

# **PALISADE CAPITAL CLIENT UPDATE**

*March 2025: You Said There Was a Plan?!*

March 13, 2025

# Palisade Capital Management

Palisade Capital has a 26-year history of managing investments for high-net-worth families, trusts, foundations and corporations. Our long-term client relationships are built upon transparent, detailed communication and alignment of our interests with those of our clients.

## Investment Offerings

### Palisade Funds

Palisade Vantage Fund

Palisade Select Fund

Palisade Absolute Fund

### Palisade Portfolios

Growth+

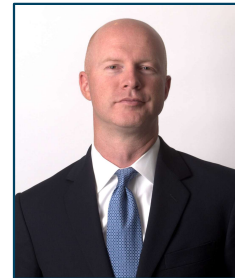
Income+

Preservation+

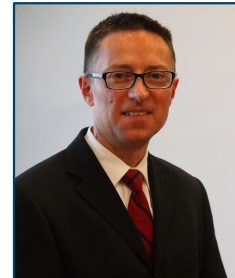
Inflation+

Alternative+

## Presenters



**James Anderson, CFA**  
Managing Director  
25 years of capital markets and investment industry experience



**John McAleer, PEng**  
Managing Director  
33 years of experience in the investment and energy industries



## Section I: What is Fear and What is Economic Reality?

# A Refresher From Last Month: The Miran Tariff Framework

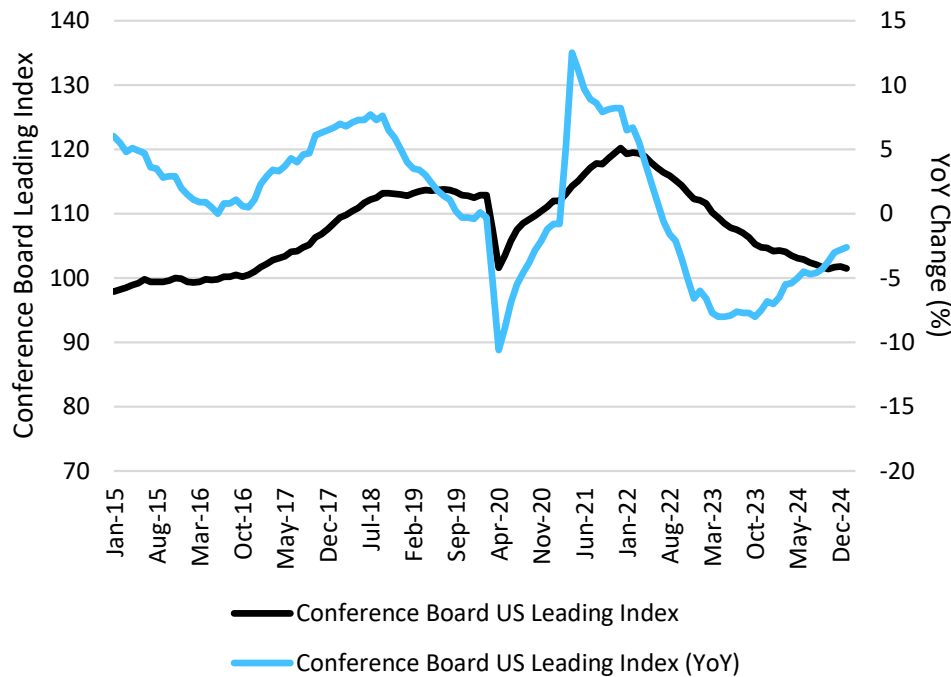
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- Last month, we attempted to aggregate the key points from a 41-page paper by Stephen Miran, who is the nominee to be the Chair of the Council of Economic Advisors (in plain English, this makes him the primary economic advisor to President Trump), in which he provides a road map for a way to increase middle class jobs in America by implementing tariffs and managing the implications of those tariffs over a multi-year time horizon
- The key points of that paper are as follows:
  1. To bring those jobs back without inducing material inflation and economic risk, the US government needs lower spending, less deficits (to lower inflation risk from increased money supply) and a weaker US dollar to drive higher demand for US manufactured goods;
  2. Spending on NGO's (e.g. World Health Organization) and serving as the global police force will shrink to meet the objective in point 1 above;
  3. Tariffs will be introduced to various trading partners and more bilateral trade agreements will be negotiated. Tariff revenue will be used to achieve the goals of point 1 above and will also serve as leverage for negotiating bilateral agreements and deals to lower the value of the US dollar. The key for this point is that tariff roll out is supposed to be slow and staged; and
  4. Longer term goal of lowering the value of the US dollar to drive up demand for US goods, thereby increasing economic activity and creating more middle-class jobs. This has been happening in the last few weeks, but not for reasons laid out in the paper. USD is down 5% since the beginning of February in part due to more aggressive tariff threats and fears of economic weakness in the US.
- The lack of tact and clear communication from the White House around the quantum of tariffs, timing or progress on negotiations deviates completely from the plan laid out above, even if the goal remains the same, and has brought some fear into the stock market. The economic sentiment for the broad US population has also deteriorated from highs achieved in the immediate aftermath of the US election in August
- The US administration was going to have to thread the needle to make this plan work before the aggressive and bipolar communication started. It just got a little trickier

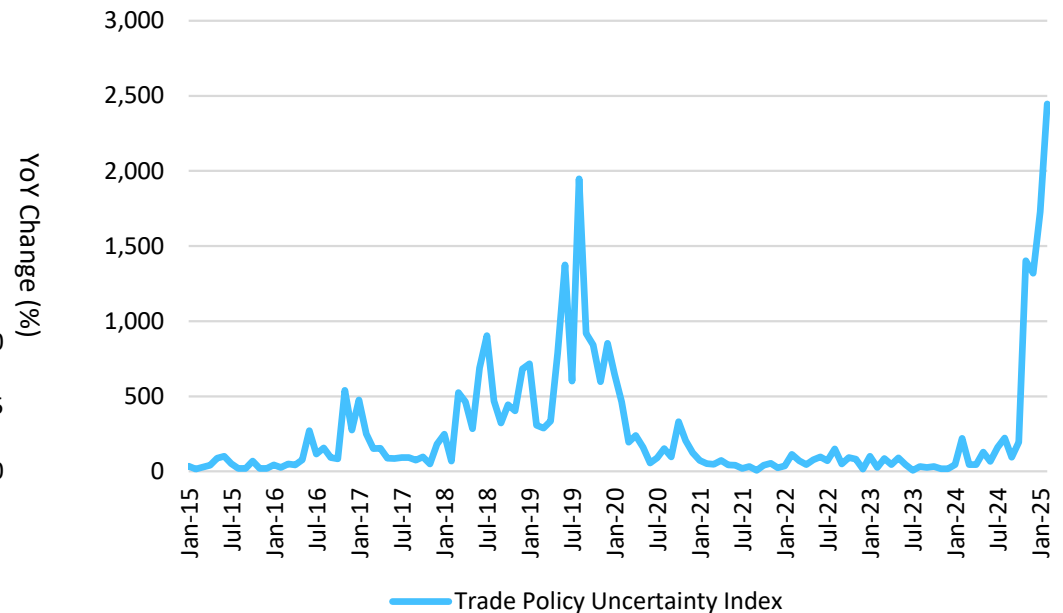
# So Far, All the Crazy Headlines Are Driving Fear But Not Action

