PALISADE CAPITAL

Our Market View in Summary July 2023

The financial landscape in July highlighted a shifting sentiment, especially with the lessened fears of an impending recession. Recession fears abated and economic data continued to come in above expectations. To that end, major investment banks like JP Morgan and Bank of America revised their outlook, moving away from recessionary expectations for 2023 and towards more cautious optimism for 2024. Stock market breadth improved and some of the large cap technology leaders pulled back slightly as money flowed to the underperforming value sectors. This should be a particular benefit to the Canadian stock market.

July Market Summary:

- Economically sensitive sectors, including oil and gas, financials, consumer discretionary and metals, experienced robust performance.
- Major US banks, revising their 2023 forecasts, now hint at "muted growth" instead of an anticipated recession.
- Tech stocks, like Apple (Nasdaq: AAPL), reached potentially overstretched valuations. This shift might pave the way for sectors with undervalued metrics to rally in a supportive economic environment.
- A notable trend has emerged with medium-sized companies in the S&P 400 index starting to outperform the larger entities in the S&P 500. This trend indicates that more companies from a larger swath of sectors are now contributing to stock market performance, while the largest companies take a breather from the torrid start they've had in 2023.

Near-Term Outlook:

- The NBER Recession Diffusion Index, which provides insights into impending recessions, currently suggests a stable economic trajectory.
- Our stance remains bullish on sectors like oil and gas, financials, and REITs. Given the tech-heavy makeup of the US indices and Canada's more diversified sector exposure, we expect outperformance in the Canadian markets.
- While tech stocks have marked significant gains in 2023, we anticipate a period of stabilization in this sector. This should allow other sectors, especially those based in Canada, to come to the forefront.

We expect the Canadian stock market to break out from its year-long range bound and volatile trend as it continues to become evident that a recession is not on the short-term horizon. This outlook was evident in the last month of trading, and we expect it to continue through the balance of 2023. Some broad market indices may go sideways or even down a little as the large cap leaders take a breather, but under the surface individual sectors should be able to go higher.

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PALISADE
CAPITAL

July 2023

Fellow Palisade Investor,

Please find attached the July 2023 Monthly Update and Fund Fact Sheets for the Palisade Funds. **This month's client conference call is scheduled for Wednesday, August 16th at 11am MT.**

We are going to switch the format for these calls to the Teams service via Microsoft. There will be no material changes to the process for our clients to access the calls. We will provide a link to the call in advance and anyone interested in attending should be able to click the link at the start of the call in a similar fashion to the Zoom format that we were using previously. We will continue to email a presentation in advance 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. 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.

