

PALISADE CAPITAL CLIENT UPDATE

June 2020: COVID-19 Recovery and Investment Opportunities

June 8, 2020

Angle of Incidence Equals Angle of Reflection

SeventhFloorCapital published on TradingView.com, June 07, 2020 22:15:46 MDT
TVC:IXIC, 1D 9814.1 ▲ +198.3 (+2.06%) O:9703.5 H:9845.7 L:9685.4 C:9814.1



- Nasdaq Composite Index at new highs. As aggressive of a V bottom as we'll ever see. 30% decline recovered in 2.5 months

Canada Catching Up

SeventhFloorCapital published on TradingView.com, June 07, 2020 22:16:44 MDT
TSX:TSX, 1D 15854.07 ▲ +326.20 (+2.1%) O:15780.86 H:15883.03 L:15773.99 C:15854.07

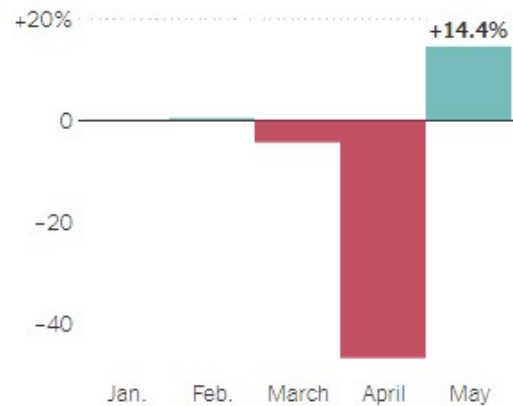


- But... Canada still has some work to do. TSX Composite down 38% at trough. Still 12% to get back to old highs. Value rotation will help.

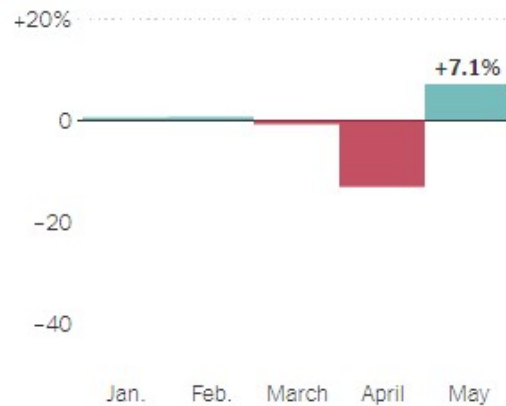
Coronavirus Reopening Update - Jobs

- May US employment report showed 2.5 million new jobs across all industries. Expectations were for 7.5 million job losses

