

PALISADE CAPITAL CLIENT UPDATE

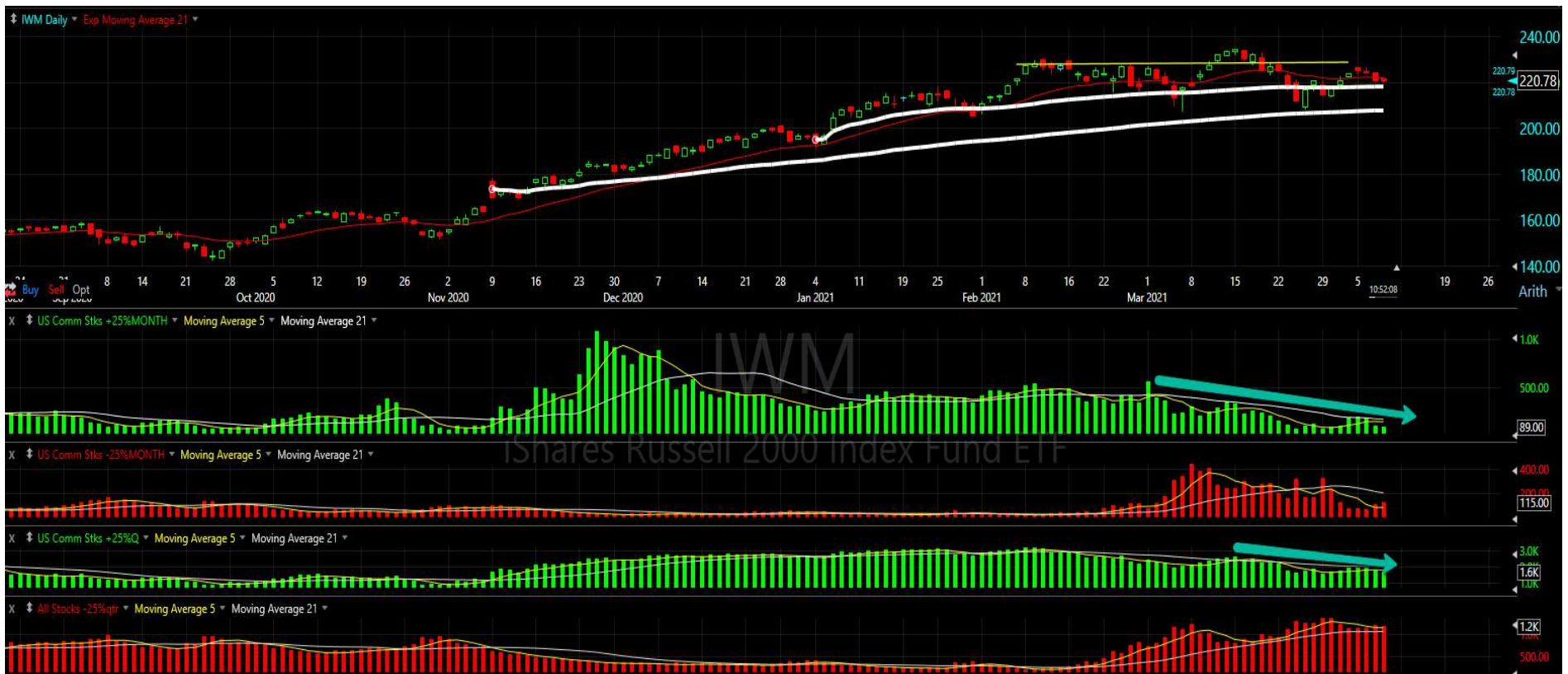
April 2021: What Lies Beneath

April 13, 2021

March 2021 Funds Overview

- Fund performance this month reflects specific themes. Some cash put to work in last 10 days as minor corrections occurred in certain stocks
- Absolute Fund down 0.6% in March. Up 21.6% year over year
 - Net exposure near high end of the range as dips were bought in a couple of names
- Select Fund up 1.6% in March. Up 89.6% year over year
 - TSX Capped Energy Index up 5.8% in March. Wilderhill Clean Energy Index (NYSE: ECO) down 9% in March. Reflective of rolling corrections in certain sectors
 - Bought dips in oil in early April (down 10%+) and select renewables and energy tech names (down 20%+)
- Vantage Fund up 4.8% in March. Lagging value sectors continue catch up
 - Still behind the TSX Total Return Index by 3% over the last year (41.2% vs 44.2%) however the value catch up trade continues for the PVF
 - Source of gains during the month were lagging value sectors like REITs, Utilities and certain Financials

