PALISADE CAPITAL

Our Market View in Summary

December 2024

Key Highlights:

- **Market Performance:** For the month, the S&P 500 index declined by 2.5% while the NASDAQ Composite index slightly rose by 0.5%. In Canada, the S&P/TSX Composite index fell by 3.6%. At the same time, the "Magnificent Seven" stocks in the US were up 5.2%
- **Market Breadth:** Negative market breadth with 16 out of 21 trading days showing more declining than advancing stocks in the S&P 500, setting a 30-year record
- **Sector Performance:** Broad sector weakness with Materials, Real Estate, Energy and Industrials dropping significantly in both the US and Canada. US sectors like Utilities, Health Care and Financials also saw substantial declines
- **Individual Stocks:** Notable stocks like Boardwalk REIT, Rogers Communications and ExxonMobil reached oversold conditions based on their Relative Strength Index (RSI), suggesting potential recovery opportunities
- **Large-Cap Resilience:** Fund flows and factor investing that can rally the Magnificent Seven while selling off most other sectors in a meaningful way can make for markets that are hard to navigate. That said, if one takes a longer-term view these gyrations can become a buying opportunity

Near-Term Outlook:

- **Market Recovery:** The correction in certain sectors seen in December could pave the way for a recovery bounce in Q1 2025. Recovery could be tied to early policy announcements from the new US government
- **Fundamental Continuity:** US economic stability, lower interest rates, and broader market participation expected to continue, potentially benefiting both US and Canadian markets
- **Investment Strategy:** We see the harsh sector-by-sector sell-off in December as a buying opportunity, especially in economically sensitive sectors and heavily oversold dividend-paying stocks
- **Natural Gas Sector:** Positive narrative for natural gas continues to gain traction. Stocks trading well post tax-loss selling in December and storage in the US and Europe normalizing from an oversupplied situation

Passive fund flows and quantitative investing factors can sometimes create strange market dynamics like we saw in December. Market breadth was particularly weak, and many sectors ended the year with significant declines even though there were no material changes to our fundamental outlook. We are using the weakness as a buying opportunity in the Palisade Funds. In the Palisade Portfolios, the inclusion of alternative investments like farmland and private equity help to mitigate the downside risk when stock markets aren't behaving. We think the early part of 2025 could produce some decent returns on a combination of stock prices recovering from the December lows, continued economic strength in the US, new policy announcements from the incoming US administration, clarity on a timeline to a federal election in Canada, and a topping out of bond yields and the US dollar, which have been running up since September and are now close to their highs of last spring. Any pullback in interest rates and the US dollar would be a positive catalyst for stocks.

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PALISADE
CAPITAL

December 2024

Fellow Palisade Investors and Friends,

Please find attached our December 2024 Monthly Update, as well as the Fund Fact Sheets for the Palisade Funds. **Per our schedule of holding two client conference calls per quarter, we are not planning a call for this month. That said, we are always happy to answer questions about the markets, so please feel free to reach out at any time**.

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 Absolute Fund pay irregular annual distributions for years in which taxable net income is positive.

MARKET COMMENTARY

One of the more challenging aspects of the stock market that has become much more prevalent over the last five years is the influence of passive fund flows and specific quantitative factors in the day-to-day movement of stock prices. December was a perfect example of how stock prices are influenced by these flows, with seemingly few changes in fundamental factors. As soon as the calendar flipped to December on the first of the month, there was a notable change in stock price strength and a significant deterioration in the breadth of the markets (i.e. the number of stocks trading up versus trading down), with the exception of the largest capitalization names in the US. The strength in these names kept the broad market indices a little more stable, but most stocks had a challenging end to the year. In December, the S&P 500 index was down 2.5%, while the NASDAQ Composite index was actually up 0.5%. In Canada, the S&P/TSX Composite index was down 3.6%. At the same time, as you will see below, most sectors performed notably worse than the broad indices.

Here are some statistics to better reflect the trading action in December:

- In 16 of the 21 trading days, there were more declining stocks than advancing stocks in the S&P 500. At one point, there were 14 days in a row of negative breadth. This is a record going back over 30 years.