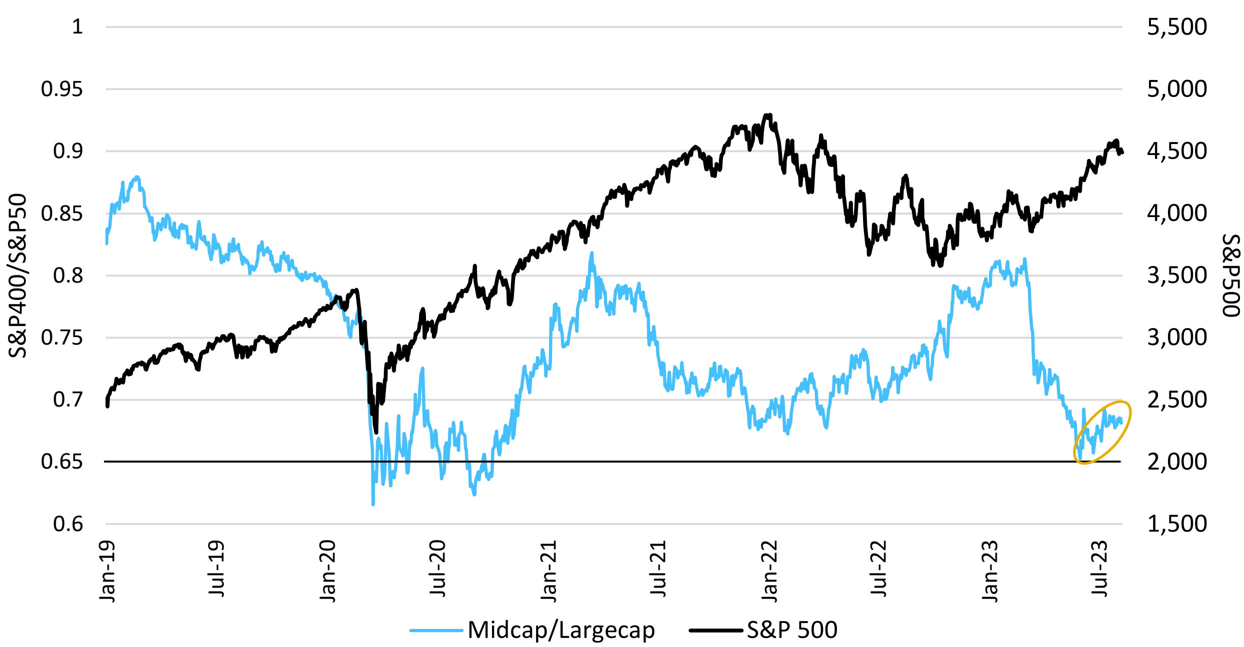
MARKET COMMENTARY

The improving breadth of positively performing sectors in the market that we discussed last month seems to be gaining additional traction. Certain economically sensitive sectors like oil and gas have caught a bid and performance for the last month is reflective of an economic outlook that doesn't include a recession. Financials, consumer discretionary and metals stocks all had a decent month. In laying out our investment thesis last month, that Canadian stocks were cheap and poised to stage a catch-up trade in the back half of the year, we noted that part of that process would require investors, analysts and the investing public to slowly come to a conclusion that a near-term recession was not the likely outcome. We have seen some evidence of this change in opinion just in the last few days as large US banks JP Morgan and Bank of America eliminated their call for a recession in 2023. They are still cautious in 2024, but even then, the call has become more "muted growth" rather than a full-on recession. The more we see the fear factor lowered, the more we will see investors looking for ways to get equity exposure and to find ways to benefit from better-than-expected economic growth. Many technology stocks have performed so well that valuations have become very expensive. An example is Apple (Nasdaq: AAPL) that was outperforming more due to its nature as a defensive place to hide, rather than as a growth vehicle. This opens the door for sectors with cheap valuations to bounce, especially if the underlying businesses can gain traction in the next six to nine months if the economic environment is reasonably healthy.

Speaking to improved breadth in the market, the chart below shows the stock price performance of the S&P 400 index versus the S&P 500, which would essentially be the performance of medium-sized companies versus the largest companies in the US. When the blue line is going down, that means that large companies are outperforming medium-sized companies. The opposite is true when the line is moving upwards. As you can see, in just the last month the medium-sized companies have started to outperform the larger companies. Importantly, this outperformance of medium-sized companies started from a level that has previously seen the start of a more sustainable rally for medium-sized companies in the past. To be clear, the concept of "breadth" speaks to the number of companies that are providing positive performance and contributing to the overall returns of the various stock market indices.

In reverse, you can also see from the chart that large cap stocks had been dramatically outperforming in a very short period of time in 2023. This is reflected in the chart with the quick move down of the blue line that you see on the right side of the chart. The last takeaway to highlight on the chart is the length of previous periods of outperformance. Through 2023, large-cap stocks have been outperforming. Through most of 2022, mid-cap stocks outperformed. Through 2021, large-caps largely outperformed. The point being, that once a trend starts you usually have a fairly lengthy period where the outperformance will continue. Given that mid-cap stocks have just started to outperform in the last four to six weeks, we hope to see this performance continue for some time, which should be good for all three Palisade funds.