Rolling Corrections – Russell 2000



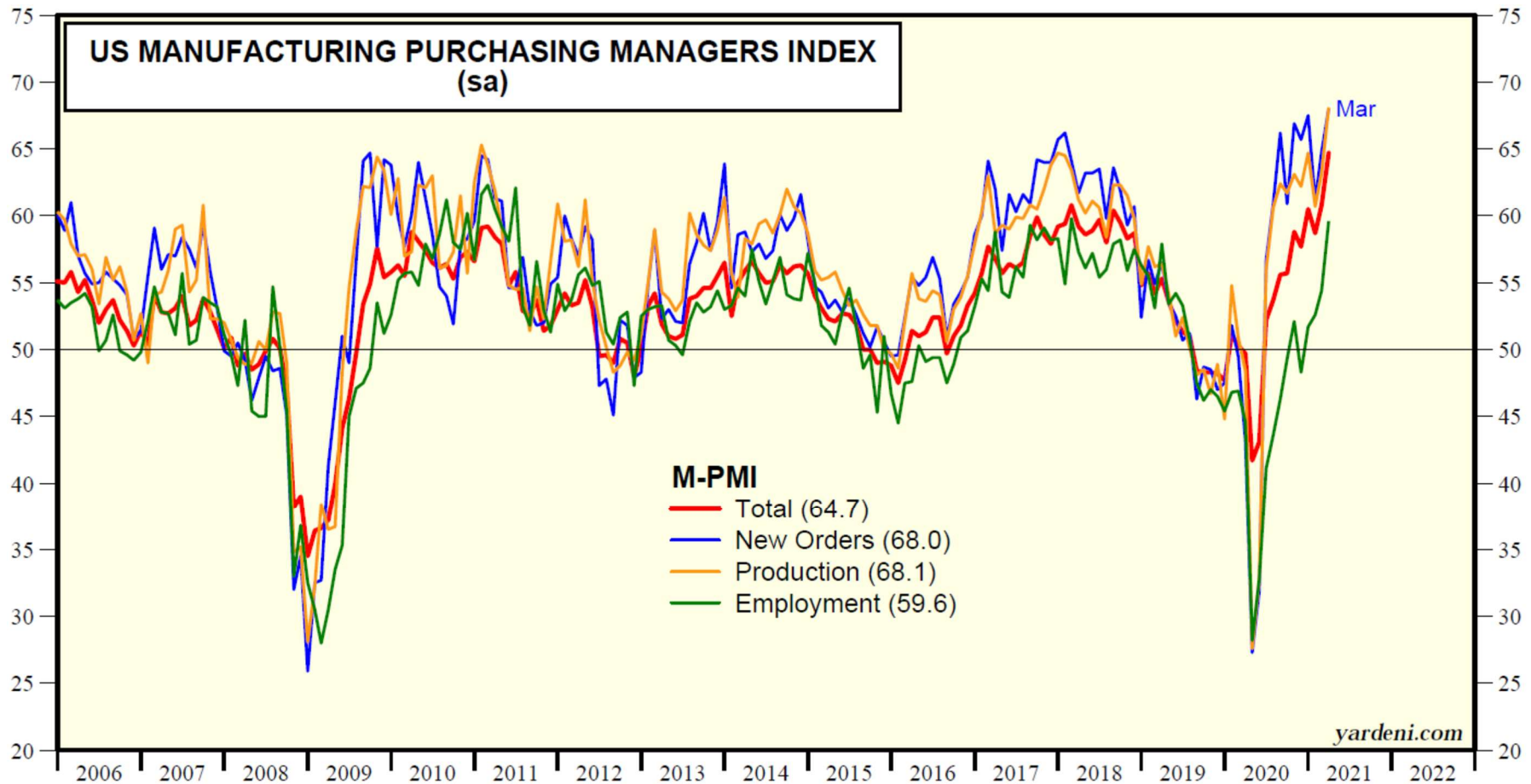
Source: Twitter @Zortrades

- Russell 2000 Index (US Small and Midcaps) has gone sideways since the middle of February
- Since that peak, the number of stocks experiencing significant declines has picked up, but the overall index has remained flat
- Certain sectors under the surface are correcting. This is a positive if sector by sector corrections can happen without a full market correction, but it does evidence increased short term risk

Short Term View

- Underlying fundamental factors continue in a bullish direction
 - Economic data points, interest rates, inflation (for value stocks)
- Tone of the market has changed
 - Breadth under the surface has weakened, small caps not participating as much, some sectors have become rangebound
- Seasonal bullish period coming to an end in the next 4-6 weeks
 - Doesn't necessarily mean that a correction has to occur, but being a little more cautious could be justified
- Bullish outlook remains intact, but we will likely keep portfolios a little tighter and take some profits through the summer to account for the short-term change in tone and seasonality