- Many sectors had declines of greater than 5% for the month. In Canada, Materials were down 5.5% (in the US, the same sector was down 10.9%), Real Estate was down 6.4% (down 9.1% in the US), Telecommunications was down 9.5% (in the US, Communications was UP 3.5% because it includes Google, Meta (a.k.a. Facebook) and Netflix), Energy was down 4.6% (in the US, it was down 9.6%), and Industrials were down 3.9% (in the US, the sector was down 8.1%).

- In the US, there were other notably weak sectors including Utilities (down 8.1%), Health Care (down 6.4%) and Financials (down 5.6%).

- Many individual stocks were under significant pressure during the month. Using the Relative Strength Index (RSI) as the determinant of how oversold a stock is (typically a reading below 20 is very oversold), we saw Boardwalk REIT get to 17 (only in 2020 during COVID have we seen a lower reading in the last eight years), Rogers Communications got to 15 (only in late 2023 was it lower in the last 10 years), and even super major ExxonMobil got down to 19 (only lower reading in the last 10 years was during COVID). Some other examples of stocks that got oversold into the 20's RSI included Canadian Natural Resources, Fortis, NextEra Energy, Trane Technologies and Killam Properties.

- Amongst all this weakness, the Magnificent Seven stocks in the US went up 5.2% in December using the Roundhill Magnificent Seven ETF as the equal weight gauge to monitor the performance of the seven most influential US companies. Quite the relative performance.

Clearly, there was a meaningful correction below the surface in many sectors during the month, which hopefully allows for a path to positive gains in the first quarter of 2025. Typically, in the past when stocks have seen this degree of selling it usually leads to a recovery bounce.

The positive side of this data is that we have now seen a quasi-correction in stock prices without a massive washout across the board. There were some sector-specific factors like tax-loss selling in Energy and an adjustment to a less aggressive interest rate cutting cycle going forward from the US Federal Reserve ("US Fed") that impacted dividend-oriented stocks, but overall our fundamental view for 2025 remains the same – US economic growth will remain stable, interest rates will continue to move lower and stock market performance will broaden out further to include more economically sensitive sectors. Canada should benefit from those factors in the US combined with a likely change in federal government, hopefully sooner rather than later.

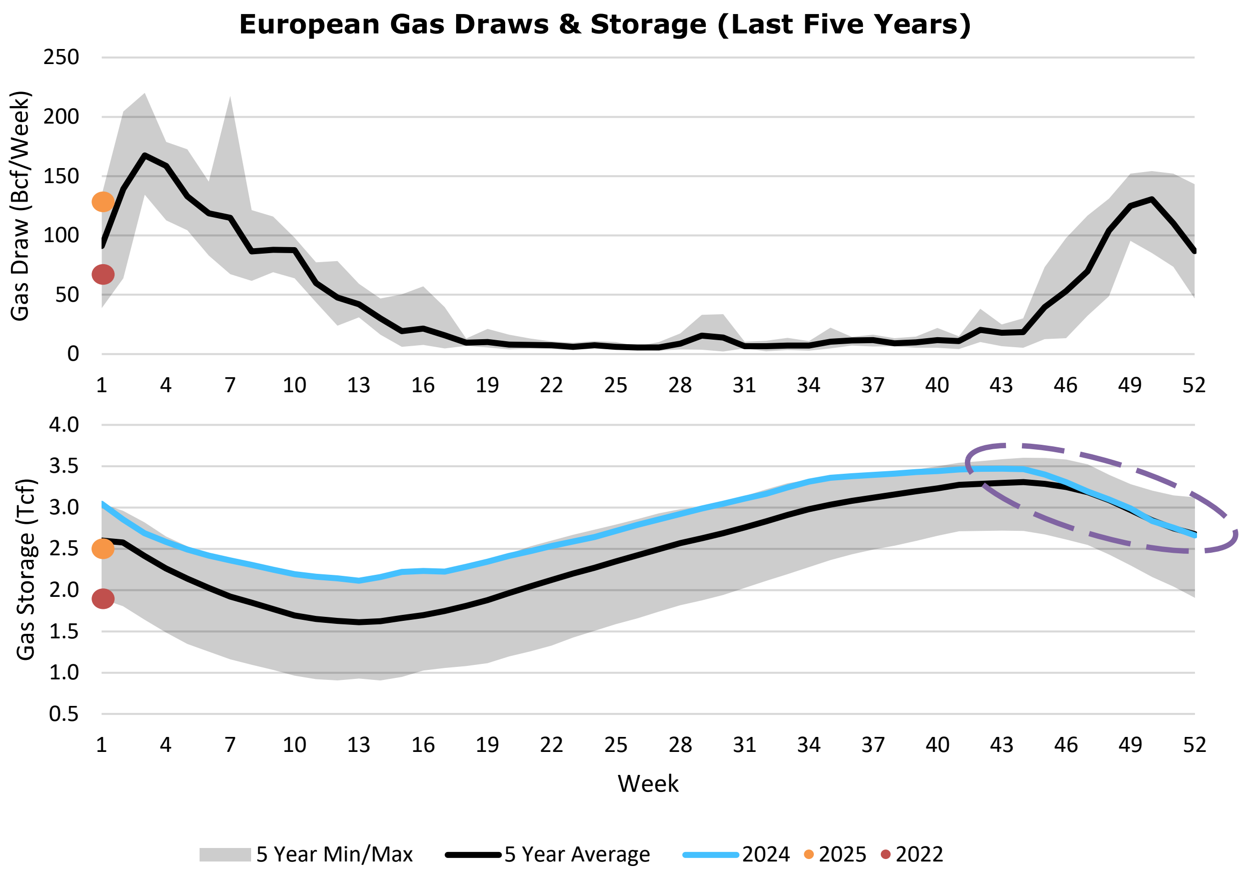
Keeping a handle on fund flows from passive investing and factor models can be very difficult on a short-term basis, which can cause some of the short-term dislocations that we have discussed above. However, we see the solution as looking out over a slightly longer-term investment horizon and using these dislocations as an opportunity to add to names that fit our fundamental outlook over the next nine to 12 months.