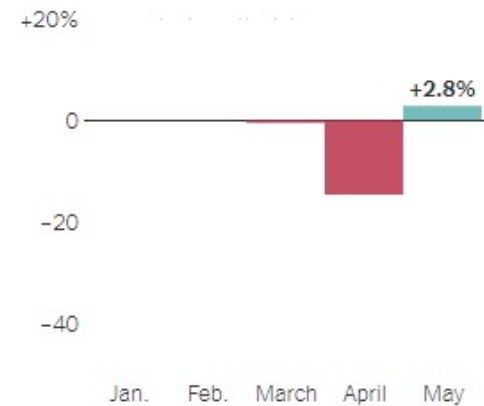
Leisure and hospitality



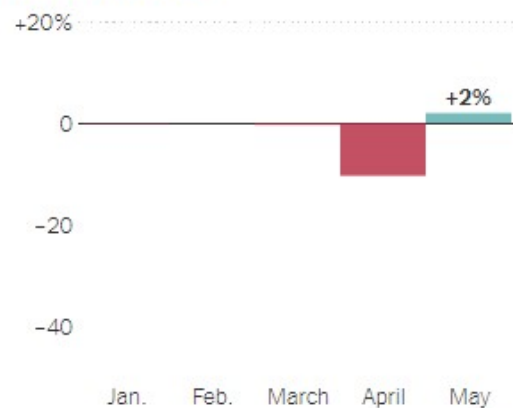
Construction



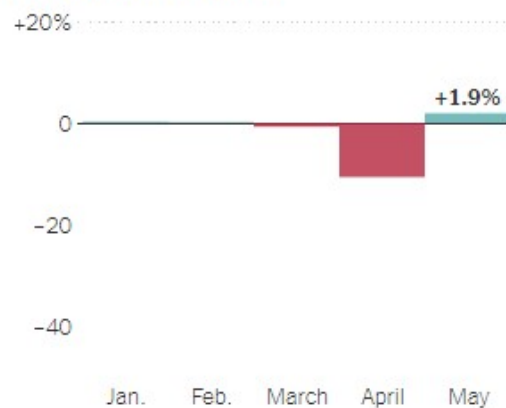
Retail



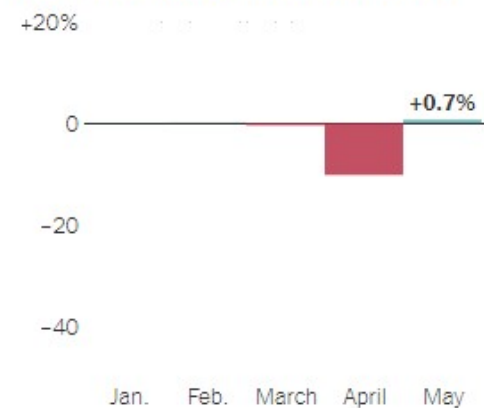
Manufacturing



Education and health



Business and professional services



Source: New York Times

Coronavirus Reopening Update - Cases

- But...new cases in Texas (as an example) have started to rise since they began reopening their economy