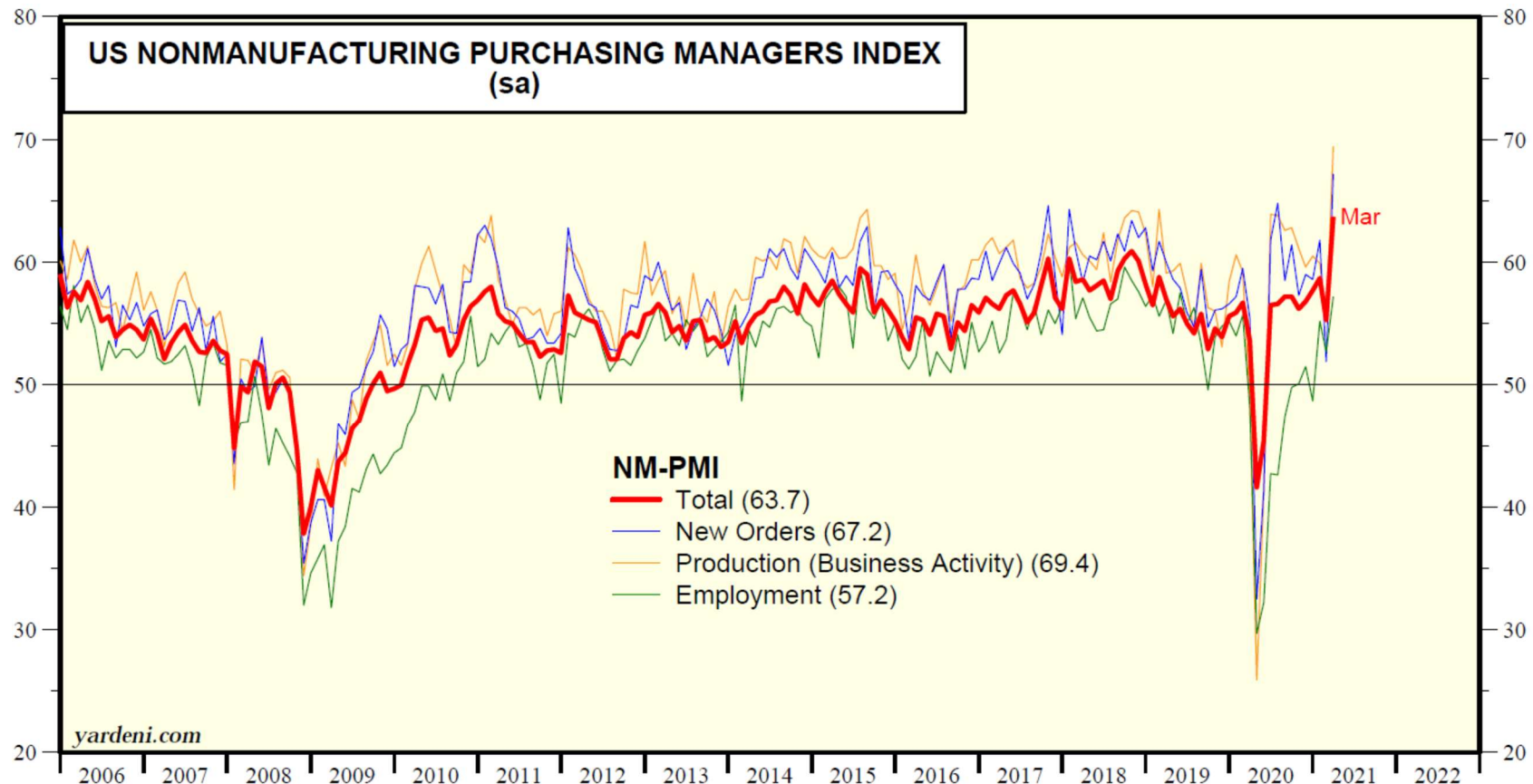
US Manufacturing Data Positive



Source: Institute for Supply Management.

- Recent acceleration in this key economic data point
- Note that employment (green line and a lagging indicator) is catching up

US Services Data Even Stronger



Source: Institute for Supply Management.

- Service economy readings at highest level in 15 years. Reflective of US economy re-opening with consumers (travel, face to face business, etc.)
- Again, note the strong catch up in employment. Businesses have enough confidence to bring back workers

Copper Users Expectations Continue Upwards

Global Copper Users PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

- Users of copper have higher expectations for their businesses in the near future
- Expectations could continue higher to levels similar to the 2008/2009 recovery period
- Similar for most commodity-oriented businesses