Leading economic indicators are moving in a “less bad” direction

### Conference Board Leading Indicator Index



### Trade Policy Uncertainty Index (1)



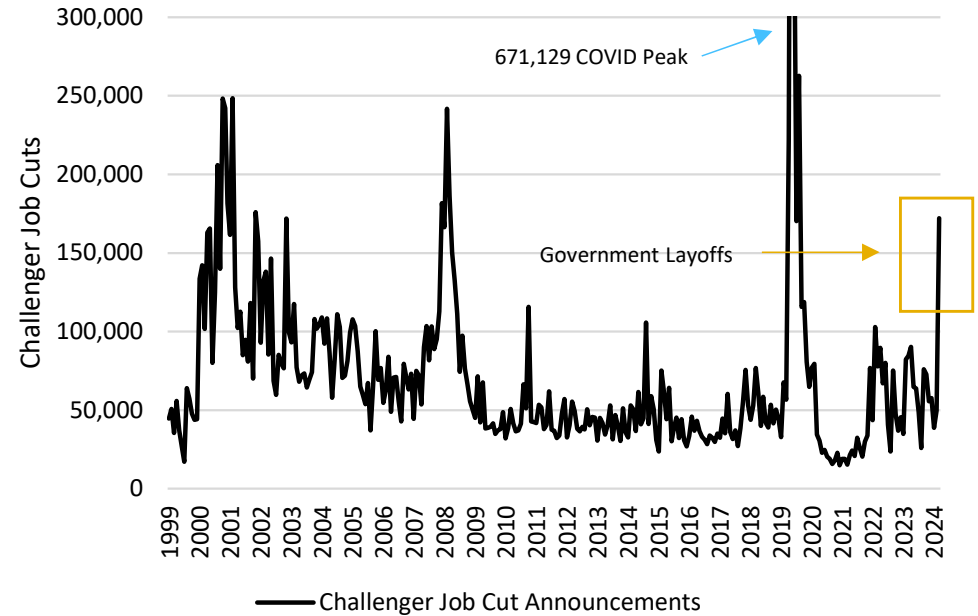
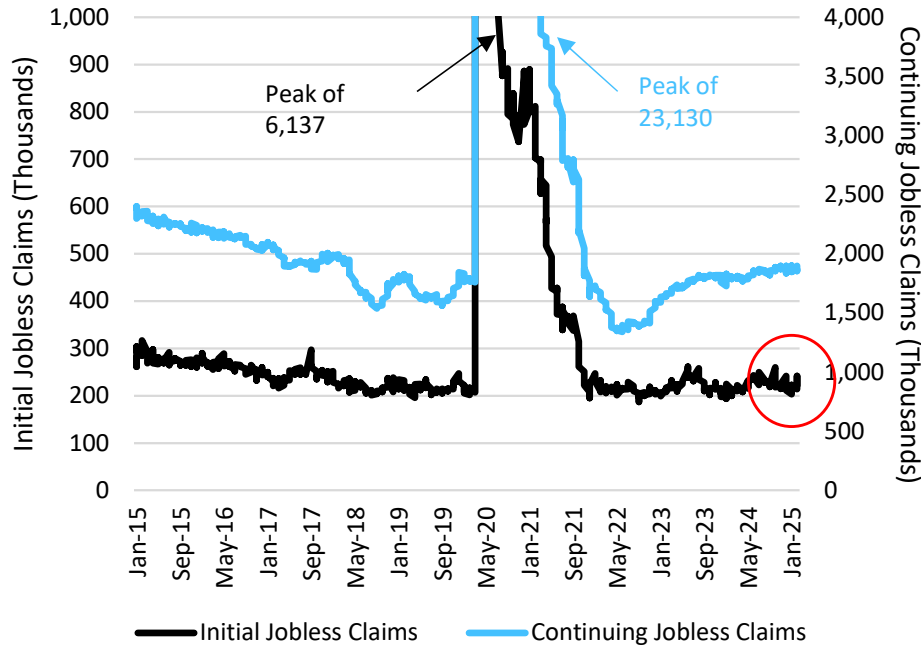
- Not surprisingly, all the negative headlines and constant flip flopping is making people nervous and uncertain about the economic outlook, which is shown in the chart on the right – the appropriately named “Trade Policy Uncertainty Index”
- However, when you look at the Leading Economic Indicators (LEI) you see that they have been declining since early 2022 and in the last year the rate of change is actually improving (left chart)
- In other words, the declines in the index are becoming less bad and at current pace could actually turn positive in a few months

# More Scary Headlines That Don't Have the Data to Match...For Now

US government job losses are the primary contributor to job cuts, but initial claims are stable

Initial & Continuing Jobless Claims

Challenger Job Cut Announcements<sup>(1)</sup>



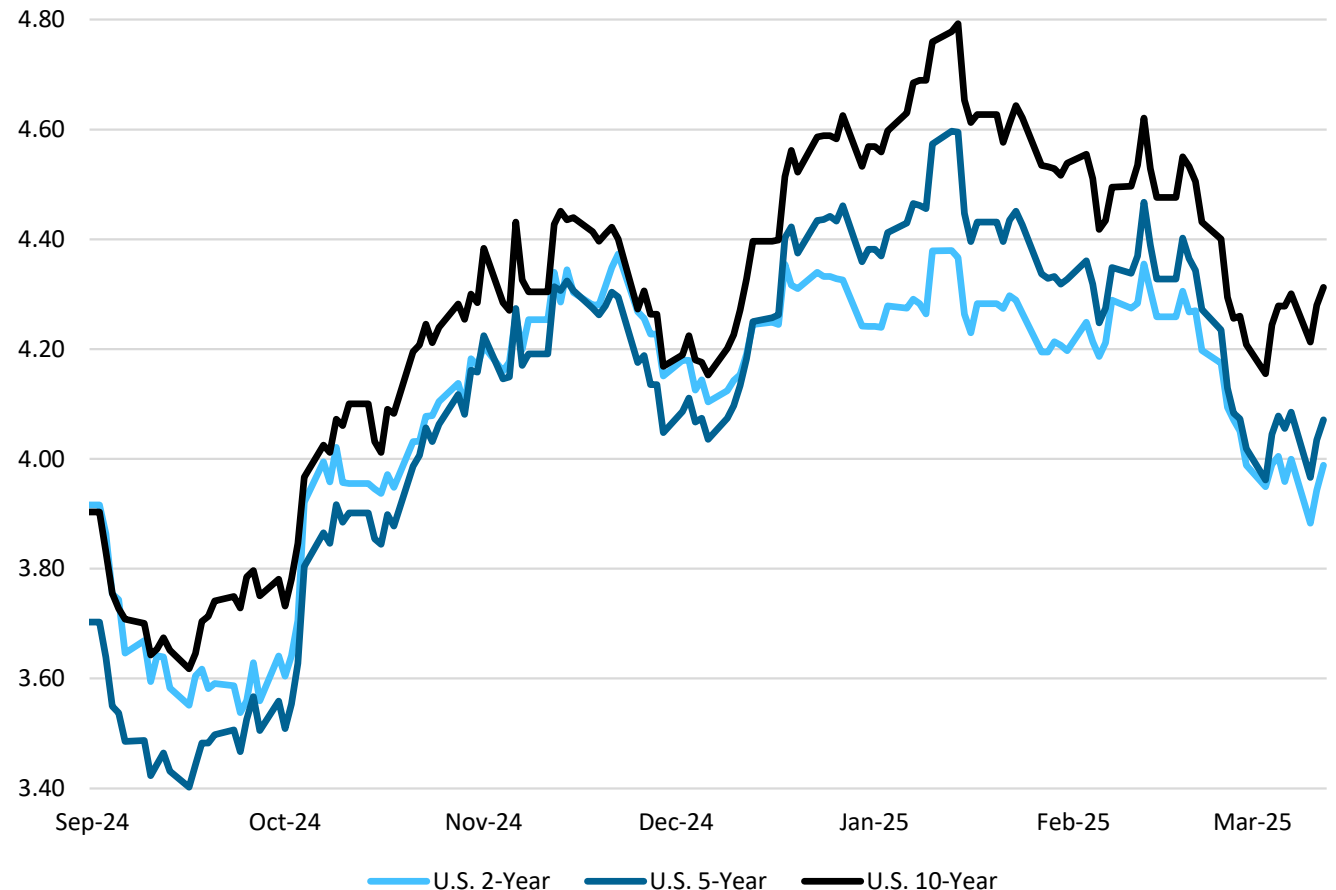
- Lots of headlines around layoffs in the ongoing DOGE drive for efficiency, but we have yet to see a more material build in initial jobless claims data in the US
- On the one hand, it may just be early, and as more time passes we'll see growth in private sector job cuts
- On the other hand, the economic data is holding firm for now, and the underlying goals of lower taxes, less regulation and a generally friendlier business environment are still intact