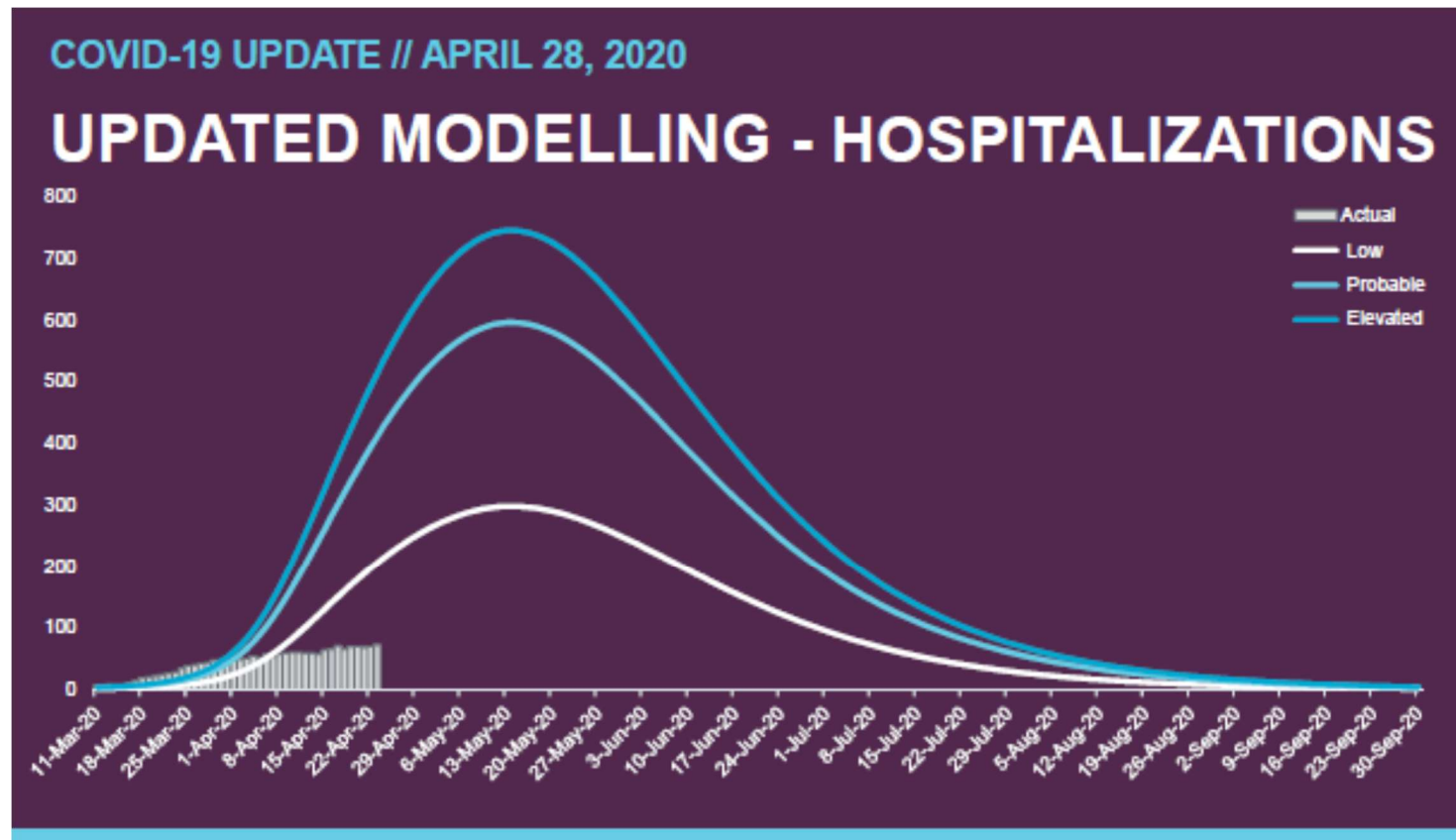
New reported cases by day in Texas



Source: New York Times

Coronavirus Reopening Update - Hospitalizations

- However...Coronavirus has not had as much strain on the hospital system as was initially feared
- Note: Data is from April 28, but the trend did not change much since. Also, the modelling assumptions included a quarantine period



Source: Government of Alberta Website

Remaining Warning Sign – Interest Rates

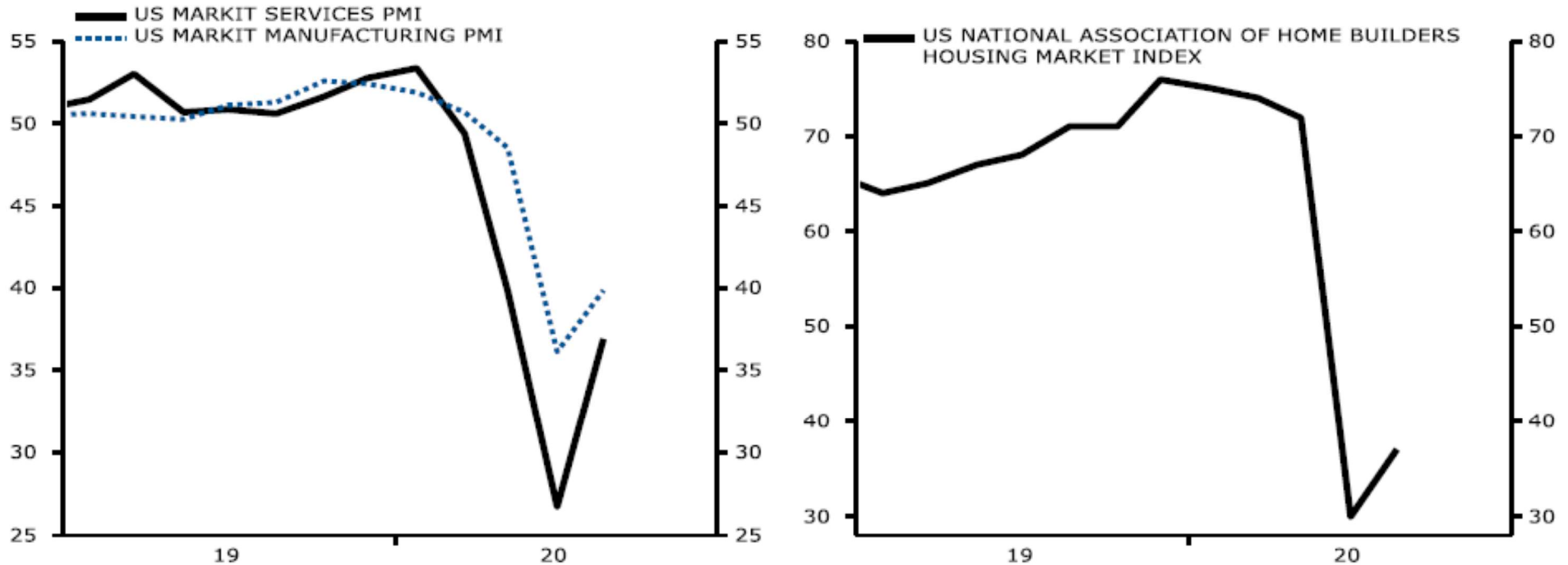
SeventhFloorCapital published on TradingView.com, June 07, 2020 18:01:03 MDT
TVC:US10Y, 1D 0.897 ▼ -0.005 (-0.5%) O:0.904 H:0.905 L:0.893 C:0.897



- Rising interest rates (US Gov't 10 year above) should be an indication that investors economic expectations are improving. Finally started moving higher last week.
- Federal Reserve purchases keeps interest rates down, so might be an indication that they are slowing down liquidity injections

