

Our Market View in Summary

August 2026

Contacts:

Rotation continued to dominate markets in August, and the story under the surface was stark enough that it warrants another look. A single sector (gold and copper companies) effectively carried the Canadian headline index higher this month, while a wide swath of other sectors quietly gave ground — a pattern that tells us more about where interest rates are headed than about any newfound weakness in the broader economy.

Key Highlights:

- The S&P/TSX Composite Index was up just shy of 3% in August, but the Materials sector alone was up over 25% and did most of the heavy lifting — at 19% of the index weight, a simple back-of-envelope calculation shows the broader market would have been negative without that one sector's pull.
- Energy added a modest 2.4%, while Information Technology rose around 6%, largely on the back of a single name (Shopify) being up 24% for the month.
- Meanwhile, Utilities, Healthcare, Consumer Discretionary, Industrials and Financials all showed meaningful weakness, with dividend-oriented names hit hardest as rising government bond yields made dividend yields look comparatively less attractive.
- We don't spend much time in the materials space, and chasing a sector on the strength of a few days' price action is a poor long-term strategy — but the rotation itself is worth understanding for what it signals about interest rates expectations.

Near-Term Outlook:

- We believe the recent upswing in interest rates will correct lower on our expectation that the US Federal Reserve holds rates steady at its September 16th meeting.
- If that plays out, we'd expect a bounce in the sectors that lagged this month, notably dividend growth-oriented names.
- A steadier rate path should also take pressure off commodity prices, which have recently benefited from the same yield-driven rotation that hurt dividend payers.
- We're not worried about the recent run-up in interest rates, but we do recognize there's a level at which money stops rotating between equity sectors and starts rotating into bonds instead — the US Fed's guidance on September 16th should tell us a lot about which way that goes over the next six to nine months.

We've been talking about aggressive sector rotation for a few months now, and August only reinforced the point. Rotation, even when it looks violent under the surface, is generally a sign of a healthy market — it wouldn't surprise us at all to see leadership continue to swing back and forth between sectors month to month, which over time is what tends to drive the overall market higher.

Investment Matters:

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

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

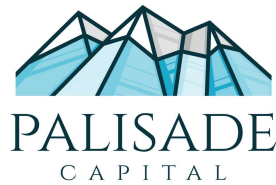
Dan Zhigatov
Portfolio Manager
(403) 531-2674
dan@palisade.ca

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



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Fellow Palisade Investors and Friends,

