PALISADE CAPITAL

Our Market View in Summary — November 2023

November saw a notable upswing in most market sectors, with oil and gas being the exception. The month was characterized by significant changes in market indicators and investor expectations regarding interest rates, leading to big gains in both stock and bond markets. The US Federal Reserve meeting on November 1st provided investors with confidence that we are at the end of the interest rate hiking cycle, which opened the door for a strong bounce back month in interest rate sensitive sectors like banks, real estate and telecom stocks. We also saw strong performance from growth stocks.

November Summary:

- The consensus from the Federal Reserve's November 1st meeting pointed towards a pause in interest rate hikes, influenced by decreasing inflation trends.
- US rents are expected to follow the downward trajectory of real estate prices, with a six-month lag.
- Commodities have stabilized after a summer surge, aligning with a reduction in the number of US job openings.
- The Federal Reserve is likely to shift its focus from solely fighting inflation to managing overall economic stability.
- The consumer sector in the US remains robust, potentially cushioning any economic downturn.

Near-Term Outlook:

- Interest rates on 10-year government bonds in the US and Canada have shown a decline, signaling potential for further rate reductions.
- A shift in the market cycle is now likely, with investors now focusing on the timing and extent of potential rate cuts in 2024.
- We anticipate a broadening market upswing, encompassing smaller stocks, interest-sensitive stocks, and economically sensitive stocks.
- The Canadian market, volatile and rangebound in 2023, is at a pivotal point, with the potential to surpass the top end of the recent range.
- If we see rate cuts in 2024, that should provide further tailwinds for Canadian investors in sectors like financials, real estate and utilities.
- Assuming the strong consumer in the US combines with lower interest rates in 2024 to avoid an economic recession, we should still see growing demand for energy, which should support commodity prices once we work through the temporary builds in oil inventories that we've seen in the past few weeks.

The month of November has marked a transition in market dynamics, reflecting a shift in investor sentiment and monetary policy outlook. The US Federal Reserve should now move from inflation control to managing the economy. A focus on the economy combined with lower interest rates would bode well for a range of market sectors and presents new investment opportunities, especially in smaller and mid-cap stocks.

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November 2023

Fellow Palisade Investor,

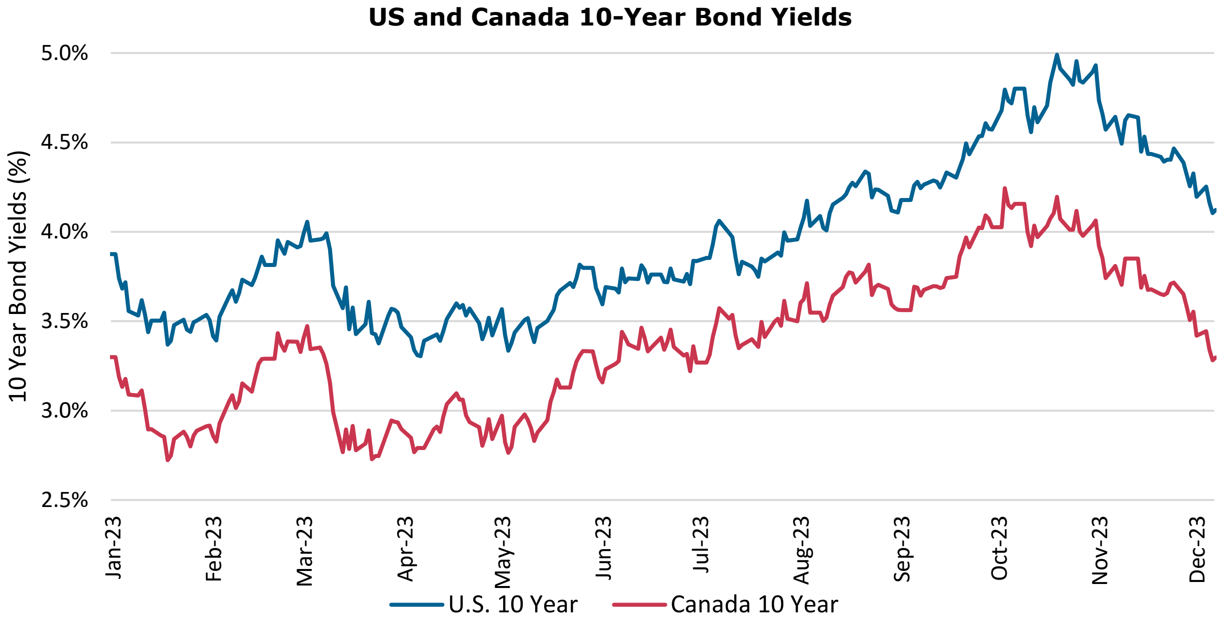
Please find attached the November 2023 Monthly Update and Fund Fact Sheets for the Palisade Funds. **This month's client conference call is scheduled for Friday, December 15th at 11am MT.** We will use Zoom for this call which will allow participants to connect either through their computers or by calling a phone number. The Zoom 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. 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

Well…most sectors went up this month, except for oil and gas. The stretched market indicators and a change in investor expectations regarding interest rates that we have been referencing for the last few months really exerted themselves and dramatically moved both stock and bond markets during November. Poor sentiment, interest rates that had run up unnecessarily and bearish positioning by fund managers all reversed quickly when the "read between the lines" takeaway from the US Federal Reserve ("US Fed") meeting on November 1st was for a more definitive pause in rate hikes.