Other Signs of Improving US Economy

US ECONOMY: SOME GREEN SHOOTS IN MAY



Source: Canaccord Genuity

- Broad measures of US economic activity picked up in May ahead of schedule
- Data points above include Manufacturing and Non-Manufacturing Purchasing Managers Indices (left) and Housing Market Activity (right)

Current Fund Positioning

Select Fund

- 33.5% Oil and Gas. 12% Infrastructure. 19% Renewable, 16% Energy Tech, 7% Cash.
- Additional renewables and energy tech added through the month
- Diversification into more of these growth sectors contributed to outperformance versus energy index this month. Have slightly more changes to add, but we are close to completing these additions

Vantage Fund

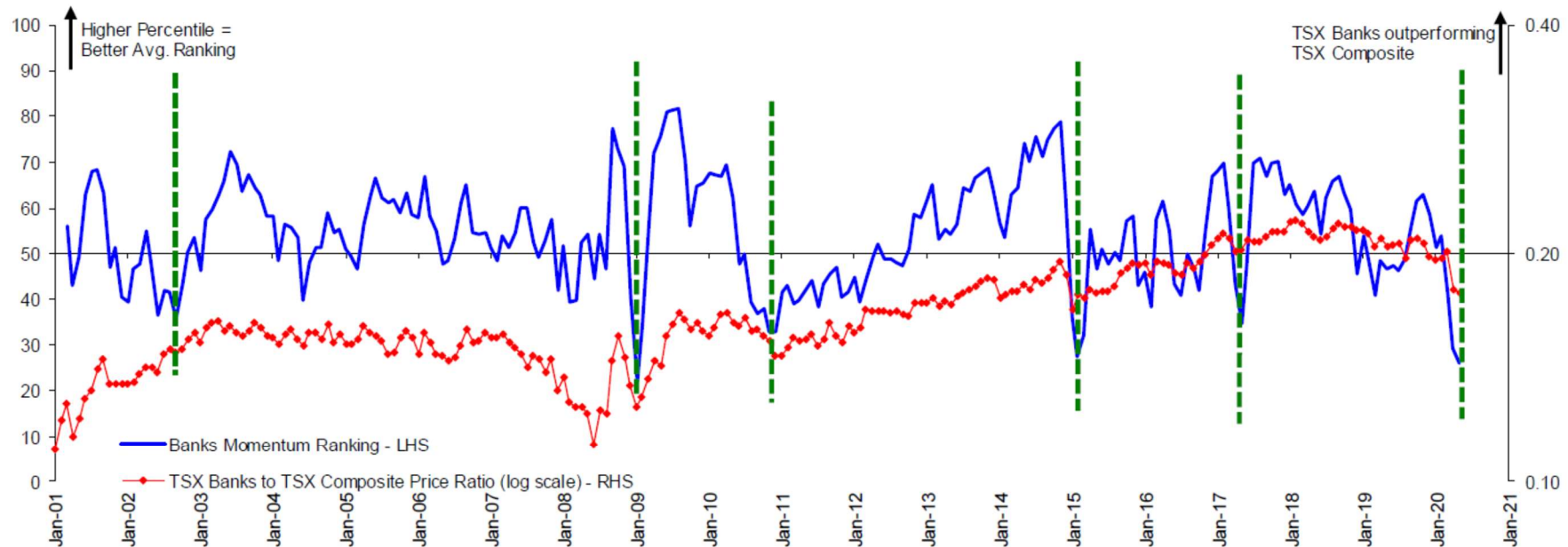
- 4% Cash. 23% Financials. 14% REITs. Balance in Telecom, Utilities, Diversified
- Continued to add to value names in REIT sector and individual names
- Important to note that Vantage Fund is up 7.2% so far in June versus a 4.4% increase in the TSX Composite
- Value lag that we have been speaking about has started to catch up

Absolute Fund

- 72% Long. 24% Short. 48% net long. Themes discussed in previous presentations continue to be added. Looking for incremental value exposure, for example lumber producers

Canadian Banks - Opportunity

Exhibit K: SQR Canada – Banks Momentum Rankings vs. Outperformance



Source: Scotiabank GBM Portfolio Strategy.

