PALISADE
CAPITAL

Our Market View in Summary

November 2024

Key Highlights:

- **Bullish Market Sentiment:** Stock markets have been moving into a more bullish state since the US election due to excitement about less regulation, lower budget deficits and potentially lower taxes. In our view, sentiment is bullish but has further room before it becomes overly exuberant.
- **Valuation Ceiling?:** High valuations do exist in US leading stocks, but higher earnings growth combined with further sector rotation can drive markets higher.
- **Sentiment Indicators:** NAAIM Exposure Index is nearing levels that historically precede corrections, yet momentum indicators suggest further room for upside.

Near-Term Outlook:

- **Room For Further Gains:** Positive seasonality, ongoing appointments in the US government being well-received by investors, continued interest rate cuts and improved economic sentiment should provide room for further market gains.
- **Investor Sentiment:** Stock market gains into early 2025 may push sentiment up to a level that requires some active risk management, but a potential pullback should look like a typical correction that you would see in a regular calendar year.
- **Risk Management:** Considering the Palisade Funds, preparing for possible market corrections (6% to 10%) by maintaining liquidity, building cash and active trading strategies.
- **Canadian Government Change:** As we near a federal election in Canada in 2025, we should see investors allocate capital to Canada if the polls look similar to today and expectations build for lower taxes, reduced regulations and lower government spending.

While the narrative for 2025 is increasingly positive, we may see an opportunity to take some profits in the next few months as bullish sentiment becomes extended. That said, we anticipate a year of solid gains but with less spectacular highs, requiring us to be proactive in our approach. At the end of the day, we believe economic growth is the primary catalyst for stock returns in 2025. Assuming that growth will benefit from lower interest rates, less regulation and a greater focus on economic activity from the US government, we expect any stock market pullbacks to be normal and believe they should be bought.

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November 2024

Fellow Palisade Investors and Friends,

Please find attached our November 2024 Monthly Update, as well as the Fund Fact Sheets for the Palisade Funds. **This month's client conference call is scheduled for Thursday, December 12th at 11am MT.** The Teams 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. This call will include information on our investment funds, our broad market outlook, as well as an update on our wealth management model portfolios.

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

There is a clear case to remain bullish into 2025 based on higher US economic growth due to more favorable economic policies, lower taxes and improved budget deficits. We may even start to see improvements in efficiency and profitability in US corporations that have started to implement AI technologies in their operations in the back half of the year. The bullish case for Canada would be similar with an expected change in federal government coming no later than October 2025, which would likely drive similar improvements to the business environment in this country.

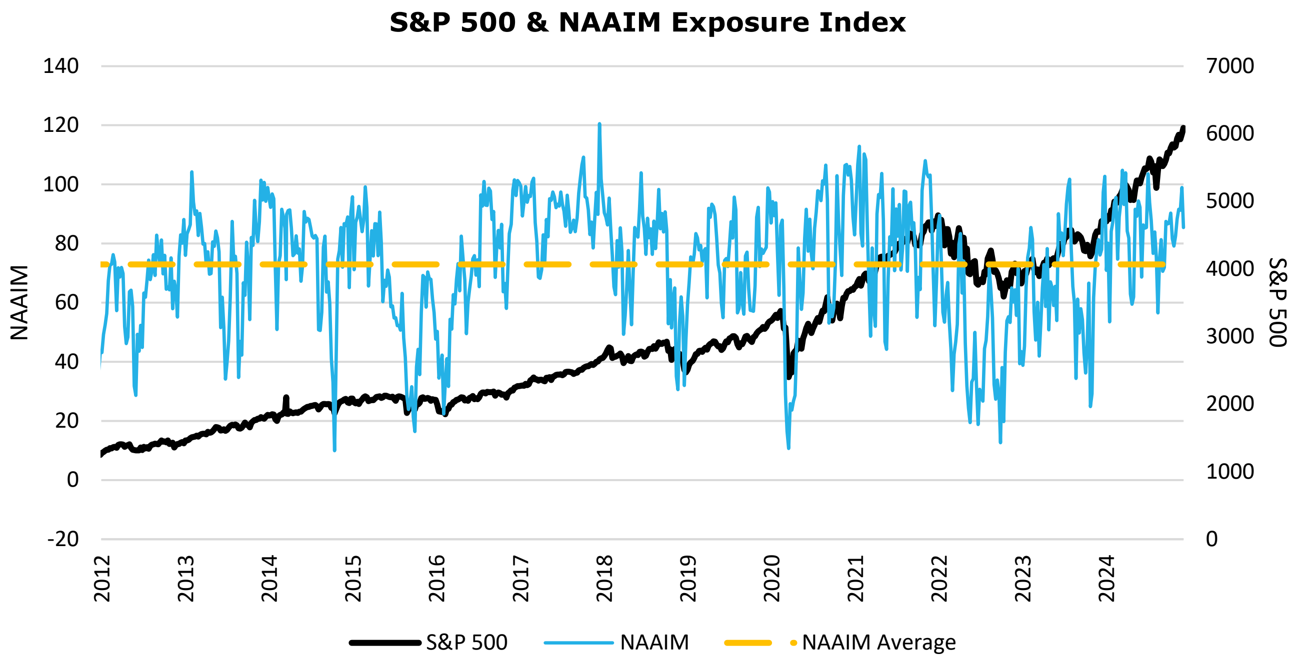
With that said, the above paragraph has generally become the default outlook in 2025, so we have to ask ourselves how much of this is already expected by current investors and stock prices. Last month in our monthly presentation we pointed out that valuations are generally high in the US, especially in leading stocks, but there could still be value found in certain sub-sectors. In order to continue the positive run in the stock market you would have to see meaningful earnings growth in the leading technology and earnings compounding names, and capital would have to continue rotating to more economically sensitive and interest sensitive sectors in Canada, which we have been seeing in a more meaningful fashion in the back half of 2024. This is what we expect to see in 2025.