# One Benefit of Increased Uncertainty...Lower Borrowing Costs!

Heightened fear has driven capital into the safety of bonds and moved interest rates lower

U.S. Treasury Yields (%) <sup>(1)</sup>

- Coming into the year, the fear was higher inflation, higher interest rates and a higher US dollar. None of that has played out so far
- Borrowing costs (i.e. US Treasury Bond yields) have declined between 0.4% and 0.5%, depending on the maturity date, since the early part of January
- This allows the US to issue new bonds to finance the deficit at a lower interest rate and thus lower the deficit by an incremental amount
- Lower interest rates (and correspondingly a lower dollar) were part of the big picture plan that we discussed last month, but that was seen as a longer-term goal in the context of the framework from the Miran paper

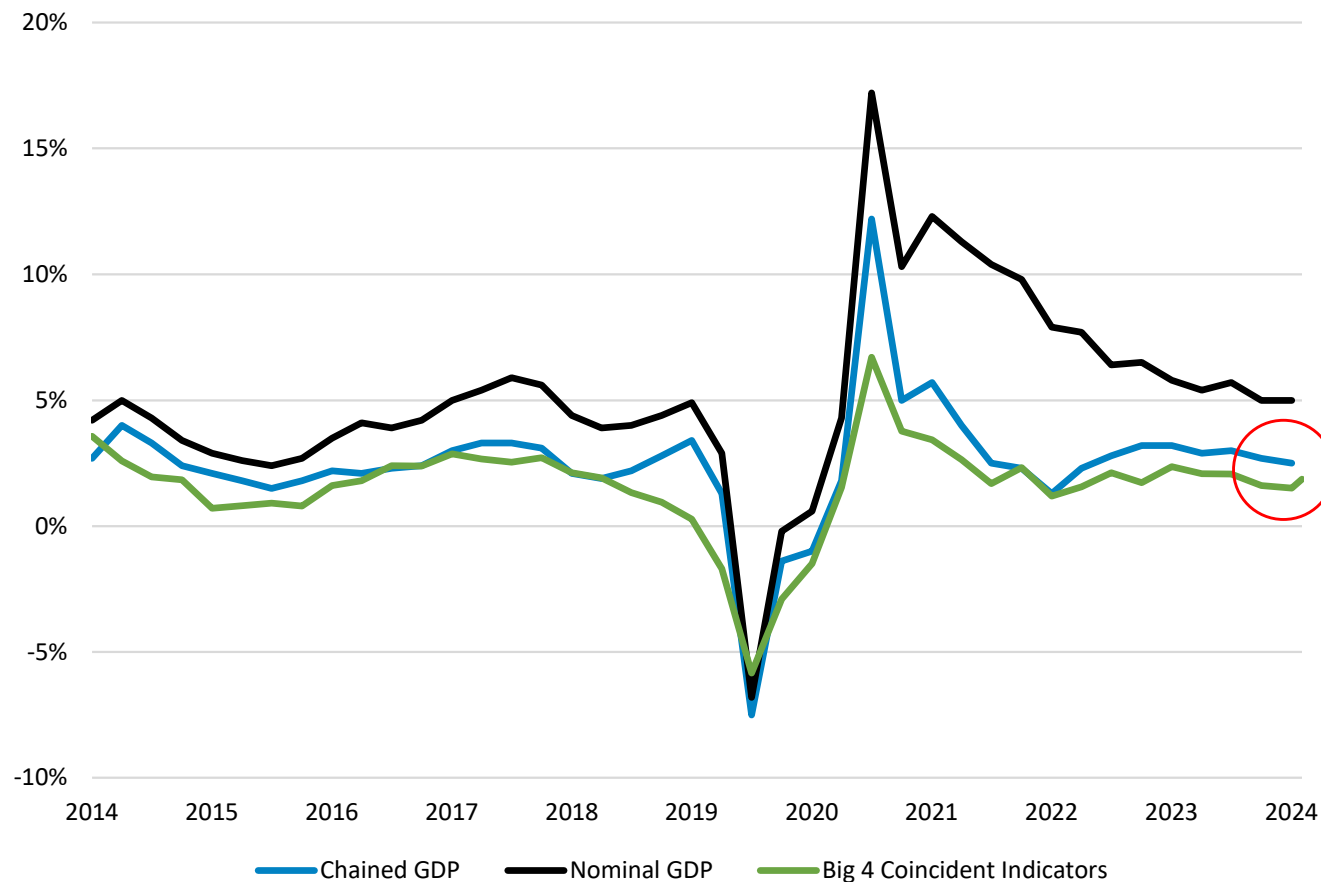


# GDP Growth Remains Stable...

...At the same time as coincident indicators have turned up slightly

## GDP & Big 4 Coincident Indicators (1)

- The current economic situation is very fluid with headlines and expectations changing every day, so adjusting to new data will be important
- We have seen some commentary from US retailers like WalMart that they are seeing early signs of tempered spending, especially from lower income households
- That said, current coincident indicators in the GDP reading have shown a slight uptick. It's always important to remember that the US economy came into this volatile period with a decent economy and a population that had debt under control. Government debt is another thing altogether
- We want to keep a close eye on the economic data, because the sentiment data is showing that we may be getting close to a short-term bottom in stocks