NATURAL GAS GAINING TRACTION

On the positive side of the register, we are starting to see the early signs of a positive trend building in a bullish theme for natural gas. The idea of electricity demand growing due to increased processing power required to run Artificial Intelligence (AI) data centers has been around for the last year or so, but it has just begun to gain traction in the last few months. We have seen announcements about new data center farms in Alberta and expect to see more this year. Stocks like Capital Power (a Palisade Vantage Fund holding) and TransAlta have doubled in less than a year on the vision for more capacity growth. Some natural gas stock prices have held in relatively well, especially during the fall when Canadian AECO gas prices got down to zero. Now that natural gas prices have improved, we are seeing some natural gas-oriented stocks break out to new highs. What we're saying here is that the stocks themselves have been trading pretty well in the face of weak commodity pricing in what is currently just a long-term vision of what might be possible for demand growth from new data centers and further liquified natural gas (LNG) exports. This is the first step to driving more capital into the sector from new investors – a fundamental narrative that people can buy into.

While this narrative has been gaining traction, we have also seen natural gas storage data improve due to above average draws from inventory for this time of year. The chart below shows the amount of gas in storage in Europe with the grey area showing the highs and lows of the range for the last five years. As you can see, we started into fall with gas storage at the top of the five-year range but then very quickly moved in line with the five-year average. US storage remains above average for this time of year but will likely improve in the next two weeks as cold weather should drive above average draws from inventory.

Looking at the 2024 European data below, we can see how quickly gas in storage moved from the high end of the five-year range into a more average level in the last few weeks of the year (purple circle). It's also important to note that in 2022, when we saw a big spike in European natural gas prices, we came into the winter with much lower gas inventories (red dot on bottom chart) followed by higher gas draws from storage, which inevitably resulted in massive energy shortages in the fallout of the Ukraine war. Conversely, this year gas storage in Europe is relatively in line with its five-year average (orange dot on bottom chart), but due to various factors, one of which being the shutdown of Russia's European gas pipeline through Ukraine, gas draws are currently running well above their five-year average (orange dot in upper chart). While this is currently nowhere near the dire situation that we found ourselves in during 2022, over the past few months global gas markets have quickly normalized and seem to be tightening as we enter the colder months of winter. This dynamic should at the very least provide price support for European and consequently US and Canadian markets – which we have so far witnessed in the early days of 2025.