Another way to assess where we are in the stock market cycle is to look at investor sentiment and portfolio positioning. Are investors overly bullish? Are expectations already too high? Do investors have an above average amount of capital allocated to stocks? In the long-term, earnings and valuations will determine stock prices, but in the short-term markets typically find tops and bottoms at extremes in investor sentiment, not necessarily in the valuation of a particular stock or sector. So, with that said, let's take a look at where we are in a collection of sentiment indicators. We will look at a small number of indicators in this commentary, and then expand upon that in our client conference call next week.

To start with the conclusion, sentiment based on certain metrics is starting to get a little stretched to the positive, but there should still be room to run if we look at a broader collection of sentiment and positioning indicators. Overall, investors are bullish for stock market prospects in 2025, but not to extremes quite yet. To be clear, when exuberance does reach an extreme, we think the pullback in markets would be something that you can typically expect to see at least once per year, and that pullback should be bought if we assume that economic activity continues apace. Such pullback could be expected to be in the 6% to 10% range, but again, we believe that we have some time until sentiment builds to extremes and this pullback (if it materializes) should be viewed as normal course.

Below, we show a couple of examples of sentiment and positioning with one looking a little more extreme, while the other still shows plenty of room for continued gains. The first is the NAAIM Exposure Index, which we have referenced many times in the past as a reasonably solid contrarian indicator.

This index shows the percentage exposure to equities that a selected group of portfolio managers currently maintain. The reading from this week was 98.9 (light blue line) after a reading last week at 98.9. The chart below shows that when readings get above 100, it may be indicative of a pending correction in the markets. The peak reading over 120 in early 2018 led to a pullback for a few months before stocks rallied through the fall of that year. That said, we also saw readings consistently between 80 and 100 throughout late 2020 and 2021 while markets continued to rally. As with many sentiment indicators, they can stay in bullish territory for a long time, but they typically find bottoms in a pretty quick fashion. If we solely considered the NAAIM reading, we would say that we are starting to get stretched at a reading of 98.9 and would be on the lookout for any spike above 100 as a sign to lock in some gains and build a little cash. However, we don’t want to consider just one indicator.