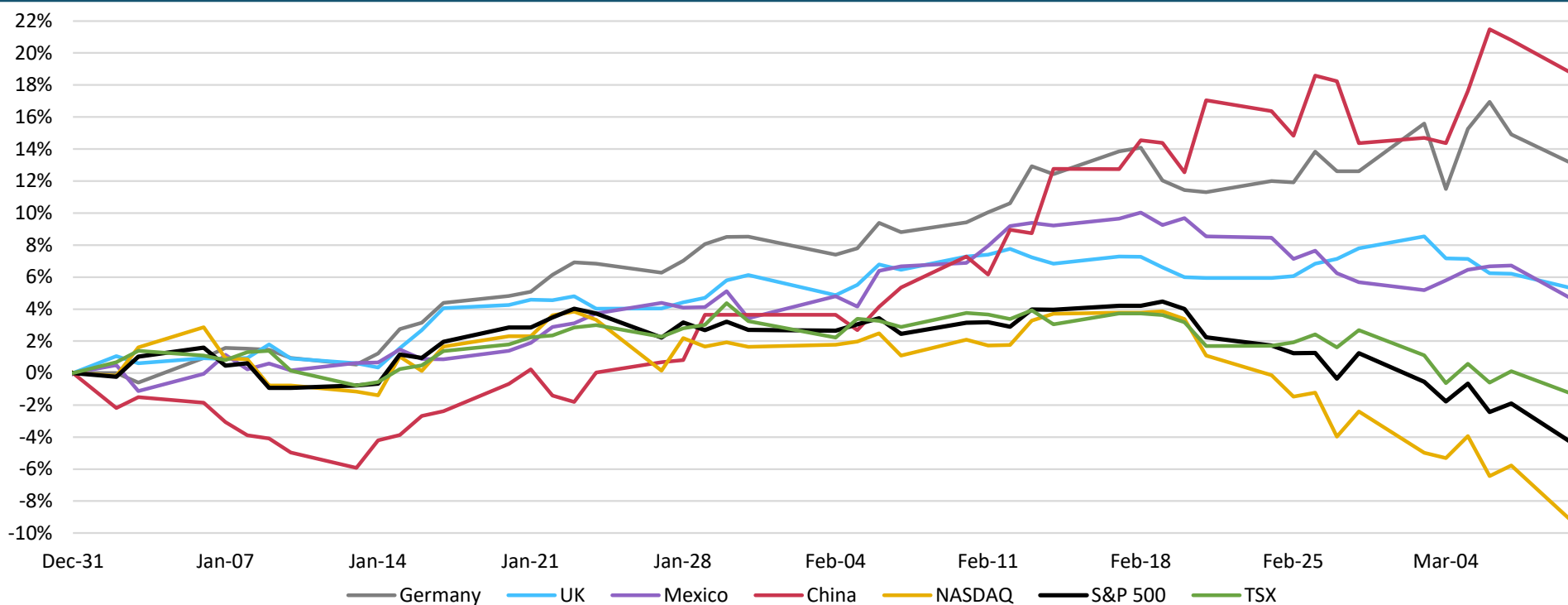




# Investors are Rotating From the US to Foreign Markets

...which is a stabilizing positive

## YTD Major Index Performance (1)



- While it's not a direct positive for most of our investments, it's a broad positive to see international markets trading higher while the US markets (and Canada to a lesser extent) are selling off
- If investors saw real risk of a global recession, you would see money leaving stocks entirely, not rotating into different stock markets
- Other factors at play could be an increased focus by non-US countries on improving their economic performance
- US has outperformed Europe consistently for 15 years, so it's too early to call a turn in markets based on two months of performance

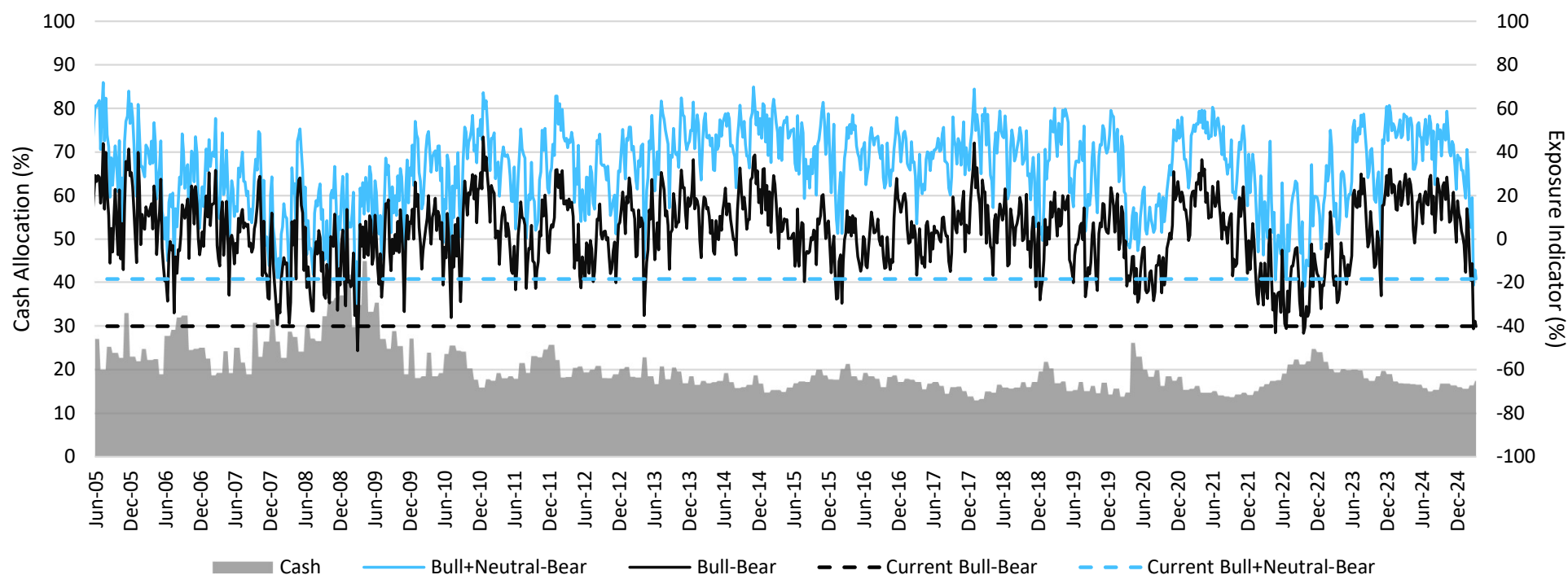


## Section II: Sentiment Update

# Some Sentiment Indicators are Nearing Extreme Fear

...which would be a good sign for calling a short-term bottom

## AAll Market View Survey & Cash Allocation Positioning <sup>(1)</sup>

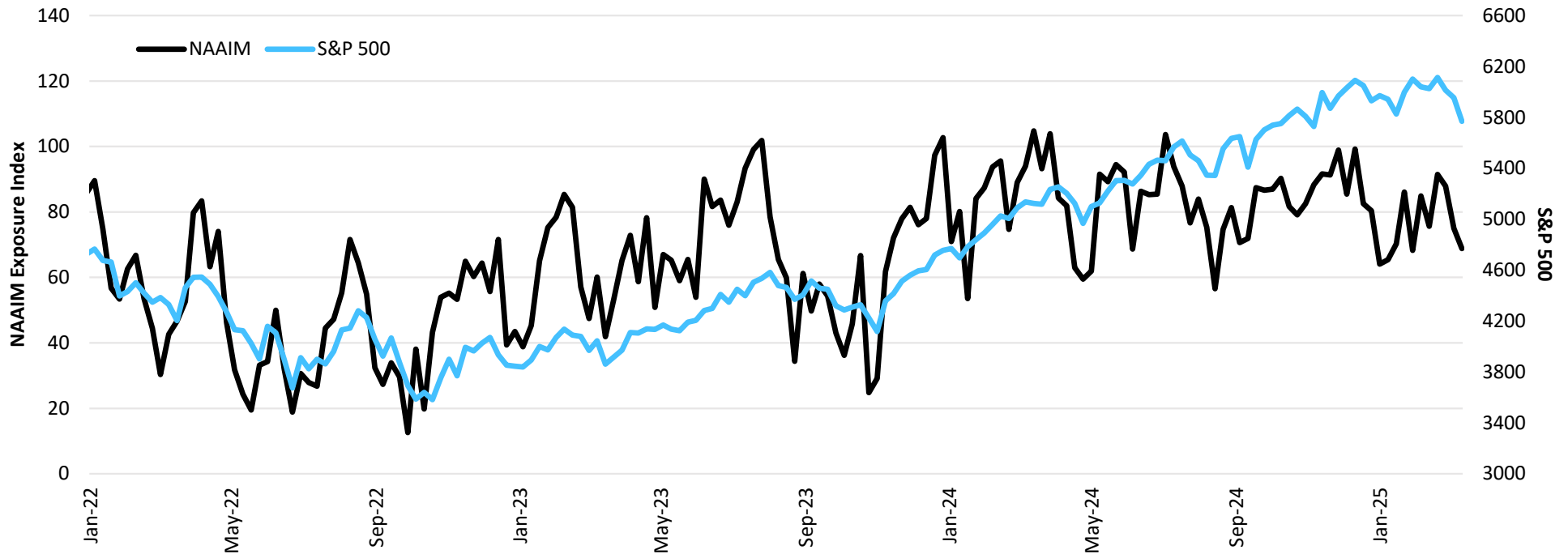


- AAll is a survey on the outlook for investors (i.e. their opinion, not necessarily what they are doing with their cash) which has turned decidedly bearish in the last few weeks
- Bullish respondents minus bearish respondents has hit a level consistent with stock market lows during the bear market of 2022 and the financial crisis in 2009
- While this is deeply bearish (a positive from a buying opportunity perspective), some other sentiment indicators are not quite at similar extremes