Inflation has been coming down and those trends were noted by the US Fed. Rents should continue to decline in the US as they follow the price of real estate lower with a six-month lag, commodities have continued to trend lower after a brief spike through the summer, and while the number of job openings in the US continues to trend above normal, we have seen a slight slackening in that data as well. The US Fed should now feel comfortable moving towards a strategy more oriented around managing the economy rather than impeding inflation. The consumer continues to be strong in the US and should provide the cushion for an economic soft landing. Even if we do see a slow-down in 2024, the US Fed will likely be lowering interest rates, which should have a positive effect on large swaths of the economy like housing and construction, which should keep any downside pain within a manageable range.



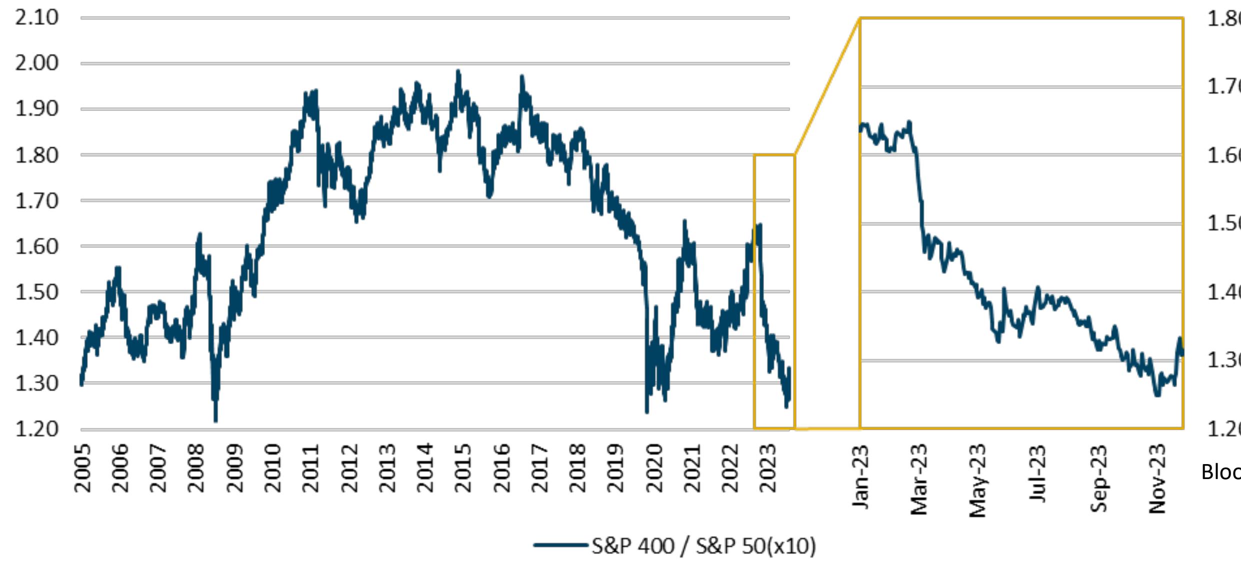
Source: Bloomberg

The above chart shows the interest rate on 10-year government bonds in both the US and Canada during 2023. Since late October we have seen a steady decline from a peak of 5% in the US to a current level of approximately 4.1%. There is room for rates to move lower in the coming months, even if we just got back to levels seen in the spring at 3.5% in the US. Lower rates will be a tailwind for stocks and at some point, when rates come down enough, we should see capital flow out of money market funds and back into stocks, which would provide a further catalyst in the medium term.

With the dramatic move in most markets this month we believe that we have now progressed into a new part of the cycle. The average investor now believes that interest rates are finished going up. Investors are now just questioning the timing for the first interest rate cuts, and to a lesser degree the number of cuts that we will see in 2024. In this environment, we should see a widening of breadth in the stock market. In other words, we should see more upside participation from sectors outside of technology to include smaller stocks, interest sensitive stocks and to some degree, economically sensitive stocks. The Canadian markets have been rangebound and volatile this year, so it should be a real test in the coming weeks to see if we can get back to the high end of this year's range and hopefully move above those levels in short order. The strong November was nice to see, but realistically we need to see extension of these gains and further proof that investors are looking forward to a time with reasonable economic growth, less macro concerns, lower interest rates and thus an opportunity to see real earnings growth accompanied by valuation multiple expansion to put some attractive returns together in 2024.