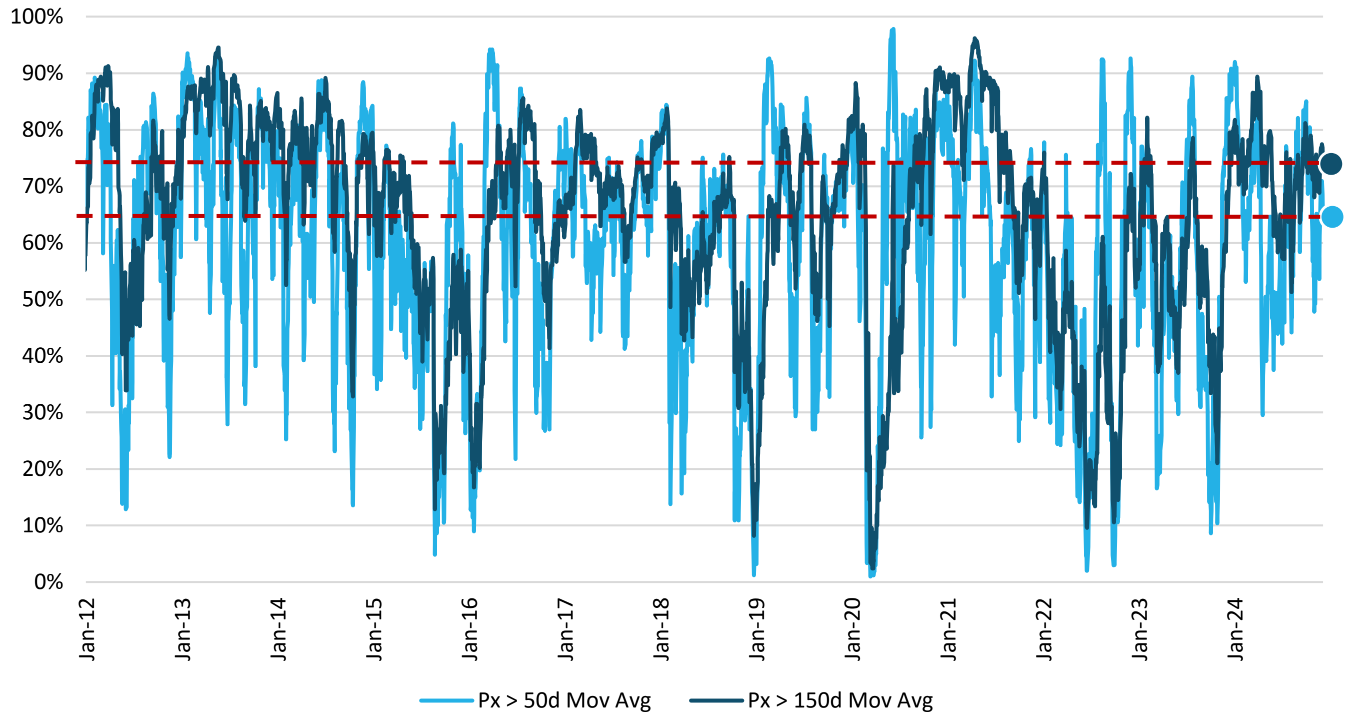
Source: NAAIM

If we consider a second indicator for this commentary (and more on our upcoming conference call) we could look at a pure momentum indicator like the percentage of stocks trading above their 50- and 150-day moving averages. On this basis, market trends look strong with still more room to go before getting overheated. As you’ll see in the chart below, within the S&P 500, approximately 64% of stocks are trading above their 50-day moving average and 75% of stocks are trading above their 150-day moving average.

The 50-day typically peaks at least above 80%, but in some cases above 90%. In the case of the 150-day, the peak usually occurs around 85% to 92%. In both readings the current momentum in the market still has quite a bit of room to go before reaching extreme levels. In fact, you want to see a reasonably high number in this reading because you want a growing number of stocks to be trending consistently higher. This would indicate strength in the predominant trend and buyers typically coming in to buy stocks as they pull back to these meaningful trend lines. “The trend is your friend” is a tried-and-true stock market cliché, so a higher percentage of stocks trading above the friendly trend should be indicative of the potential for further gains.

From a momentum perspective, US stocks still have a ways to go before reaching extreme overbought levels. An increase in this percentage reading would also show a broadening of strength in the market with more stocks and sectors participating to the upside. It would be another reason to not be worried by the current above average readings and would support an expectation that this number should go higher for all of the fundamental reasons that we have been referencing over the last two months.

S&P 500 % of Companies Trading Above Their 50-Day & 150-Day Moving Average



Source: Bloomberg

Overall, we remain optimistic for continued gains in 2025 based on an improving economic outlook and incrementally lower interest rates, but we do acknowledge that this opinion is becoming the mainstream outlook, so we do need to manage around expected pullbacks in the market in the coming months as sentiment may move towards more extreme bullish readings. Risk management, building cash positions in the Palisade Funds, and active trading will be important to maximize the opportunity in what we expect to be a solid, but slightly less spectacular, stock market in 2025.

