, which cemented the outlook for the US Federal Reserve to begin lowering interest rates. This realization precipitated an immediate rush out of growth stocks and the previous leading names into the previous laggards and more interest sensitive stocks. From a bottom-line perspective, the previous outperformers underperformed in July and the prior underperformers outperformed. This concept was true on a sector basis where we saw technology, which has been a clear outperformer, underperform a sector like real estate, which had previously struggled due to the impact of higher interest rates. The concept was also true within individual sectors where we saw leaders like Canadian Natural Resources in energy underperform a name like Cenovus, or in the rails we saw CP outperform CN Rail, whereas we had seen some reasonably consistent outperformance from CN Rail over the previous few months.

These dynamics are clearly defined in the charts below. The left side chart shows the relative performance of various sectors in the S&P 500 from July 10th until the end of the month, with Information Technology and Consumer Discretionary underperforming the prior laggards and more interest sensitive sectors of Real Estate, Utilities, Industrials, Financial Services and Energy. The right side chart below displays the performance disparity between the Russell 2000 Index (a small-cap US stock market index) and the NASDAQ Index (largely weighted to large-cap technology growth firms) over the same timeframe, with small-cap companies clearly rebounding and outperforming the large-caps by 15% over that period.



Source: Bloomberg

In our last few monthly commentaries, we've been discussing our expectation that interest sensitive stocks, and to a lesser extent economically sensitive stocks, would outperform growth stocks once the market firmly expected that interest rates would begin to roll over. Interest sensitive stocks include sectors like utilities, real estate and financials. Canada has an abundance of these types of stocks in our markets, so it wasn't a stretch to expect that Canada should outperform the US if we saw investors rotate into those more interest sensitive names. That is exactly what we saw in July, with the Canadian S&P/TSX Composite trading up 3.9%, while the US S&P 500 was up 1.2% and the tech-heavy NASDAQ Composite was down 0.8%. The question now becomes, how long can this rotation and outperformance last for Canadian/interest sensitive stocks?

Broadly speaking for July, interest sensitive stocks worked. Value worked. Small cap worked. Underperformers worked. Canada worked. Growth did not work. Large cap did not work. "Magnificent 7" did not work. Outperformers did not work. Momentum did not work. These trends have only started in the last three weeks. Central banks will be cutting interest rates for the next year or more. These two facts don't have to be exactly correlated, but we do think there is running room for this month's outperformers to continue higher for the balance of the year. Quantitative investors (i.e. computers) don't seem to be discounting information the way it was discounted in decades past (i.e. well in advance), so as we see further proof that these trends are playing out it in real time it should add further fuel to the fire and rotation could continue into interest sensitive stocks, and by association, Canadian stocks in general.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 1.1% in July. The S&P/TSX Capped Energy Index ("Energy Index") was up 2.4% after a rally of 3.0% on the last day of the month. The WilderHill Clean Energy Index ("ECO") was up 6.8% for the month. We have to admit, that at least in the very short term (i.e. the month of July), we were a little surprised that we didn't see a better response from oil and gas stocks to the revelation that the US would clearly be starting down the interest rate cut path in the near-term, especially combined with the heightened geopolitical tensions in the Middle East. There has been some softening of US economic data recently, which has concerned investors regarding the potential for demand destruction if the US economy were to weaken. Our thought has been that lower interest rates would help boost the economy and lower the concern around demand destruction, and as a result we could see a bounce in the price of oil, as well as the stocks of oil and gas companies. We still think that's the case, especially when you combine that fact with low global oil inventories, an ongoing decline in the active drilling rig count and steadily higher estimates for US oil demand.

Leading stocks like Canadian Natural Resources (the largest weight in the PSF at close to 10%) have sold off 13% from their April peaks and offer an attractive entry point as they continue to generate strong free cash flow which is being used to buy back shares and pay dividends to investors. At the same time, there are some names that have avoided the recent weakness, such as International Petroleum Corp (TSX: IPCO), which closed the month near all-time highs. This is a name we have held in the PSF for some time. Long story short, we think the positive outlook remains the same and we continue to expect a move higher in oil and gas stocks as the US economy remains resilient, oil demand continues to grow and energy companies continue to buy back shares and increase dividends.

The **Palisade Absolute Fund** ("PAF") was down 0.2% in July. The cross currents discussed above across various sectors and factors was evident in the performance of the PAF this month. The growth-oriented stocks were weak and the short positions rallied strongly when small-cap and value stocks took off starting on July 11th. We moved quickly to sell and trim many of the growth-oriented names and cover many of the short positions. We lowered gross exposure by over 40% and net exposure by 25%. For example, we sold our entire Microsoft and Descartes positions along with half of our ASML and Dollarama positions (among others) on July 11th. Some of this capital was rotated to beaten-up industrial names and larger holdings in oil and gas names, as well as interest sensitive positions like Hydro One, which were already in the Fund. Overall, we endeavored to just keep the exposure down given the extreme volatility under the surface and the quick rotations across sectors. We expect to keep exposure a bit lower in the short-term, but will look to add to the interest sensitive names already in the Fund and the weightings of growth names should come back as we look to buy on the pullback that started in those sectors post the July 11th inflation reading.

The **Palisade Vantage Fund** ("PVF") was up 6.2% in July. For the month, the S&P/TSX Canadian Dividend Aristocrats Index was up 6.9% while the S&P/TSX Composite Total Return Index was up 4.1%. In our view, this month is the start of a trend that we've been talking about for the last few months. Visibility on lower interest rates going forward, combined with many interest sensitive stocks and sectors trading near lows, provided a catalyst for them to rally exceptionally quickly in only three weeks of trading. As with all sectors of the market, there will be pullbacks and rallies as we go, but generally speaking we think that interest sensitive stocks, and more broadly Canadian stocks, are set to outperform through the balance of 2024. In just the last few days we have started to trim a few of the utilities names (Hydro One and Fortis, as examples) in the PVF due to the fact that they have entered overbought territory, but we would expect to put that money back to work if such names were to pull back to alleviate their short-term overbought nature. Lower interest rates combined with a growing and stable economy and the potential for federal government change in Canada in 2025 continue to be the basis for our constructive investment thesis for Canadian interest sensitive stocks.

Notwithstanding the market volatility that we're experiencing in early August, we are encouraged regarding the outlook for the Palisade Funds and Palisade Portfolios for the balance of 2024 and appreciate your long-term support.

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.