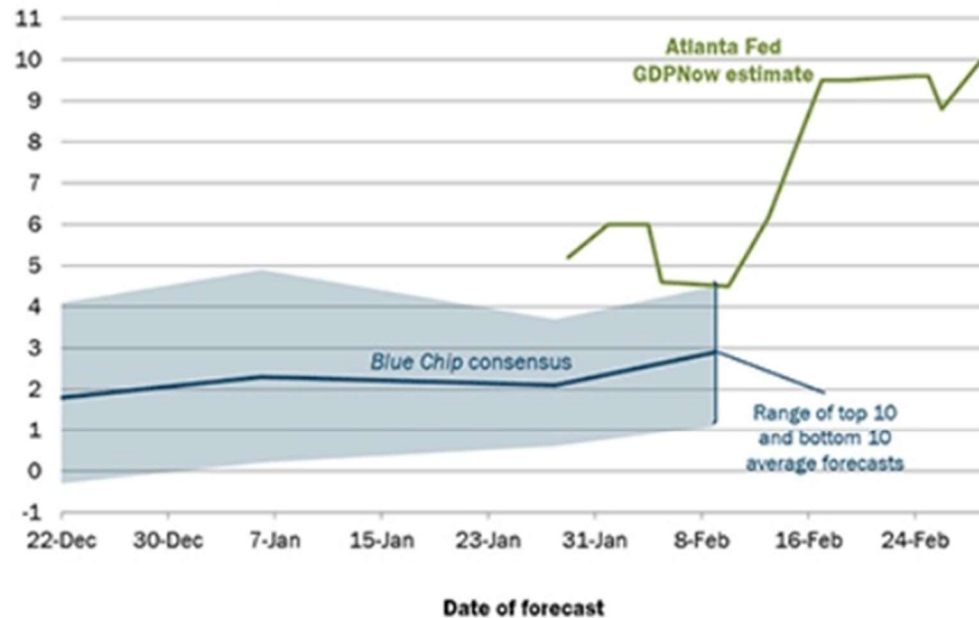
US GDP Growth Expectations Accelerating



GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

In particular, it does not capture the impact of COVID-19 and social mobility beyond their impact on GDP source data and relevant economic reports that have already been released. It does not anticipate their impact on forthcoming economic reports beyond the standard internal dynamics of the model.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2021: Q1
Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

- Exact copy of last month's conference call slide (since revised)
- Year over year GDP growth expectations for Q1 in the US are now 10%. Easy Covid comparison
- What's more compelling to us is the accelerating positive rate of change through the quarter

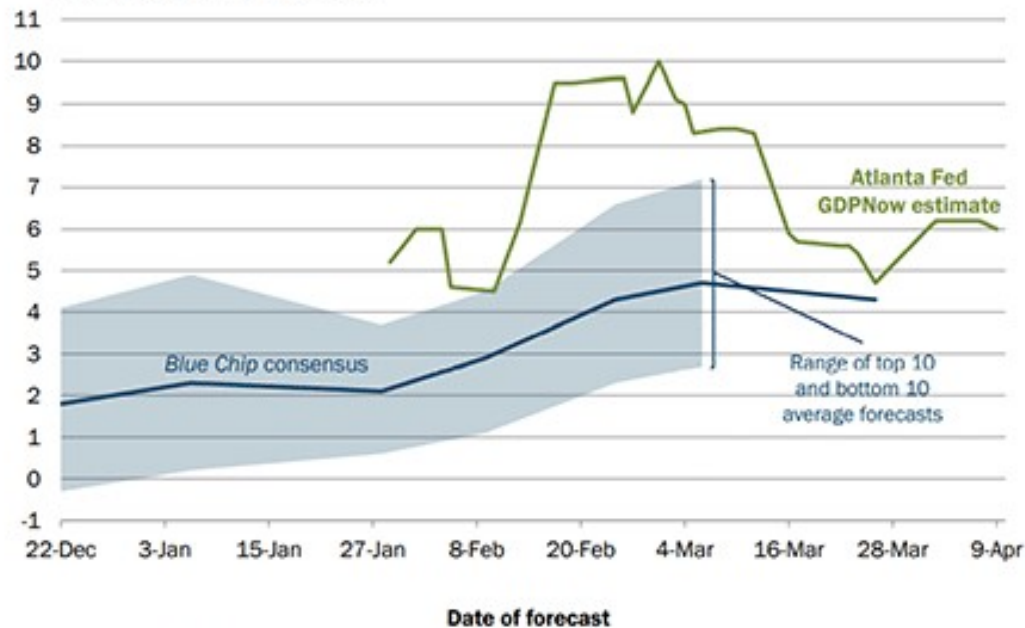
US GDP Data Moderated Since Last Month



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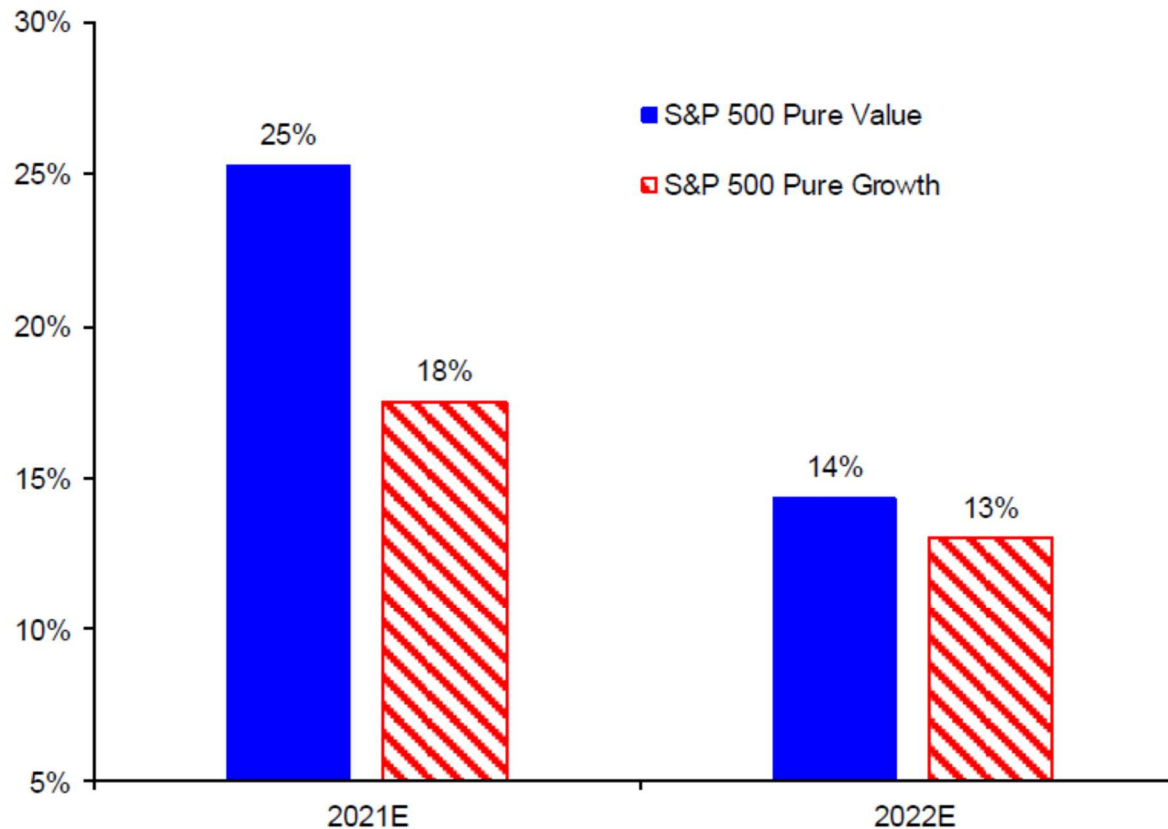
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- In typical stock market fashion, we called the top in this reading last month by featuring it in the monthly conference call! Given the change in a short time period we wanted to note it
- Still positive, but not as much so versus last month. Negative revisions partially due to lower than expected reports in the real estate sector, albeit still strong