# Investors May Say That They Are Bearish...

...but actual positioning isn't super bearish quite yet

## NAAIM Exposure Index and the S&P 500 <sup>(1)</sup>



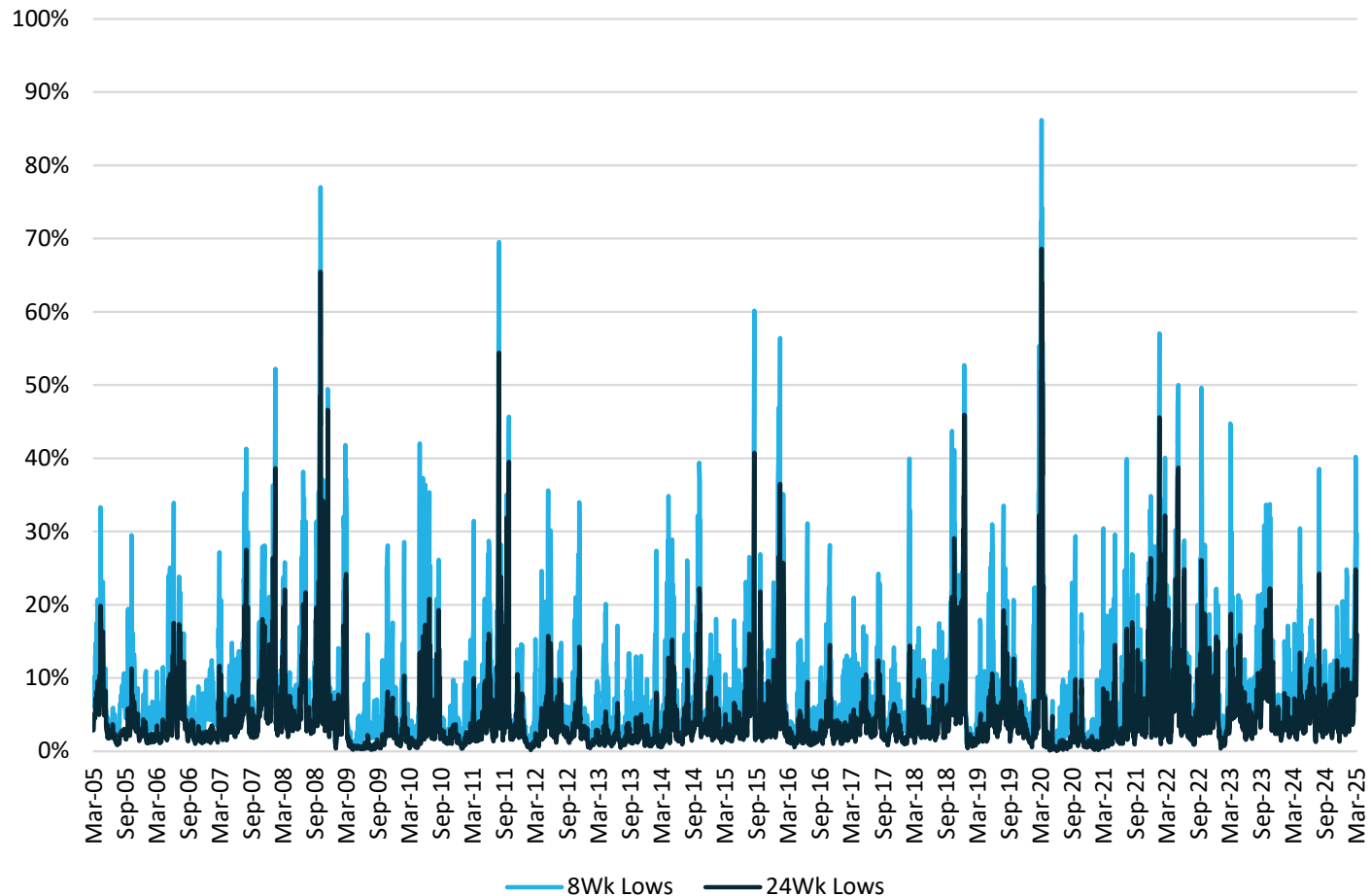
- NAAIM Exposure Index measures investors' exposure to equities, which is currently at 75%. That's not a wildly bullish reading (it can get over 100% in highly exuberant markets), but it's not super bearish either. Ideally, we'd be below 50% right now to match the bearishness in the AAI sentiment reading on the previous slide
- Not all sentiment indices have to line up at the same time, but it is much more predictive if you have a few of them pointing to extreme bearishness concurrently

# Market Breadth Has Become Bearish With Most Recent Declines...

...which should mean that a bounce is coming soon

- Growth stocks have been the hardest hit in this pullback over the last six weeks. The NASDAQ Composite Index traded down over 10% from peak to trough, with many leading names trading down over 20%
- While we don't own a meaningful number of stocks on the NASDAQ, we are using it as a gauge for overall market sentiment and timing for when we might want to put more capital to work
- Similar to the previous slide, the number of stocks trading near 8 and 24-week lows is fairly pronounced, but could see the number tick up a little more to become truly washed out. One more bad market day would do it

NASDAQ Percentage of Stocks Trading at 8 and 24-Week Lows<sup>(1)</sup>



# Broad Strategy Considerations During the Uncertainty

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- Stocks are getting oversold enough that we should see a bounce in the coming week or two, but the key is the capability to continue to move higher. The correction we have seen in stock prices in the last six weeks is very typical through regular investing cycles. You typically see at least one correction per year, even in good markets
- This pullback is a clear buying opportunity, if short-term we don't trip into a recession. We will be monitoring the economic data closely. Currently the core data continues to look good short-term and interest rates have come down to support the economy, so it's not time to panic, but if we see sustained commentary from large US companies that point to a consumer slow down, we will look to play more defense in the Palisade Funds and Palisade Portfolios
- Keep in mind that the US consumer was in good shape going into this uncertainty, so the risk is more that fear pulls back spending, not forced cuts to spending to manage debt, which is what has typically started a recession in years gone by
- The core goals of the US administration remain the same around lower taxes and less regulation, so any clarity and simplicity around the tariff situation should be a huge positive
- The Palisade Funds carried some cash (approx. 11% through February) and lower exposure through the month, which has allowed us to pick away slowly on some beaten up names in just the last couple of days
- We are looking at the portfolios with a short-term mindset for risk management as news emerges, but we're thinking more long-term for buying opportunities. We have come through a period of high fear levels and maximum negativity in news headlines that changed minute-by-minute over the last month. This has created opportunities

# February 2025 Fund Review

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## Absolute Fund (“PAF”) down 0.5% in February

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- Decent resilience during a poor broad stock market. Individual names are trading somewhat independently of the market
- Net exposure was lowered to approximately 35% during the month to be mindful of broader risks, but as we work through March, we’ve been adding to names on our screens that have experienced material corrections like Goldman Sachs, Netflix and Motorola Solutions. Net exposure is now closer to 45% net long
- We have not added to Canadian names yet, but there are opportunities in Stantec, Descartes and CGI Group