PALISADE MODEL PORTFOLIOS UPDATE (Returns to Sep 30, 2024) **Important Footnotes Below***

	1-Yr	3-Yr	5-Yr	Description
Growth+ Portfolio	20.2%	7.1%	12.3%	Long-Term Growth Focus
Inflation+ Portfolio	8.1%	8.2%	9.6%	Low Volatility Growth/Inflation Protection
Income+ Portfolio	11.4%	5.7%	7.5%	Income / Moderate Growth Focus
Preservation+ Portfolio	6.7%	2.8%	5.8%	Capital Preservation Focus
Alternative+ Portfolio	7.2%	6.1%	8.9%	Uncorrelated Growth/Capital Protection

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

Going forward, we will include a table to quickly summarize the model portfolios in our wealth management business. These 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 like private equity, farmland and real estate to protect capital in down markets and to lower the overall volatility of our investors' portfolios. On a one-year basis the models are performing inline with our expectations, and on a longer timeline (i.e. five years) the portfolios have achieved risk adjusted returns inline with our objectives. High single digit returns over five years from the majority of our models in a time that included Covid-19 and the 2022 bear market is an outcome that we think adds value for a client's portfolio. Our Growth+ model is up 20.2% in the last year and 12.3% annually in the last five years, reflecting our highest return model.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was up 3.6% in November. The S&P/TSX Capped Energy Index ("Energy Index") was up 3.3% and the WilderHill Clean Energy Index ("ECO") was up 7.5% for the month. Overall, we didn't make many material changes to the PSF in the last month. We did add to our natural gas exposure with the purchase of Advantage Energy in the middle of the month and some incidental additions to natural gas exposed names that we already owned. Natural gas storage data in both the US and Europe is starting to improve with the start of winter, with storage levels recently moving closer to the five-year average for this time of year. We are seeing a narrative develop around natural gas as a green fuel with potential outsized demand growth due to artificial intelligence (AI) server farms that would largely be powered by natural gas. This commentary has been around for the last year, but we have seen it start to catch a little more traction in recent months, at the same time as the dismal storage situation in North America has finally started to improve. Natural gas at the AECO hub in Alberta essentially went to zero this summer but has recovered more recently to $1.80 per GJ with the help of some cold weather. We should also see more demand pull from LNG Canada as the full in-service date in mid-2025 approaches. We have held, and will continue to hold, shares in companies with high quality natural gas assets that should benefit from full commissioning of LNG Canada. Such companies include ARC Resources, Tourmaline, Peyto and NuVista, to name a few.

The **Palisade Absolute Fund** ("PAF") was up 2.3% in November. Similar to last month, the PAF benefited from a combination of growth screen names, a bounce in oil and gas stocks, and continued strength from our remaining interest sensitive names. We continue to add to growth screen names, particularly in the US markets, and we have largely eliminated our exposure to utilities stocks. Value added shorts have been hard to come by since the summer due to broad market strength, but we would expect to build up that part of the book over the coming months as sentiment becomes more frothy. In the meantime, our net exposure between 50% and 60% will remain in place.

The **Palisade Vantage Fund** ("PVF") was up 3.6% in November. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was up 4.0% while the S&P/TSX Composite Total Return Index ("TSX Composite") was up 6.4%. In the last twelve months the PVF is up 29.0%. It was nice to see the interest sensitive stocks trade well this month despite investor expectations changing to reflect less interest rate cuts in the US through 2025. As we mentioned last month, we have been rotating our positions slightly from stocks that are more heavily influenced by lower interest rates, like utilities, and into sectors that are still sensitive to interest rates, but are a little more oriented towards economic growth. We have also been bumping up exposure to interest sensitive stocks that have been beaten up and represent good value at current levels. For example, our real estate investment trust (REIT) exposure is now at 18% of the PVF as we have been adding to multi-family REITs at current levels, after their sizable pullback from their mid-September highs.

While sentiment has started to get a little frothy, we believe that there is still a ways to go before markets get overexuberant. Even then, a small pullback when they do get overbought should likely be seen as a buying opportunity, assuming that economic growth continues to be in place and the US Federal Reserve has continued to cut interest rates at a measured pace.

Best wishes to you and your family during this holiday season,

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.