Earnings Growth 2021 – Value is Growth?

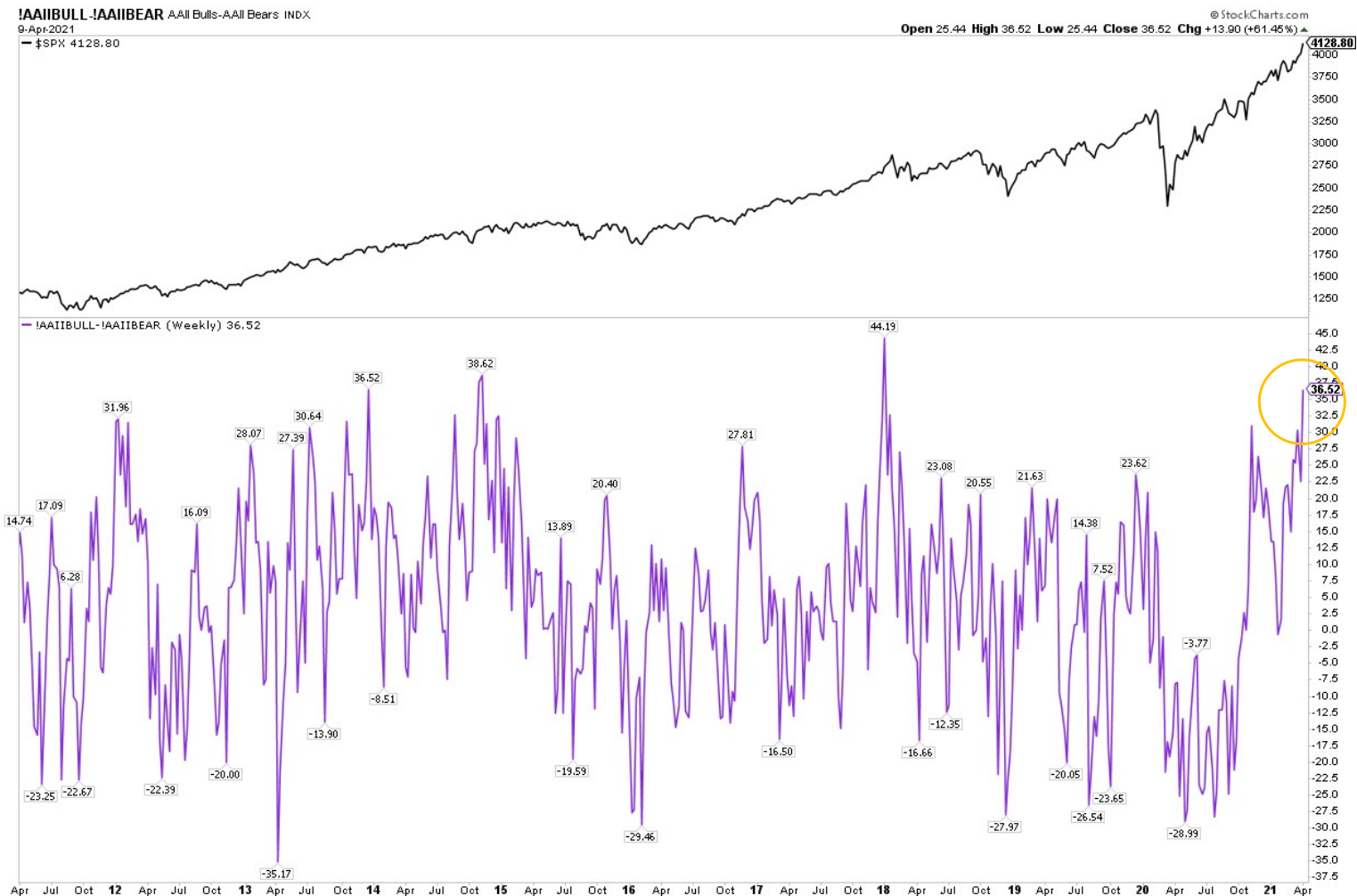
S&P 500 Pure Value vs Pure Growth: Bottom-up EPS Forecasts