## Select Fund (“PSF”) down 1.6% in February

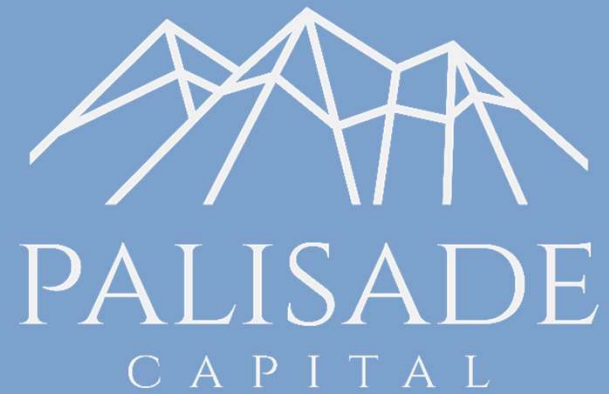
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- S&P/TSX Capped Energy Index was down 1.9% in February. WilderHill Clean Energy Index (NYSE: ECO) down 10.2%
- Oil and gas has been under pressure, but fear is at an extreme and all the same factors remain in play – low inventories, data center demand in natural gas, and concern around production capability of Permian assets
- OPEC+ announcement of returning production to market was an incremental negative, but those barrels should replace Venezuelan and Iranian barrels lost to sanctions. A lot of fear is in the current market. That should be opportunity

## Vantage Fund (“PVF”) up 0.9% in February

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- S&P/TSX Comp Total Return Index down 0.4% for the month. S&P/TSX Dividend Aristocrats Index up 0.1%
- Interestingly, interest sensitive stocks were a beneficiary of the fear and poor trading seen in the broader US and Canadian markets this month. Bond yields went down, and the prospect of further central bank rate cuts drove capital into high dividend yielding stocks like those held in PVF
- PVF has been a safe haven and certain sectors like Telecom and Utilities that were hit in late 2024 and early 2025 are now starting to outperform, supported by dividend yields of over 7%. There is more room to run



## Section III: Wealth Management Model Portfolios



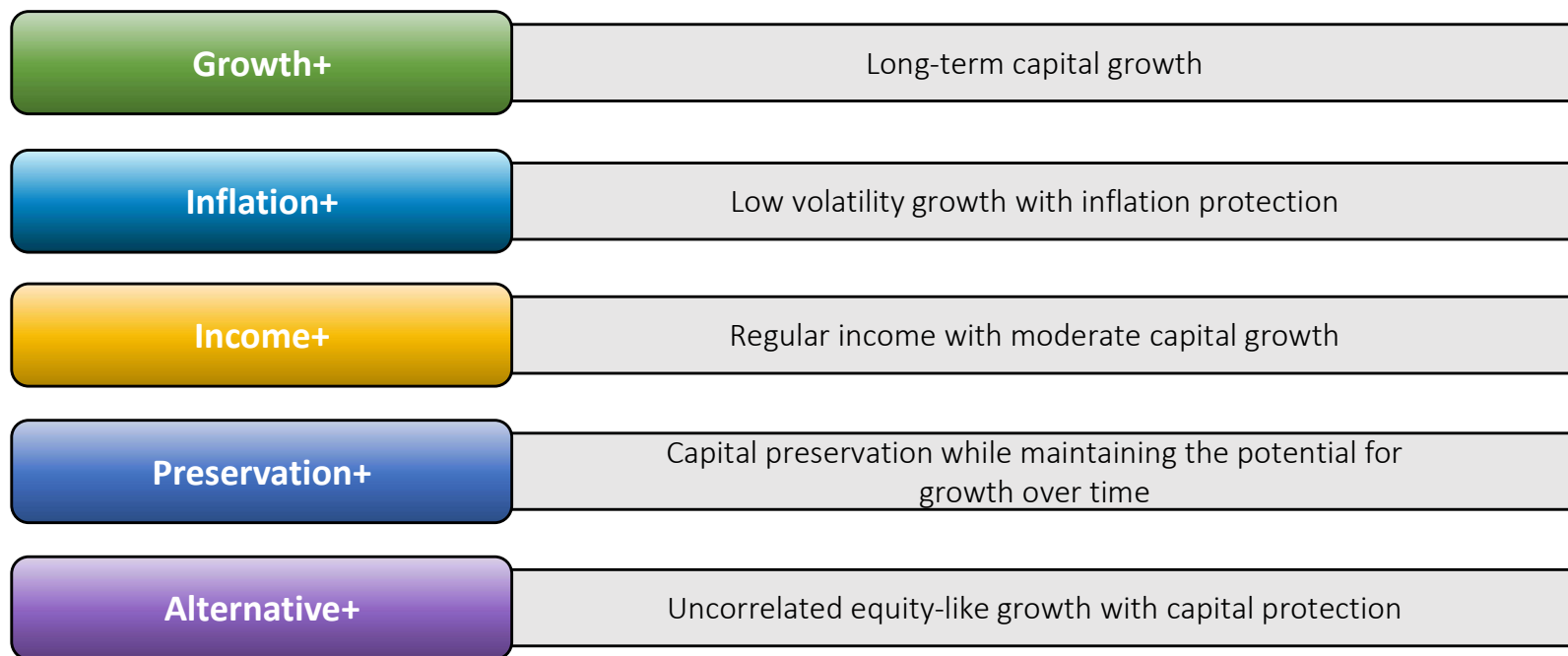
# Palisade Model Portfolios Built to Navigate Volatility

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- The various model portfolios built and offered by Palisade are constructed with the goal of lowering a portfolio's risk/volatility while still targeting returns that achieve your long-term investing goals
- Volatile markets, like the ones we are in currently, highlight the benefits of diversification and including alternative strategies in a broader portfolio. Alternatives are typically less correlated to the returns of the stock market
- For example, the Palisade Growth+ model includes an investment in Saskatchewan farmland that has consistently provided approximately 12% annual returns, and has gone up when stock markets have gone down (e.g. during the 2022 bear market)
- Other examples of alternatives would include arbitrage funds that take advantage of mis-pricings between related securities, “private equity” funds that invest in companies that don't trade on a stock exchange, and mortgage funds that have a lower risk profile
- The Palisade model portfolios don't move up and down as much on a day-to-day basis, which provides an opportunity for better long-term returns and less stress

# PALISADE PORTFOLIOS

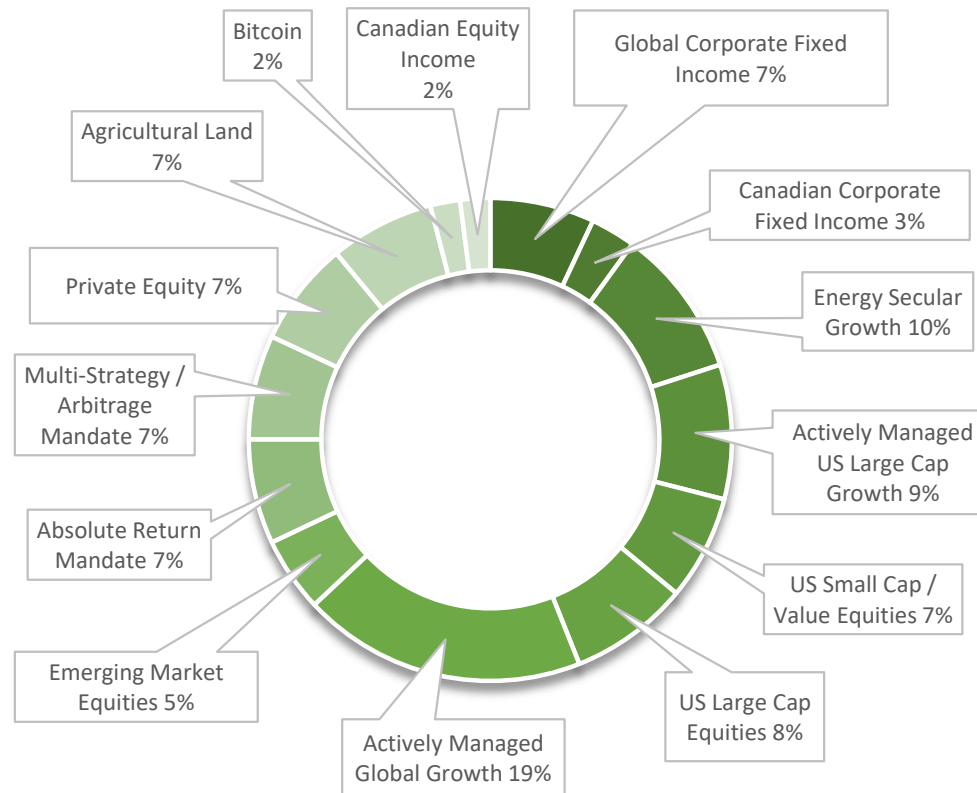
We offer a selection of portfolios to fit our clients' needs depending upon their objectives and risk tolerance