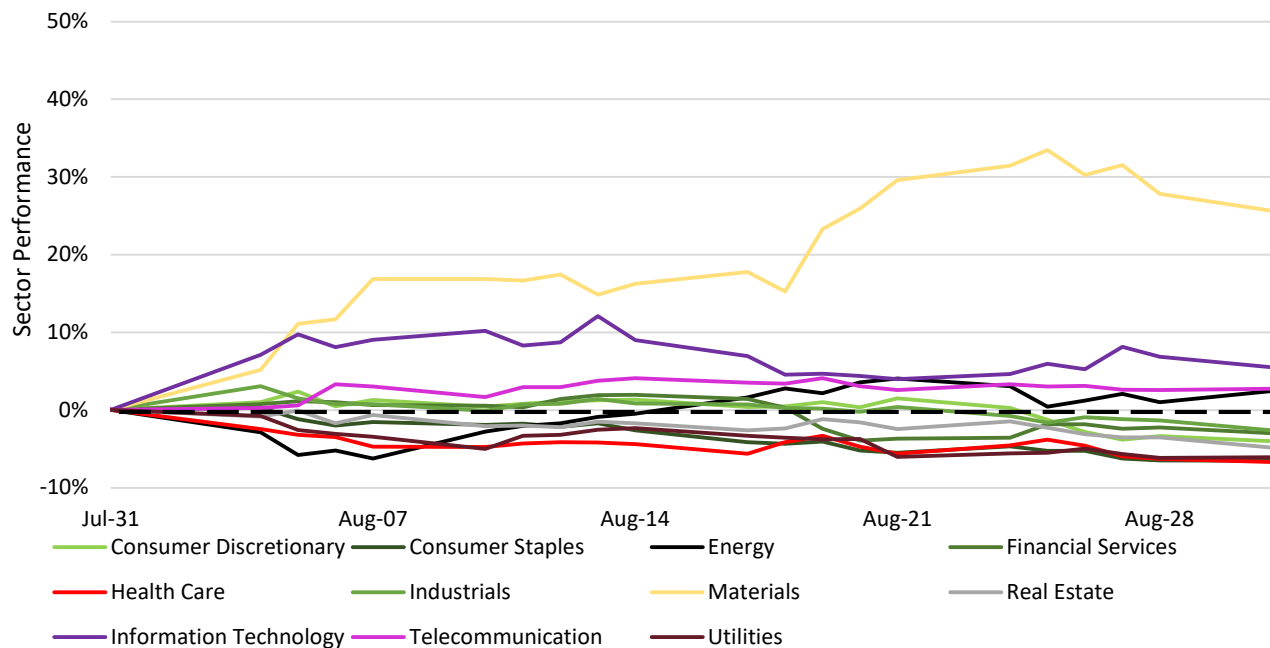
Please find attached our August 2026 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and commentary regarding the Palisade Wealth Management model portfolios. **This month's client conference call is scheduled for Thursday, September 17th at 11am MT.** The Teams Meeting details 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. 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

Rotation continues to be the dominant theme in the markets. We don't want to repeat ourselves in these monthly updates, but the rotation under the surface of the market was so stark this month that it deserves to be discussed again. The chart below illustrates the point.