- Chart shows relative performance of Canadian banks vs TSX Composite
- Lowest level of underperformance in 20 years. Similar levels in the past have led to 12 month outperformance
- Green line indicates bottoms and red line shows bank stock performance

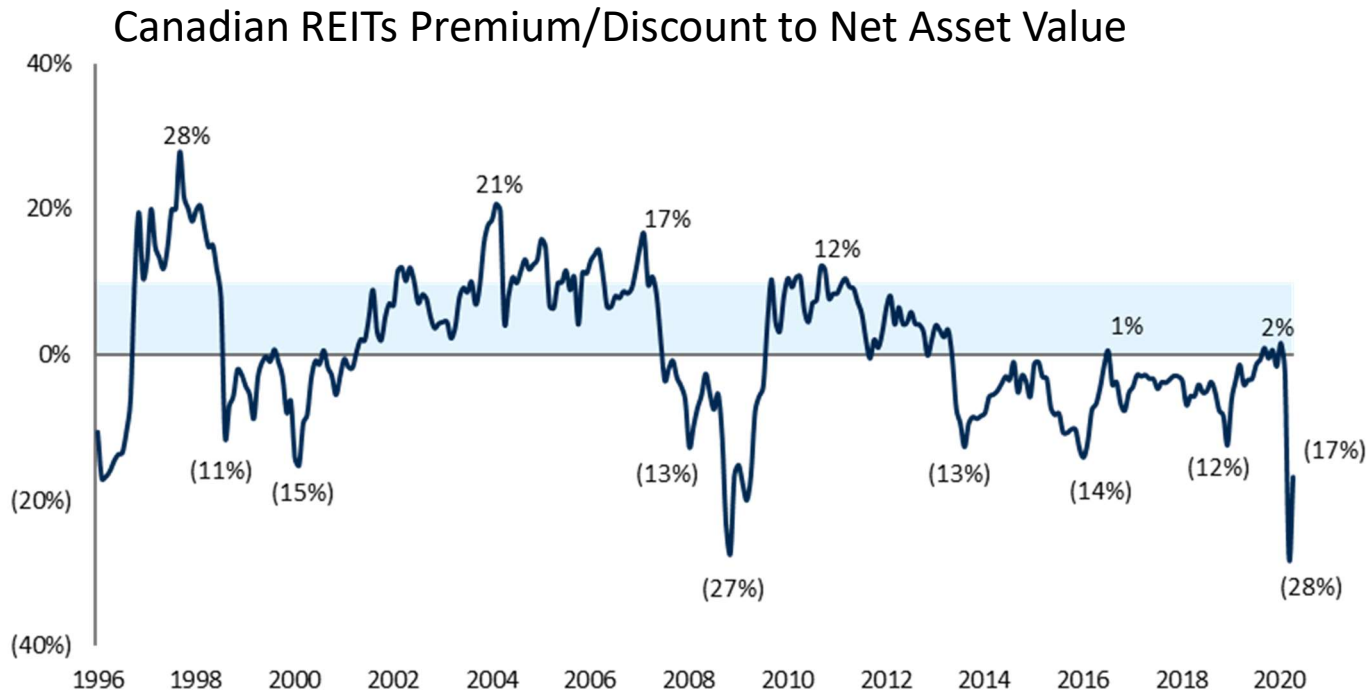
Canadian Market – Value Rotation

SeventhFloorCapital published on TradingView.com, June 07, 2020 23:55:44 MDT
AMEX:VLUE/AMEX:MTUM, 1D 0.62 ▲ +0.01 (+2.22%) O:0.63 H:0.63 L:0.62 C:0.62



- Value outperforming growth last 3 weeks, but particularly since beginning of June
- Reflects investors expectations for better than expected economic recovery and relative value between the two themes