# PALISADE GROWTH+ PORTFOLIO

## Diversified Exposure Focusing on Long Term Growth

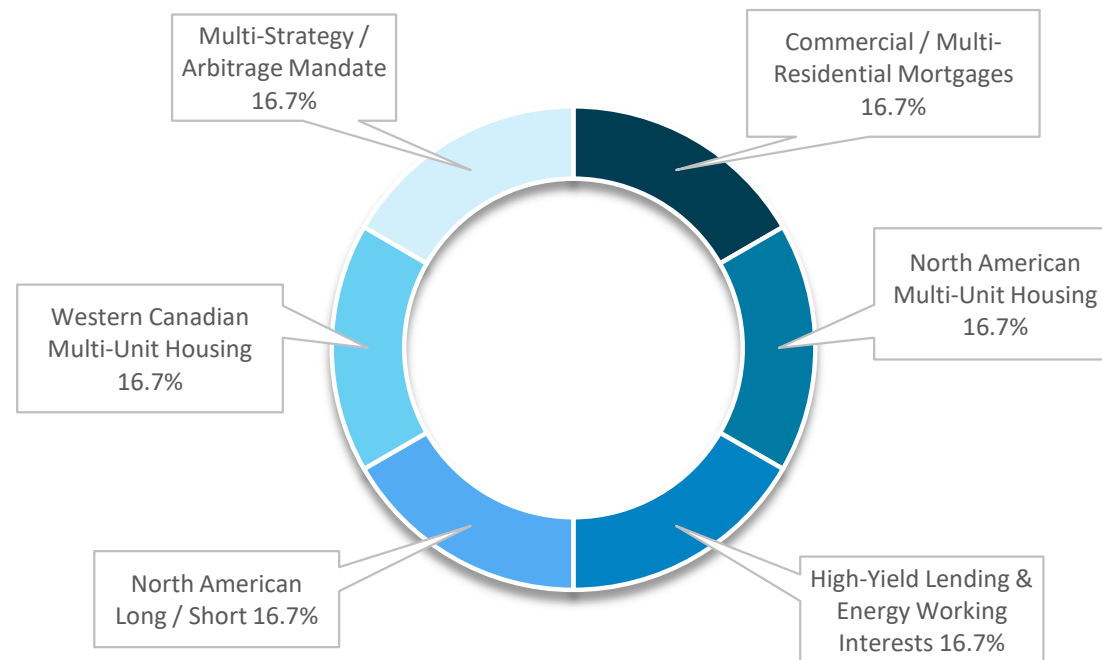
The Palisade Growth+ Portfolio provides investors with well diversified and unique exposure to global investing themes with an eye towards long term capital appreciation. True growth orientation with flexibility, diversification and downside protection.



# PALISADE INFLATION+ PORTFOLIO

Protecting Against and Benefiting From Inflation, Targeting Low Volatility Growth

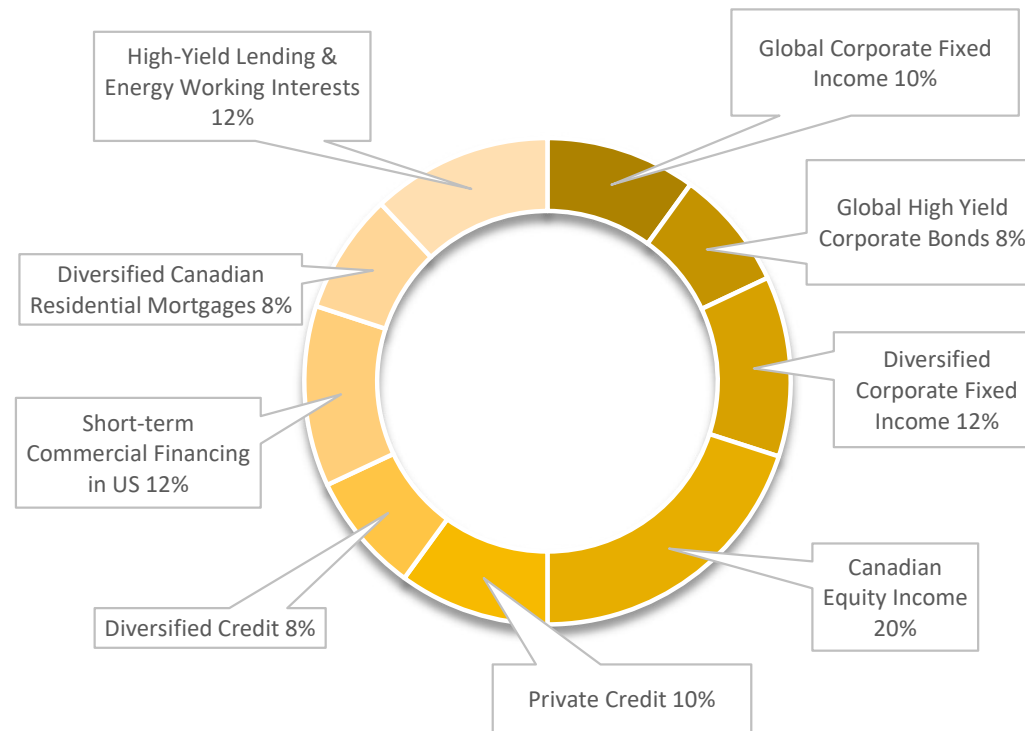
The Palisade Inflation+ Portfolio provides investors with diversified exposure to alternative investment strategies that target low volatility growth with inflation protection. The portfolio focuses on providing downside mitigation and acting as an inflation hedge. The current portfolio yields approximately 4% annually, which can be reinvested through distribution reinvestment programs (DRIP).