Source: Scotiabank GBM Portfolio Strategy, Refinitiv

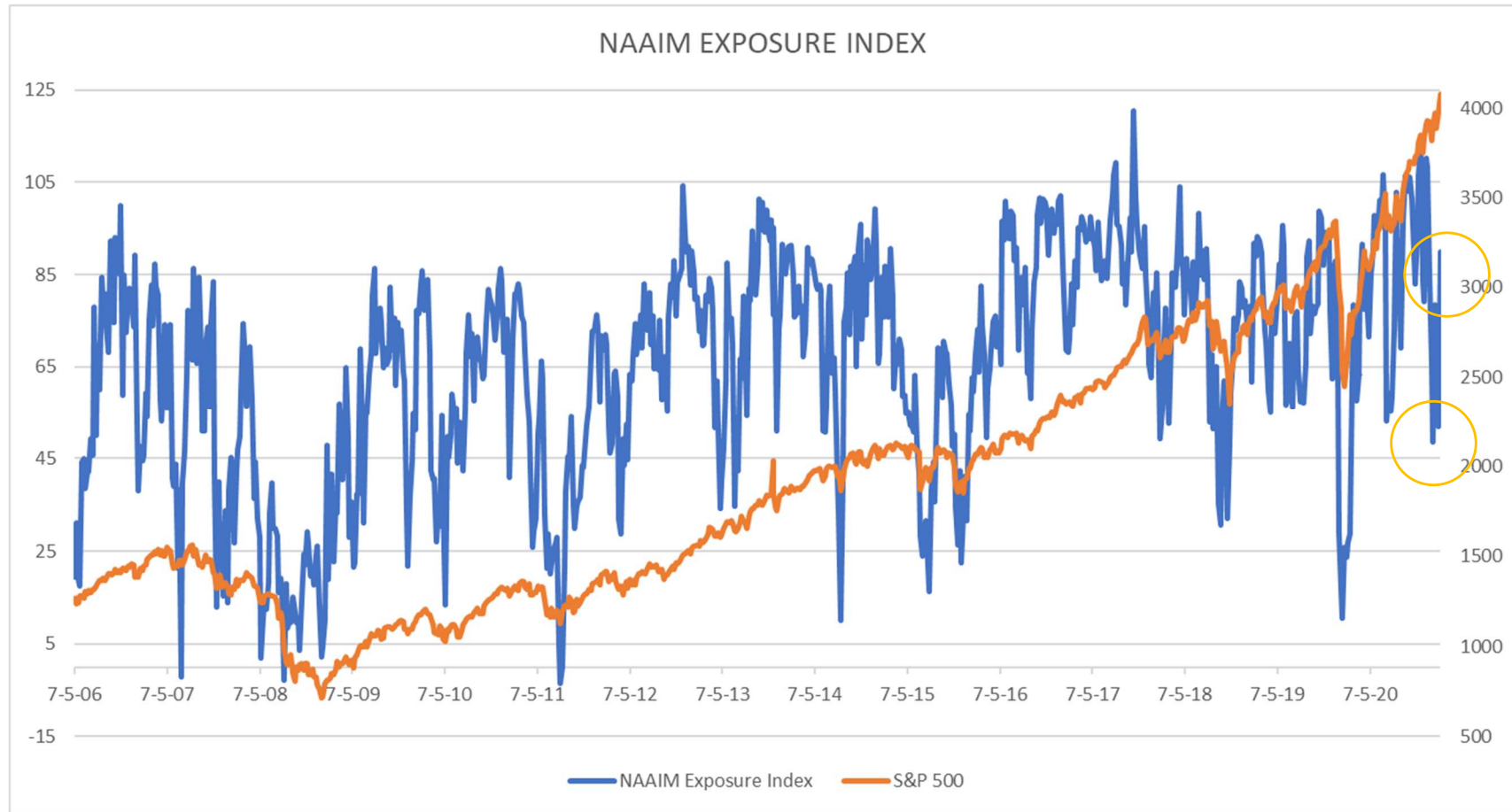
- Given the sensitivity to an economic recovery, we are seeing earnings growth for “value” sectors exceed “growth” sectors in 2021 and 2022
- Simple data point that shows why value stocks should outperform growth for a continued period