Source: Bloomberg

PALISADE MODEL PORTFOLIOS UPDATE (Returns to Oct 31, 2024) **Important Footnotes Below***

	1-Yr	3-Yr	5-Yr	Description
Growth+ Portfolio	21.3%	5.8%	12.5%	Long-Term Growth Focus
Inflation+ Portfolio	9.4%	8.4%	9.6%	Low Volatility Growth/Inflation Protection
Income+ Portfolio	12.5%	5.5%	7.4%	Income / Moderate Growth Focus
Preservation+ Portfolio	8.0%	2.9%	5.9%	Capital Preservation Focus
Alternative+ Portfolio	9.2%	6.1%	9.0%	Uncorrelated Growth/Capital Protection

*Returns for periods longer than one year are annualized.
Please see the Model Portfolios Hypothetical Performance Disclaimer below.

Palisade's model portfolios are largely made up of third-party investment funds to target an institutional quality investment solution that focuses on a client's key goals. In our model portfolios, we include alternative investments such as private equity, farmland and real estate to help protect capital in down markets and to lower the overall volatility of our investors' portfolios. The portfolios are actively managed, and we adjust the constituent funds and/or their weightings in pursuit of targeted risk-adjusted returns. Depending on their investment objectives, our clients can invest in a single model portfolio or blend multiple portfolios. On a one-year basis the models are performing in line with our expectations, and on a longer timeline (i.e. five years) the portfolios have achieved risk-adjusted returns in line with our objectives.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was down 0.3% in December. The S&P/TSX Capped Energy Index ("Energy Index") was down 4.8% and the WilderHill Clean Energy Index ("ECO") was down 6.3% for the month. We added to our natural gas holdings this month, which partially explains the outperformance of the PSF versus the Energy Index this month. We saw relative strength in the natural gas-oriented producers like Peyto, ARC and Paramount (among others), which actually traded up slightly during the month, while most of the oil weighted producers traded lower. Our exposure to natural gas-oriented producers in the PSF is currently 33% of total fund assets. This allocation will likely go higher in the coming months, especially if we were to see positive announcements for natural gas demand like new LNG export facilities in Canada or the US. New data center announcements could also drive more capital into the sector as investors anticipate future demand and higher commodity prices. While that narrative will provide a buffer until the actual impact is seen from new data centers and additional natural gas exports, we see natural gas storage normalizing in both the US and Europe, down from oversupplied levels just a few months ago.

On crude oil, we continue to see OPEC+ holding the line on production quotas as we have been highlighting throughout the last year. With energy stocks trading lower in December due to tax-loss selling, we see an opportunity for above trend performance in the first quarter as the pressure from tax-loss selling disappears and investors continue to buy into the narrative of natural gas as the logical and green fuel source powering electricity plants in the future. It will be very interesting to monitor investor interest in Canadian oil and gas stocks as we get closer to a Canadian federal election. Just the prospect of a better operating environment should bring in additional investor capital. The first half of 2025 is going to be very interesting in this regard.

The **Palisade Absolute Fund** ("PAF") was down 2.7% in December. Pursuant to our commentary at the top of this update, the PAF pulled back this month as we saw very few stocks moving up across most sectors, while our fundamental outlook has not changed. We have been running lower gross exposure of around 85% due to the volatility in the market, but we would expect to start ramping this up as we see more investment opportunities with so many stocks having traded down in December. As we ramp up the gross exposure, we expect to keep the net exposure between 50% and 60% net long.

The **Palisade Vantage Fund** ("PVF") was down 3.5% in December. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was down 3.5% while the S&P/TSX Composite Total Return Index ("TSX Composite") was down 3.3%. There were two basic factors that contributed to the declines in the PVF this month. The first was the broad weakness across all sectors of the market, as discussed above. More importantly, the second factor was a moderated outlook for further interest rate cuts in the US. The US Fed cut interest rates by 0.25% at their meeting in December but indicated that they will be patient with future cuts as they monitor inflation and the economy. At this point, the market expects two rate cuts totaling 0.5% in 2025. The US Fed has shown that it will wait for data, rather than anticipating what the data could be, before making decisions on the direction of interest rates. Inflation is still abating but is not close enough to the target of 2%. At the same time, the US economy continues to perform reasonably well. If inflation can tick a little lower, or if the US economy started to show incremental weakness, we would see the US Fed lower rates, but for now they are probably finished cutting rates until the spring. Seeing smaller budget deficits in the US would be another reason to lower rates, which may be a conversation that will move to the forefront post the January 20th presidential inauguration.