Relative Performance of S&P 400 (Mid-Cap Stocks) to S&P 500 (Large-Cap Stocks)



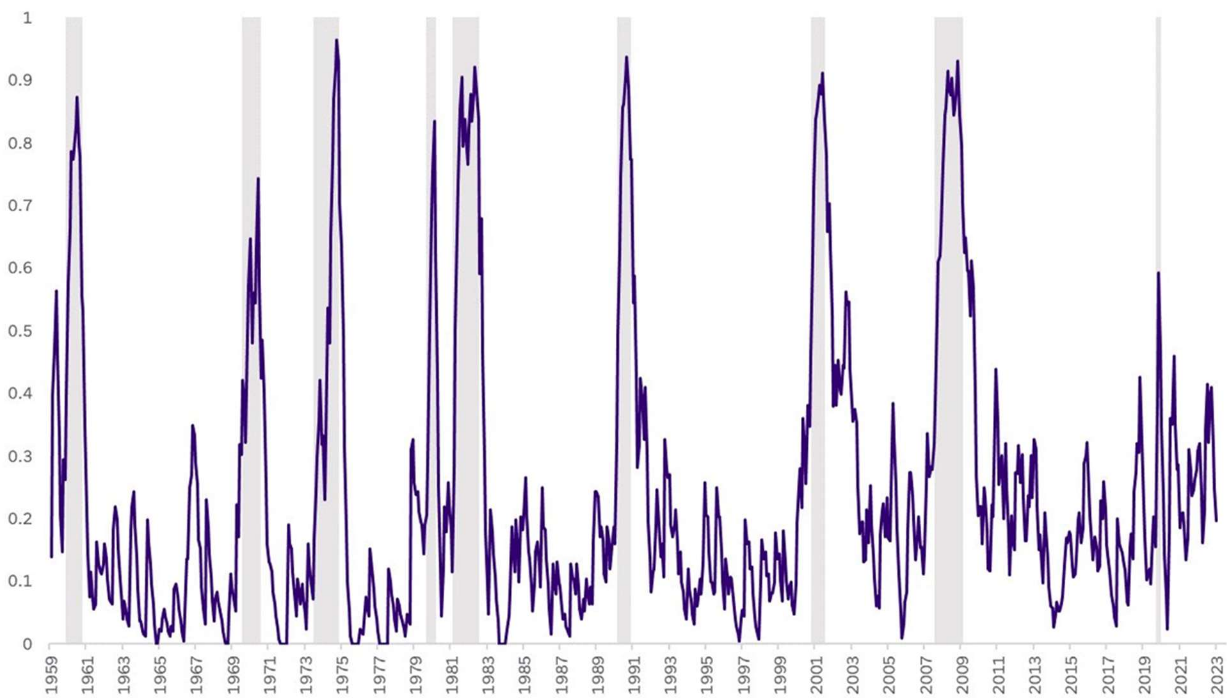
Source: Bloomberg

The second key component of our medium-term investment thesis is the lack of a recession in 2023 and into 2024. For the last year and half, there has been a consistent call among market observers for a recession six months into the future. We don't think that this will happen in the medium term and have produced many different charts over the last year showing data that backs up that outlook.

The chart below is the NBER Recession Diffusion Index. The National Bureau of Economic Research (NBER) is the organization in the United States that makes the official call on when recessions have started and ended. What this index measures is the percentage of economic indicators used by the NBER to determine if a recession has started that are actually indicating a recession. The grey bars are economic recessions going back to the 1960's. As you can see, in a recession it's typical that 90% of their economic data points are indicating a recession. You typically see a quick move higher in this index anywhere from right in advance of a recession up to about six months before the start of a recession. The current reading is not elevated, and most recently has come down to 20%, which is a fairly normal non-recessionary reading going back over the last 60 years.

This doesn't mean that we couldn't see a quick change in this reading if higher interest rates start to dig into consumer spending habits and the service portion of the economy, but at this time it still looks like a recession should not be expected in the near to medium term. This gives us further confidence that we are on the right track with the Palisade Funds having greater exposure to economically sensitive sectors such as oil and gas, financials and REITs. This should also point to a period of outperformance for Canada because the US stock market indices are largely dominated by technology stocks, whereas Canada has more exposure to these more economically sensitive sectors.