Contrasting Sentiment - Bullish



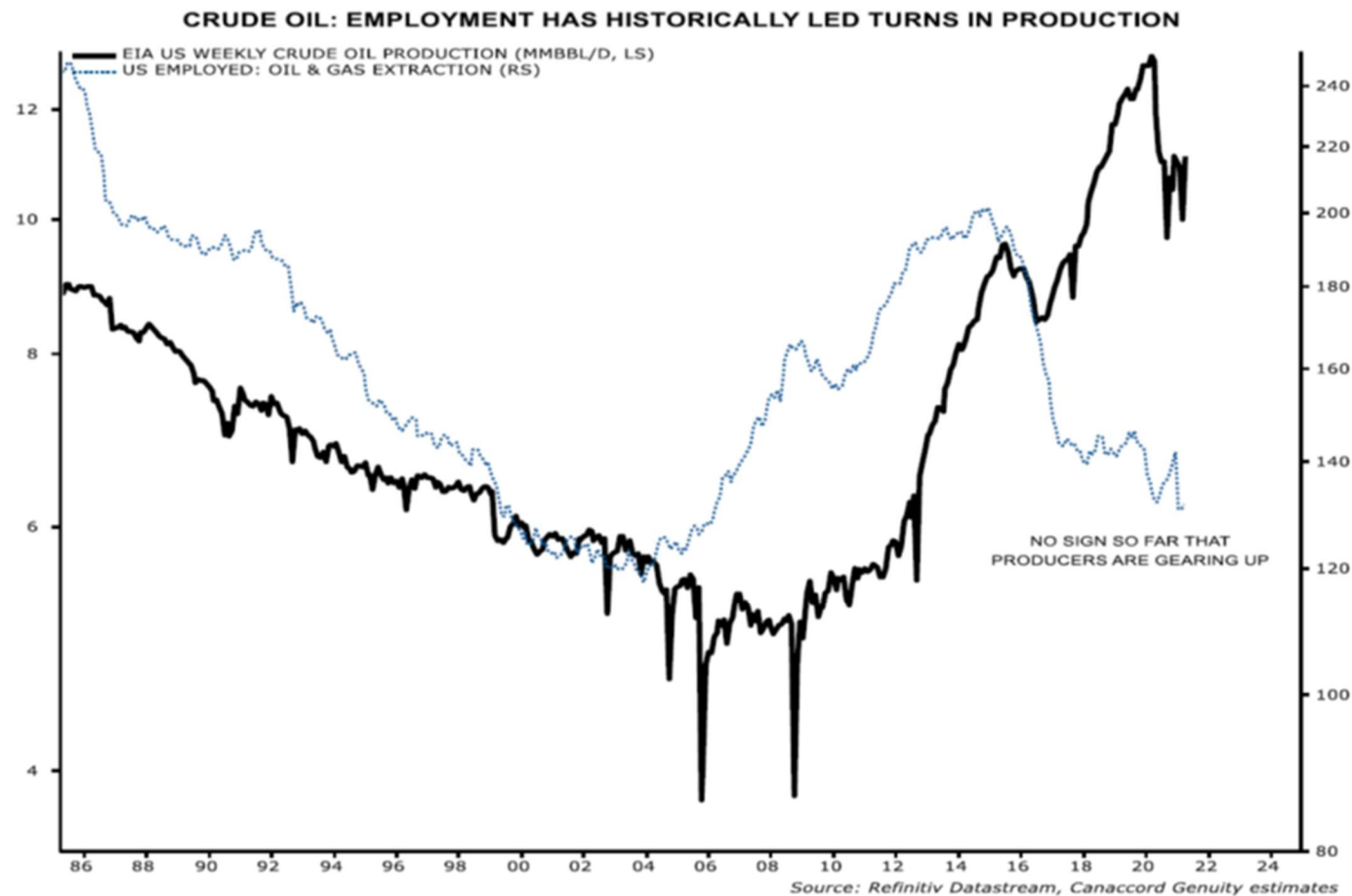
- Retail sentiment at the high end of the range over the last 10 years
- Sentiment can stay bullish for periods of time, but at the high end of the range a little caution is warranted

Contrasting Sentiment – “Less” Bullish



- Measures institutional investor equity exposure
- A week ago was at lowest level of last two years (ex-Covid) but rose in the last week
- Seasonality must be kept in mind. “Sell in May” has lost efficacy in recent years, but long term a spring peak with summer consolidation has been statistically significant