For now, we haven't made any meaningful changes to the holdings in PVF in the last month. We now have around 8% cash from our previous sales of utilities and other interest sensitive stocks where we were taking profits after a big move. We continue to monitor for areas to deploy that cash, but have yet to pull the trigger. Current holding Telus, that has been a dog to date, is starting to look interesting with an 8% yield and big improvements to free cash flow in 2025 due to lower capital expenditure requirements. PVF has performed well despite weak performance from a name like Telus, so it might be time to allocate a bit of capital to a laggard exhibiting a high degree of value. We are also seeing continued positive momentum in many energy infrastructure names. We own many of these names already, but this could be another area to deploy some additional capital as the prospect of less regulation, more growth and more energy exports should continue to drive capital into these names.

We may have already witnessed the minor pullback that we referenced in last month's commentary when we were talking about sentiment starting to get a little overheated in the short-term. Recent economic data in the US has looked decent, and higher bond yields and US dollar (which act as a headwind to higher stock prices in general) may be topping out. As we get closer to a federal election in Canada and see some proof of policy changes in the US, we may get some traction across various sectors in the early part of 2025 to get the year started right.

We hope you had a great holiday season and wish you all the best in 2025.

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. 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.

Model Portfolios Hypothetical Performance Disclaimer:
The performance data presented for the Palisade Portfolios is hypothetical, is for illustrative purposes only, and does not constitute a live track record or any investor's actual experience. Its purpose is to demonstrate what the historical performance would have been for the Palisade Portfolios, effective the noted date, based on their constituent investment funds/strategies over time. The data is presented for a longer period of time than the Palisade Portfolios were actually available for investment. An investor's actual experience will vary due to, among other factors, investment timing, constituent security weightings, rebalancing frequency, the presence of securities beyond the Palisade Model Portfolios, and account fees and expenses.

The performance data is presented only for readers that have sophisticated investment knowledge sufficient to fully understand the risks and limitations of the hypothetical performance data. Readers with insufficient investment knowledge are strongly cautioned that they may not fully understand the risks and limitations of the hypothetical performance data and may reach unreliable conclusions in their review and interpretation of the data. The cautions, risks and limitations of hypothetical performance data outlined below may be insufficient to provide a reader with the understanding required to safely review and interpret the data in order to reach reliable conclusions relevant to their specific situation. Readers are strongly encouraged to discuss the hypothetical performance data with a Palisade Capital Advising Representative to ensure their understanding of the risks and limitations of such data.

Hypothetical performance results have many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. No representation is being made that the Palisade Portfolios will achieve returns similar to those shown.

As the hypothetical performance data does not constitute a live track record, these returns may have under- or over-compensated for the impact, if any, of certain factors, such as lack of liquidity, taxes or the impact that material economic and market factors might have had on decision-making if investing real capital.

Performance does not include portfolio management fees, custodian fees or other related fees and expenses that an investor would have paid or actually paid, but is net of fees and expenses pertaining to the underlying investment fund holdings. Any mutual fund performance assumes the reinvestment of distributions while any exchange traded fund performance does not include transaction fees.

Performance integrates the earliest price date available for each holding and assumes monthly rebalancing. Some holdings may not have existed for the entire period shown. The holdings of the Palisade Portfolios are subject to change due to changes in Palisade Capital's views resulting from changing market and economic conditions or the performance of, or outlook for, the constituent holdings. The historical composition of the Palisade Portfolios may have differed from that currently presented.

Any information regarding past performance does not indicate or imply any guarantee of future performance. Further, investment results may vary substantially on a monthly, quarterly or annual basis. There can be no assurance that the Palisade Portfolios' investment objectives and net target returns will be achieved or that investors will receive a return on, or of, their capital. Actual results may differ. An investor may lose all of its investment in the Palisade Portfolios.

Hypothetical performance information shown in text, charts, tables and graphs is provided for informational and discussion purposes only and should not be considered investment advice or a recommendation to buy or sell any types of securities. An investor's actual portfolio must conform to their Investment Policy Statement established with their portfolio manager based on suitability determined through the portfolio manager's Know-Your-Client process.

The views expressed, including the descriptions and objectives of the Palisade Portfolios, are those of Palisade Capital Management Ltd. and are subject to change due to changing market and economic conditions and may not necessarily come to pass. There can be no assurance that the Palisade Portfolios will be able to achieve their objectives.