The chart below is a clear demonstration of the opportunity that exists in a broadening of upwards participation by more sectors and smaller companies in the US, but this should also translate to Canada due to the fact that our markets are smaller and dominated by industries that have generally been out of favor for the past few years. This chart shows the relative performance of the S&P 400 index (which represents medium sized companies in the US) versus the top 50 market cap companies in the S&P 500 index. As you can see, the declining relative performance of the mid-cap names has been ongoing throughout 2023 (highlighted in the yellow box which is zoomed in on the longer-term chart) and has just now turned up in the last few weeks. On a longer-term basis, the underperformance of mid cap stocks has now reached levels last seen at the lows of COVID-19 and the 2008 financial crisis. This relationship doesn't have to move straight up from here, but given that we think we are at peak interest rates and entering a new phase of the economic cycle, this would seem like a low risk point to make a call that we are going to see outperformance in small and mid-cap stocks and more companies participating in a bullish market environment. There is plenty of room to the upside in this relationship, so our expectation is that this trade could work throughout 2024, which would be constructive for the Palisade Funds and Palisade Portfolios.

Performance of Mid-Cap Stocks Versus the Largest Public Companies in the US



Source: Bloomberg

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was down 1.4% in November. The S&P/TSX Capped Energy Index ("Energy Index") was down 3.5% and the WilderHill Clean Energy Index (NYSE: ECO) was up 5.7% for the month.

As mentioned above, oil and gas was an outlier this month and traded down while the rest of the market traded higher. We think there are a few reasons for that. First, the sector had outperformed through the summer, so when broad markets started to bounce in November investors sold winning sectors to buy beaten up names. Effectively, we saw a large rotation trade out of commodities (and some other relative outperformers) and into the underperforming sectors, which also explains the strong performance of the Palisade Vantage Fund to be discussed below.

We're also seeing a higher degree of seasonal weakness in oil than is typical for this time of year. Refinery maintenance and turnarounds have been above seasonal average, so that has created a short-term glut of oil which has been reflected in the large weekly inventory builds that we've seen over the last few months. Natural gas has simply been soft due to non-supportive weather. Winter has come in like a lamb so far, which has put downwards pressure on gas prices.

We have raised some cash in PSF and have continued to do so in the early days of December. As we write this, the cash weighting in PSF is in the high teens. We think the pullback in crude oil is temporary, but the weakness in natural gas is going to need a little time to play out and/or a quick blast of cold weather to get pricing back on track. On the crude oil front, the US is at record levels of production, but on the other hand OPEC+ is continuing to cut production to manage supply/demand imbalances. We think the weakness in oil stocks could continue in the very short term, and we will be looking to put that cash back to work in the coming weeks as refineries come back online and the US continues to rebuild the Strategic Petroleum Reserve.

The **Palisade Absolute Fund** ("PAF") was up 0.7% in November. This month's performance was held back by our holdings in oil and gas. We covered some shorts early in the month, but the remaining shorts bounced, which is totally acceptable in a long/short mandate. Losses in shorts and oil and gas put the heavy lifting onto our growth screen names, which had a good month. We have trimmed the oil and gas exposure and rotated some capital into interest sensitive names similar to those within the Palisade Vantage Fund. We have also put on a trade to take advantage of the improving relationship between mid-cap and large-cap stocks mentioned above by buying an exchange-traded fund ("ETF") that represents the S&P 400 index and shorting an ETF representing the S&P 50. As shown in the chart above, the relationship between those two is as stretched as it's been since COVID-19 and the 2008 financial crisis, so we think there is an opportunity to see the relative performance between the two ETF's favor the S&P 400 into 2024.

The **Palisade Vantage Fund** ("PVF") was up 7.4% in November compared to a gain of 7.5% in the S&P/TSX Composite Total Return Index. For a further frame of reference, the S&P/TSX Canadian Dividend Aristocrats Index was up 6.7% for the month. We won't reference this latter index all the time, but we mentioned it last month and feel that it's slightly more relevant given how much volatility we have seen in the dividend-oriented sectors over the last few months. The positive start to the month of November that we referenced in last month's update continued through the balance of the month and into the first few days of December. Strength was largely across the board as most names in PVF are highly interest rate sensitive. The irrational fear over the potential for higher interest rates that we discussed last month pushed the market down like a coiled spring, so the relief rally that we have seen in the past month has been much stronger than a typical rally that you'd see for large, blue chip, dividend growth stocks.

While we are happy with the performance this month, we recognize that we really need to see an extension of the gains in these sectors so that we can deliver an attractive overall return for our PVF investors. The Canadian stock market has not provided that consistent extension of gains for almost two years now, but as mentioned above, we do think that we're entering a new part of the market cycle with an expectation for interest rates to come down in 2024, which should continue to provide a tailwind for dividend paying stocks.

In hindsight, we were a few months early in expecting a pivot in investor expectations in respect to interest rates, but now that we are here we think the path forward should include a broadening of positive breadth in the stock market and continued recovery in interest sensitive stocks such as banks, utilities and real estate. If the US economy in particular can avoid a recession, that should also lead to stable and growing global demand for energy, which should facilitate a recovery bounce in oil and gas equities in the coming months once the weekly inventory builds start to subside.

As always, we are happy to answer any questions you may have. Please feel free to reach out at any time. Have a great Christmas season with family and friends. We appreciate your support and wish you all the best for 2024!

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.