US Employment in Oil and Gas

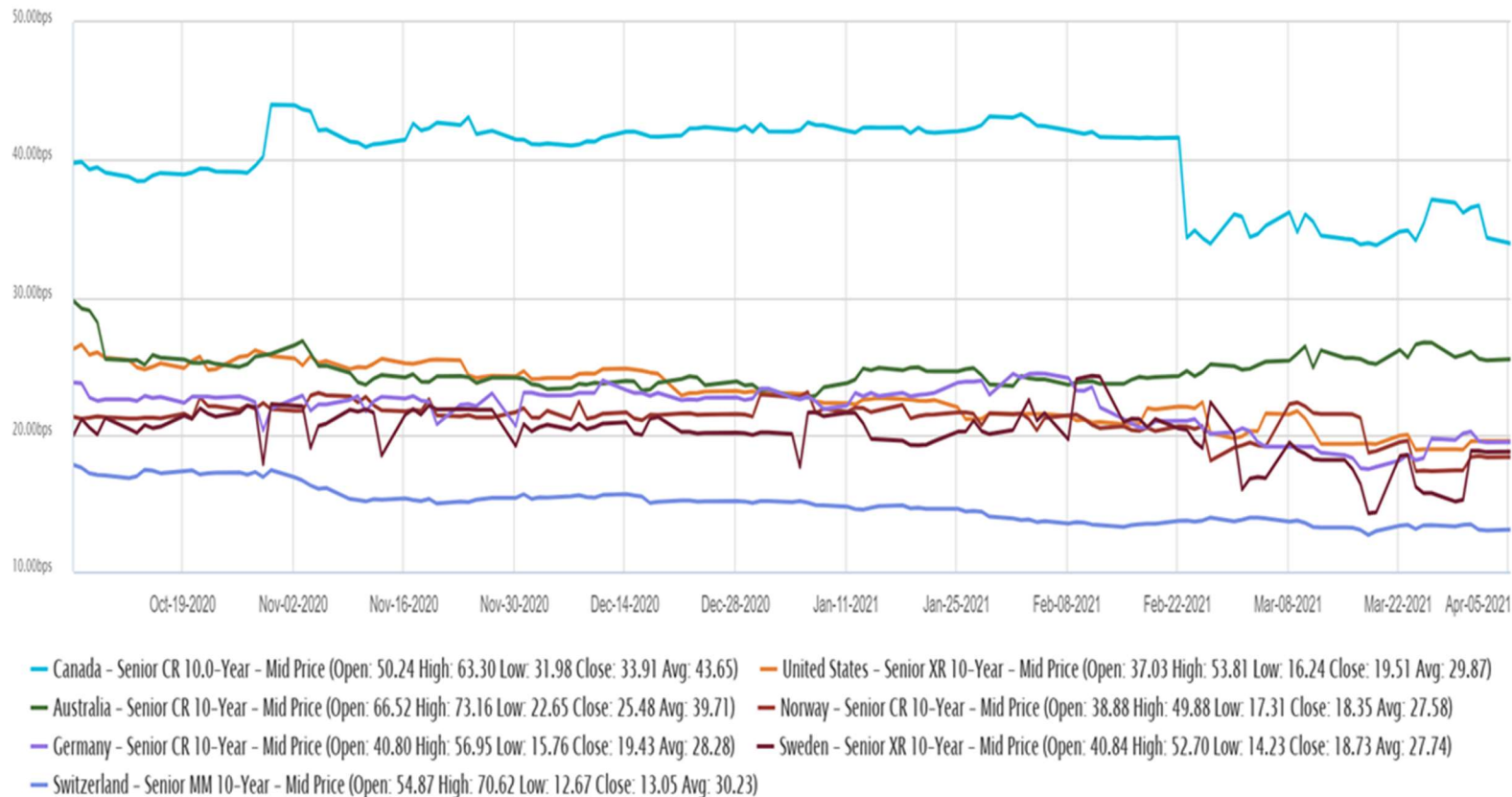


- In the past there has been a hiring surge in oil and gas before production growth
- Currently US employment in oil and gas has continued to decline
- Likely don't need much incremental hiring to bring back some production, but meaningful growth would require more employees

Portfolio Strategy

- High level economic data continues to be strong and points to outperformance for value sectors
- Continued bullish sentiment and seasonality point to a likely scenario of more defensive positioning through the summer
- “Tone” of the stock market has changed since the middle of February, but not necessarily all the way to a bearish view
 - Individual sectors correcting, sideways trading in certain indices, quick switches back and forth between factors, laggards working
- Take profits on winners and lower exposure as sectors take turns moving higher
 - Fundamentals still strong and bigger dips can be bought
 - Watch inflation and interest rates as there is still fundamental value in financials, oil and gas and real estate

Interesting Data – CDN Debt Insurance



Source: Capital IQ, Palisade Capital

- Credit Default Swap (CDS) pricing for a group of AAA rated countries and the US in above chart
- CDS's are effectively insurance against default. Canada costs almost twice as much to insure
- Not to say that the risk of default in Canada is material, but might point to other risks

Current Fund Positioning

Select Fund

- 54% Oil & Gas. 10% Infrastructure. 27% Renewables/Energy Tech. 4.8% Cash
- Recent dips in both oil & gas and renewables were bought, but weighted to oil
- Positioning will likely change quickly in coming weeks (for all funds) as sectors come in and out of favour and seasonality becomes less favourable

Vantage Fund

- 24% Financials. 18% Energy Infrastructure. 10% Real Estate. 3.6% Cash
- Largest sector weights are focused on the previously lagging value sectors. That focus will likely remain in place for medium-term

Absolute Fund

- 28% Short. 88% Long. 60% Net long
- 26% Financials. 24% Materials (spread across copper, lumber, gold)
- Will likely take gross and net exposure down in coming weeks. Tighten up sector exposure, trim winners, etc.

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 anytime.

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