TSX Sector Performance Indexed to July 31, 2026



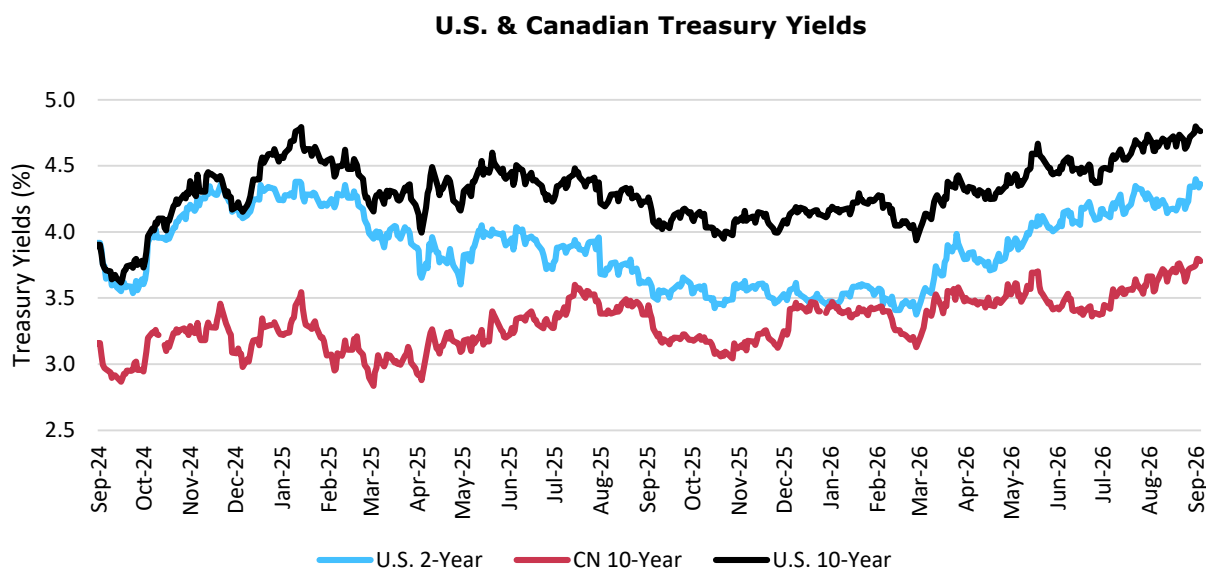
Source: Bloomberg

As you can see, the Materials sector dominated the Canadian markets this month. The Materials sector includes companies focused on basic materials like copper and coal, but also includes precious metals companies focused largely on gold. For August, the S&P/TSX Composite Index was up just shy of 3%. The Materials sector was up over 25% and was one of the few sectors to produce positive returns. Materials represents 19% of the S&P/TSX Composite Index, so some quick math would tell you that the TSX would have been down notably without the positive pull of that one sector. Energy was positive to the tune of 2.4% and Information Technology was up around 6% (largely due to Shopify being up 24% for the month). On the opposite side of the equation, there was significant weakness in Utilities,

Healthcare, Consumer Discretionary, Industrials and Financials. Within these sectors we saw weakness in dividend-oriented stocks as yields on government bonds went up, which makes the dividend yield on stocks look less attractive (amongst other knock-on effects). Generally speaking, our funds don't spend too much time in the Materials space and chasing a single sector based on the stock price movement over a few days is a recipe for disaster in the long-term.

What can we infer from this trading pattern? What does this violent rotation into materials mean for investors in the next six to nine months? If interest rates are the primary underlying driver of this move, what do we think is next for rates and how will that impact the underperforming sectors in the near term?

Long story short, we think that the upswing we have seen in interest rates recently will correct lower when the US Federal Reserve chooses to hold rates steady at its upcoming meeting on September 16th. If that turns out to be the case, we would expect many of the sectors that underperformed recently to get a bounce, which would notably include dividend growth-oriented sectors/stocks.



Source: Bloomberg

The chart above shows the yield on government bonds in Canada and the US over the last couple of years. The trend has generally been higher, which hasn't prevented generally solid stock market performance, but the recent move higher sparked a move upwards in gold and other commodities. If the US Federal Reserve doesn't raise interest rates, then we expect that will bring down the yield on government bonds and cause a correction for commodity prices, but it would likely move the prices of dividend-oriented stocks higher. It would also likely drive sectors that have had a recent pullback, like Transports, higher after a normal and small corrective period.

While we aren't worried about the run-up in interest rates that we've seen recently, we do acknowledge that there is a point at which money will stop rotating between sectors in the stock market and rotate towards bonds if the yields become attractive enough. The guidance on future interest rates that will come out of the US Federal Reserve meeting on September 16th should shed some light on the trends in rotation that will drive stock market returns over the next six to nine months.

We've been talking about the aggressive rotation in the stock market for the last few months and it continued apace this month. Rotation is a sign of a healthy market. It wouldn't be a surprise at all to see different sectors outperform month to month, back and forth, which we expect would drive the overall market higher.

PALISADE MODEL PORTFOLIOS UPDATE

Painting with a broad brush stroke, alternative strategies as an asset class (e.g. real estate, private equity, private credit, long/short, etc) have been underperforming in the past year. In the alternative investment funds that we use in our model portfolios, we are very comfortable that the quality of the underlying investments is there, but the returns from those investments have moderated. We think this is part and parcel of the larger investment cycle, and that these types of assets will again produce a reasonable return profile as economic growth continues to chug along. To that end, we have seen some progress towards removing redemption gates at private real estate funds in Canada. It's still early, but some of the managers are putting the details in place to allow for a re-opening of their funds in the next few quarters. While it's indeed early and the real estate market could change for the worse, we are gaining a small amount of optimism that we may see some liquidity in those funds and a return to normal course investing. This would also support the continued changes to our broad model portfolios that we've been discussing in these updates for many months now.

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 1.7% in August. The S&P/TSX Capped Energy Index ("Energy Index") was up 2.4% and the WilderHill Clean Energy Index ("ECO") was down 1.5% for the month.