# PALISADE INCOME+ PORTFOLIO

Regular Distributions From Multiple Strategies With Lower Correlation to Interest Rates

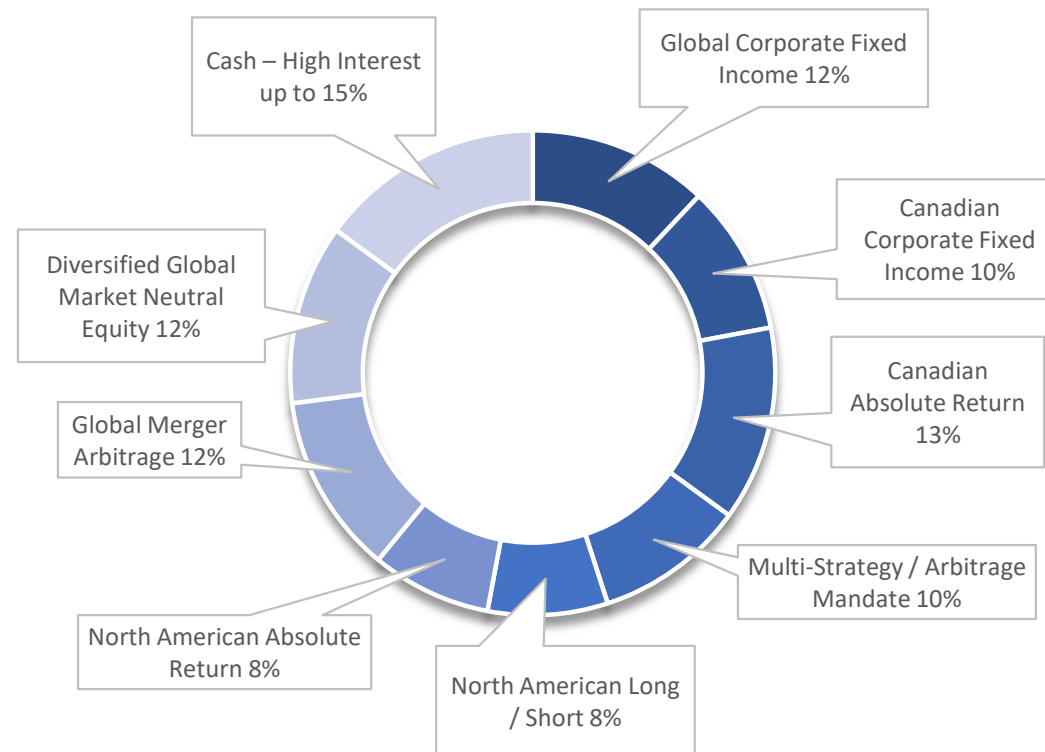
The Palisade Income+ Portfolio provides investors with a well-diversified source of monthly/quarterly distributions from a portfolio of equities, fixed income and alternative strategies. The current portfolio yields approximately 6% annually while maintaining flexibility and providing diversification and lower correlation to interest rates.



# PALISADE PRESERVATION+ PORTFOLIO

## Enhanced Downside Protection While Targeting a Mid-Single Digit Yearly Return

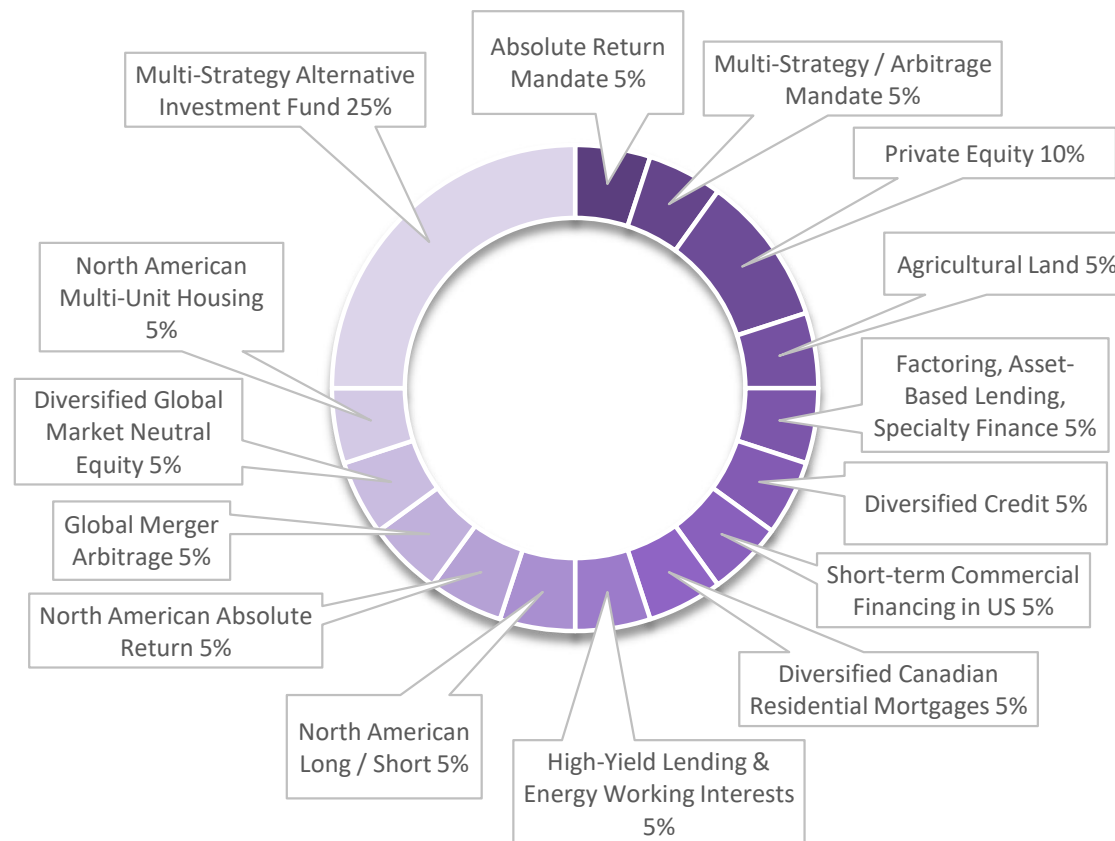
The Palisade Preservation+ Portfolio allocates to a well-diversified portfolio of alternatives and fixed income products that generally produce positive returns on a calendar year basis, regardless of market conditions. The portfolio focuses on capital preservation while seeking to provide low correlation to equity markets and targeting a mid-single digit yearly return.



# PALISADE ALTERNATIVE+ PORTFOLIO

Alternative Investment Focus Providing Diversification to Traditional Equities and Fixed Income

The Palisade Alternative+ Portfolio seeks to provide exposure to best-in-class alternative investment managers while delivering the benefits of diversification to a traditional portfolio of equities and fixed income. The portfolio targets equity-like returns with low correlation to equity and bond markets, low volatility and enhanced capital protection.





Questions



# GLOSSARY



## **Duration:**

A measure of how long it takes, in years, for an investor to be repaid a bond's price by the bond's total cash flows (interest payments and principal). It measures the sensitivity of a bond or fixed income portfolio's price to changes in interest rates. In general, the higher the duration, the more a bond's price will drop as interest rates rise (and the greater the interest rate risk).

## **Sharpe Ratio:**

The Sharpe Ratio can be viewed as the ratio of return divided by volatility or return per unit of volatility. As reference, the 5-yr Sharpe Ratio of the S&P/TSX Capped Composite Total Return Index is approximately **0.56**.

## **Standard Deviation:**

A statistical measure of how far a variable quantity, such as the price of a stock or a portfolio, moves above or below its average value. The wider the range, which means the greater the standard deviation, the riskier an investment is considered to be because of uncertainty in the amount of return.

## **Upside Capture Ratio:**

A statistical measure of a portfolio's overall performance in up-markets. It evaluates how a portfolio performs relative to a *benchmark* during periods when that benchmark has risen. A portfolio that has an upside capture ratio of greater than **100** generally outperforms the benchmark during up-markets.

## **Downside Capture Ratio:**

A statistical measure of a portfolio's overall performance in down-markets. It evaluates how a portfolio performs relative to a *benchmark* during periods when that benchmark has declined. A portfolio that has a downside capture ratio of greater than **100** generally underperforms the benchmark during down-markets.

*Sources: The Free Dictionary by Farlex, The Economic Times, Investopedia*

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# CONTACT INFORMATION

A founding principle of Palisade has always been transparency and communication with our clients. We would encourage anyone with questions to reach out at any time.

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