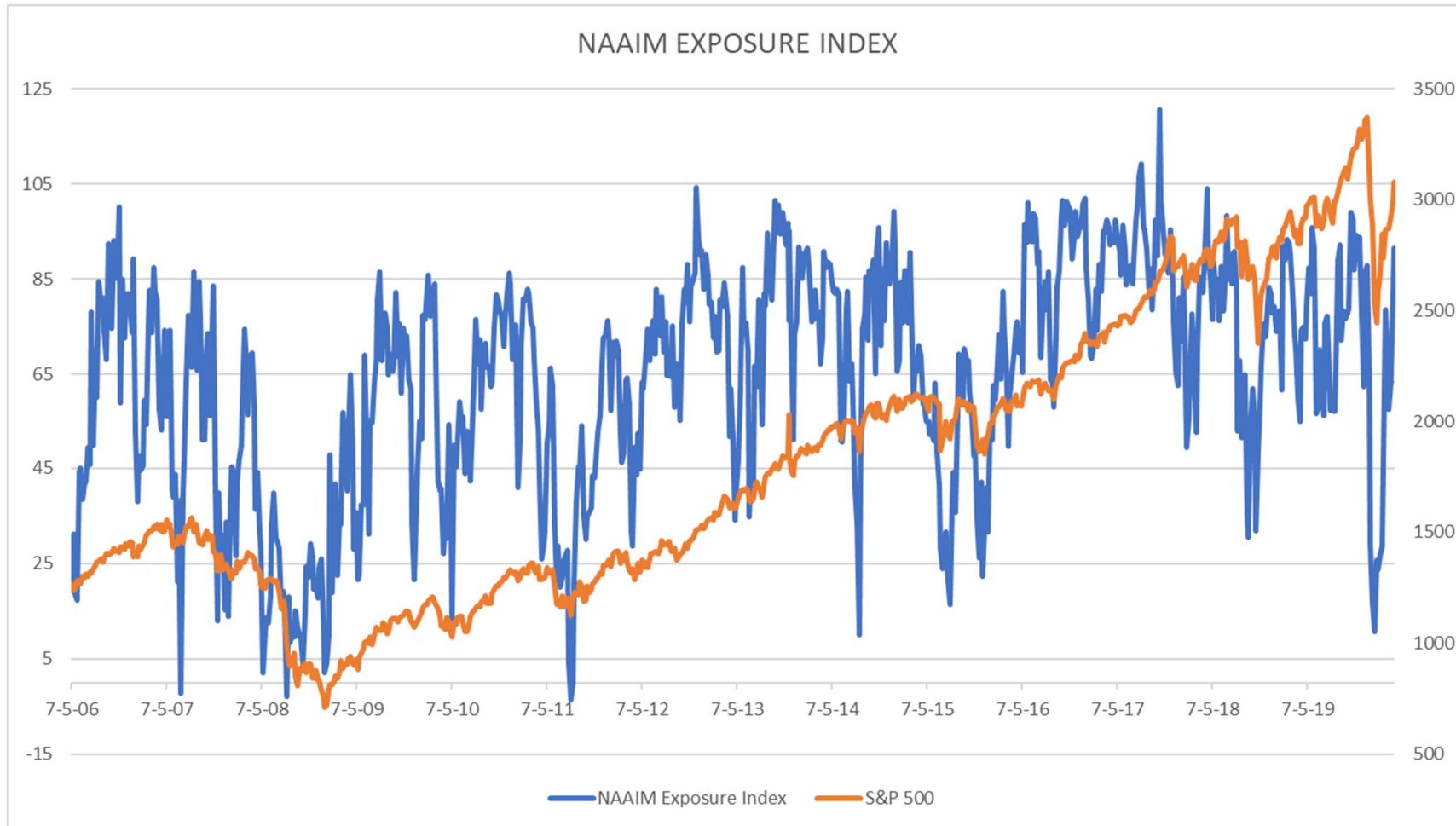
Long Term Themes - REITs



Source: RBC Capital Markets

- Historical discount to net asset value, in a defensive yield subsector, governments providing some rent support for next three months, likely sustained low interest rates benefit future real estate development and fund flows

Quick Sentiment Check – Exposure Index



Source: NAAIM

- Institutional exposure (according to NAAIM) is starting to trend towards the higher end of the range. Some caution warranted, but can stay elevated for a while and rotation can keep markets higher

WTI Price – Back to the Scene of the Crime

SeventhFloorCapital published on TradingView.com, June 08, 2020 10:09:32 MDT
NYMEX_DL:CL1!, 1D 38.22 ▼ -1.33 (-3.36%) O:39.41 H:40.44 L:37.98 C:38.22



- WTI prices have recovered back to levels seen the day that OPEC+ meeting resolved with a price war
- US rig count continues to decline materially and production has begun to respond lower. Watch for shut in production adds as price goes higher

Portfolio Positioning – Rotation Ongoing

- Near term value rotation is particularly positive for Vantage Fund. If economic data continues to surprise to the upside the value trend will be able to continue to outperform. Banks, REITs and some Industrial and Commodity related names will benefit.
- ESG fund flows continue to be the dominant trend globally from a capital allocation perspective. Many of those sectors would fall within the “growth” category versus oil and gas, which is still within the value category. Beneficial for Select Fund
- As markets have recovered, and valuations increased, the ability of the value rotation to continue will determine whether the broad markets will continue to go higher. Different factors than what got us here in the last two months.

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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