During the month, Energy benefited slightly from the rotation to commodities mentioned above. Crude oil continues to trade higher on supply constraints related to the war in Iran and ongoing bottlenecks in the Strait of Hormuz. We'd like to move beyond this war as the main driver behind investor sentiment in the oil and gas sector, but it seems like that will be the case for at least a little while longer. We don't expect or want to see a big spike in oil prices. In our view, for longer term strength, investor focus needs to remain on the shareholder friendly strategies of the various producers, with reasonable valuations and the potential for mid-teens total returns as companies buy back shares and pay dividends.

As the price of oil remains elevated, we expect to see some excess cash flow allocated towards higher capital expenditure budgets, which will benefit the energy service companies. If there is some greater certainty regarding future pipeline capacity, then there will be a need for long-term production growth, even if the short-term focus remains on share buybacks and dividend payments.

We've seen clear evidence this month that rotation between sectors and factors can be the primary determinant of short-term share price performance. Oil and gas benefits when "value" works, when commodities work, when inflation risks are more pronounced and when interest rates go up...or at least it did this month. The fundamentals continue to line up for energy and this month the fund flows and factors also lined up while most other sectors struggled to go higher.

The **Palisade Horizon Fund** ("PHF") was down 1.6% in August. As mentioned in the main commentary above, the leading sector on the TSX was Materials (primarily gold and copper), with the second being Technology. PHF has zero exposure to the Materials sector, which is a decision that we have made strategically for the Fund. Our screens purposefully eliminate commodities sectors because we want to focus on companies that are growing on their own merits rather than due to outside macro factors, like the price of a commodity, in determining the Fund's holdings. This month it means that the PHF did not participate in the rally in the precious metals and other mining names. Our technology stocks were then logically the best performing names for the month, with Shopify (SHOP) being up 24% and Motorola (MSI), Descartes (DSG), Kinaxis (KXS) and Constellation Software (CSU) all being up between 5% and 11%. Our biggest detractors for the month came from our Industrials sector holdings such as RB Global (RBA) and Celestica (CLS).

In our previous monthly update, we mentioned how quarterly results from software companies like Shopify provide steady proof that, while software will be redefined in the AI economy, not all companies are doomed because of it. In its most recent quarter, Shopify showed accelerating gross

merchandise value (GMV) growth and an exponential increase in AI based usage. August provided further proof of this, as companies like Salesforce (CRM) and CrowdStrike (CRWD) reported blow out quarters with accelerating revenue growth and expanding margins, both attributing their success to AI based tail winds, with CRM driving it through agent usage and CRWD being driven by an ever increasing need for cyber security solutions as Internet traffic and model capability both continue to grow in the AI agent era. As the AI focused portions of these businesses become more mature over the next year, it will become easier to discern which companies are going to be the winners under this new dynamic.

The **Palisade Vantage Fund** ("PVF") was down 2.2% in August. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was down 2.3%, while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 3.1%.

The performance of the PVF and the Aristocrats Index this month is a perfect example of the extreme rotation we saw under the surface in Canadian markets this month. Dividend oriented stocks were sold and that money rotated into commodities stocks in the Materials and Energy sectors. We continue to be of the view that Canadian and US central banks will not raise interest rates in the coming period. The Canadian economy has been moribund, and the US mid-term elections (among other issues) would seem to be a deterrent to raising rates and making mortgages and car loans more expensive in an economy where the consumer has been complaining about the higher cost of living for quite some time. It makes sense that the US Federal Reserve Chairman would talk tough on battling inflation, but when it comes down to it, doesn't actually raise interest rates because the most recent inflation readings in the US came in under expectations and many key components of that calculation keep coming down.

At the end of the day, we think that any further weakness in dividend-oriented stocks will be a reason to buy them. They have had a nice run in the past year, so a little cooling off period would make sense from a normal course perspective. But again, we think that central banks will not raise interest rates and that would be a catalyst for dividend-oriented stocks to go higher.

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.