NBER Recession Diffusion Index*



*Grey bars indicate recessions
Source: SoFi, Bloomberg, NBER, FRED

We are in an environment where economic data continues to come in better than expected and recession expectations keep getting pushed out. As this realization has become more notable in the last few months, we have seen the number of stocks and sectors experiencing positive returns grow, which is a benefit to all three Palisade Funds. Technology stocks have performed exceptionally well in 2023, but we think those stocks will take a breather for at least a few months, which should allow more economically sensitive sectors like oil and gas and financials to outperform. As such, the broad market indices (especially in the US) may go sideways or even down, but we think specific sectors (especially Canadian-oriented) can go higher at the same time.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 5.7% in July. The S&P/TSX Capped Energy Index ("Energy Index") was up 9.2% and the WilderHill Clean Energy Index (NYSE: ECO) was up 8.5% for the month.

Crude oil inventories continue to move in the right direction (declining) and the crude oil price has responded accordingly. In a little over a month, we have seen the USD price of WTI oil move from the high $60's to the low $80's and the oil stocks have moved up in response. One of the challenges for oil stocks that we mentioned previously was a recognition that even though the stocks may look cheap on a valuation basis, it's tough to expect investors to buy oil producers if they think that a recession is on the horizon, purely from a practical perspective. So, it's not a total surprise to see oil stocks rise recently while recession fears are abating.

We made minimal changes to the PSF this month as we had already put our remaining cash to work in the previous month and we are seeing the timing and investment thesis work out so far. We continue to see value in the oil and gas sector, as well as in energy technology and renewables stocks. That said, we should highlight that we have seen many rallies over the past year in these sectors that last for a month or two, but then fail with the stocks falling back into a range. In our view, the difference this time is the broader realization among investors that the economic outlook might not be as risky and dire as previously expected. Investors need to put cash to work, and we think that the beaten-up value sectors such oil and gas will be the recipients of those fund flows.

The **Palisade Absolute Fund** ("PAF") was up 1.5% in July. Our commentary this month is broadly similar across all three Palisade Funds due to the fact that increasing breadth and an improvement in the economic outlook is crucial to the performance of all three Funds. At 52%, our net exposure in PAF currently remains near the high end of our historical range. We would expect that it should remain in this range through the balance of the year, as long as we continue to see better-than-expected economic data and stock price momentum improvements in sectors outside of technology.

With that said, we did make some minor changes around the edges in the last month by trimming some winning positions like Cameco (TSX: CCO) and Shawcor (TSX: MATR). We also added a new arbitrage trade between Brookfield Business Partners (TSX: BBU.UN) and Brookfield Business Corporation (TSX: BBUC). We continue to use our new growth screen to add and remove names on a month-to-month basis with some good success. Some names added to the portfolio as a result of this screen include Constellation Software (TSX: CSU), Stantec (TSX: STN) and Dollarama (TSX: DOL).

The **Palisade Vantage Fund** ("PVF") was up 1.6% in July compared to a gain of 2.6% in the S&P/TSX Composite Total Return Index. Similar to the other two Palisade Funds, we made minimal changes in PVF during the month due to the fund being fully invested and exposed to sectors that have started to recover and that should have additional running room through the balance of the year. Some minor adjustments made to the portfolio this month would include selling Hydro One (TSX: H) and trimming our position in TD Bank (TSX: TD). TD had bounced a little from the additions we made a few months ago when the US regional banks had come under pressure.

As we mentioned last month, the Canadian equity market has been rangebound and volatile over the last year, but we think that is going to change in the back half of 2023. The day-to-day trading in the Canadian markets over the last four to six weeks seems to be proving out that call. The Palisade Funds continue to be positioned for that outlook. If you have any questions, please feel free to reach out at any time.

Best wishes,

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.