PALISADE
CAPITAL

Our Market View in Summary

February 2025

Last month, we discussed the Trump administration's strategy for reshaping global trade through tariffs, based on Stephen Miran's economic theory of revitalizing domestic manufacturing. The plan called for a methodical, staged implementation to allow economic adjustment. However, recent weeks have shown a departure from this strategy, with inconsistent messaging and frequent policy reversals creating significant market uncertainty. As Canadian investors, we don't advocate for these policies but must navigate this reality and understand its investment implications.

Key Highlights:

- Despite tariff uncertainties, international equity markets have surprisingly outperformed the US in early 2025, with European indices entering a bull market while US markets have surrendered all post-election gains.
- Notable divergence: Germany up approximately 17% YTD while NASDAQ in the US is down about 7%, with significant corrections in individual stocks (Nvidia down 28%, Royal Bank -10%, Amazon -17%, Shopify -20%).
- Capital appears to be rotating from US markets to relatively cheaper European "value" markets, rather than exiting equities entirely.
- Sentiment indicators approaching typically low ranges, suggesting markets have already priced in substantial fear.

Near-Term Outlook:

- International tariff pressures may be forcing countries to improve economic policies and eliminate wasteful spending, potentially yielding long-term benefits.
- We expect a likely market bounce in the coming weeks as sentiment indicators approach their lower bounds.
- Canadian and US markets should recover if policy uncertainty diminishes and focus shifts to economic efficiency.
- Long-term opportunity for Canada to modernize economic policies, enhance competitiveness, and build stronger independent frameworks that benefit all Canadians.

The surprising resilience of European equity markets amid tariff threats suggests global investors are adapting rather than retreating. If Europe can rally strongly despite being "next" on the tariff list, we believe Canadian and US markets can regain positive momentum with just a bit less uncertainty and more focus on improving economic efficiency and long-term strategy. The current rotation into value markets and sentiment indicators approaching their lower bounds further supports our view that a full bear market remains unlikely, despite recent volatility.

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February 2025

Fellow Palisade Investors and Friends,

Please find attached our February 2025 Monthly Update, which includes the Fund Fact Sheets for the Palisade Funds and a performance table for the various Palisade Wealth Management model portfolios. **This month's client conference call is scheduled for Thursday, March 13th 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

Last month we provided some consolidated details regarding the Trump administration's strategy around re-shaping the global trade system, predominantly through the use of tariffs. Implementing tariffs is a risky proposition and generally seen as a driver of inflation and lower economic activity. However, the Trump administration appeared to be following a paper written by the Chairman of the Council of Economic Advisors, Stephen Miran, where he hypothesized that it was possible to grow the manufacturing sector and return middle class jobs to the United States in a step by step process that included the implementation of tariffs on goods imported to the country, which would lower budget deficits and incentivize companies to do more manufacturing domestically. However, one of the key points in the implementation strategy was to roll out tariffs in stages in both magnitude and time, in order to allow the economy and consumers to adjust to potentially higher prices and for companies to manage their supply chains.

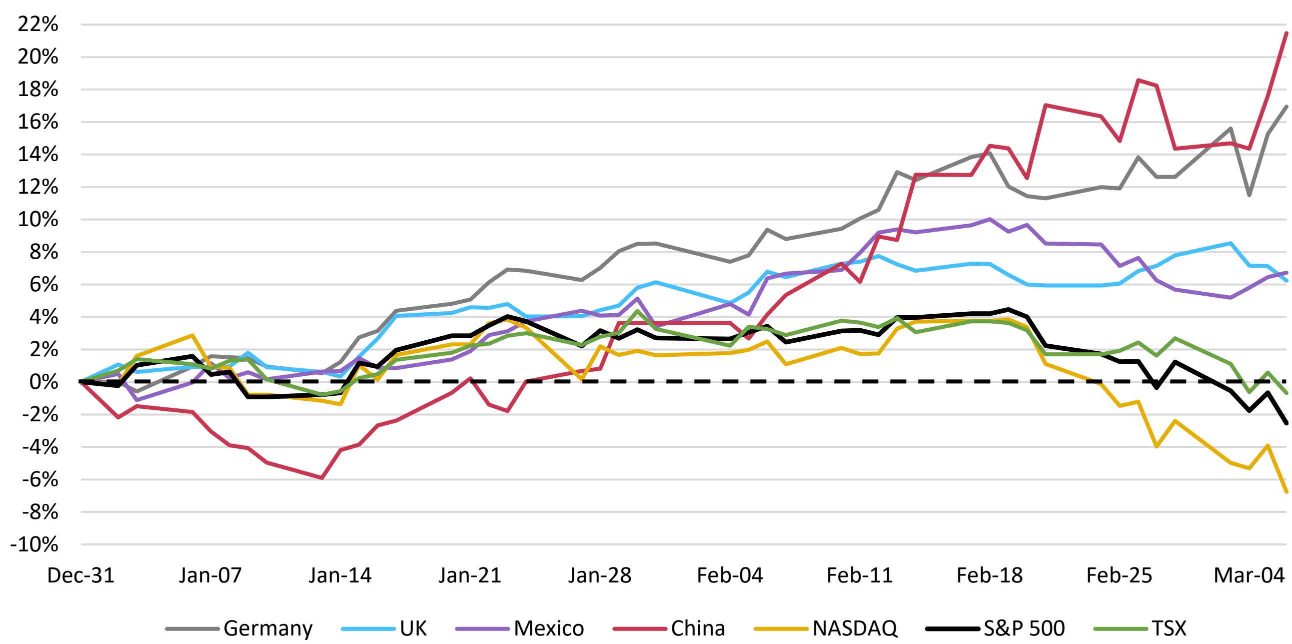
Before we move on we want to be completely clear, we are Canadians and we wish that this wasn't the economic reality that we find ourselves in. We'd rather not be dealing with the risk of tariffs from our closest allies and the associated volatility that comes with the constantly changing headlines. When writing this piece, we aren't defending tariffs or saying that it's good policy, we are simply trying to ascertain the potential path that the US administration is taking and how we should be adjusting our investing view as a result. We continue to maintain our view that the biggest positive that will come from this potential tariff war is a re-focusing of the Canadian population on much needed changes in economic policy and taxation rules in Canada that require modernization to focus on competition, optimizing Canadian economic activity to play to our strengths and create a stronger and independent decision making framework that works to the benefit of all Canadians. Basically, we think that the challenges from the US will unlock our potential and provide long term benefits to Canadians. Iron sharpens iron.

What has been happening since we wrote last month's update has been quite different from the Miran strategy. The White House has changed its mind, flip-flopped on timing, and when they have announced that they would move ahead with tariffs they changed the terms again within 24 hours. We think that investors would much rather not be dealing with tariffs, but if that's the game we're playing it would be helpful to have visibility on the how and when of tariffs, rather than total opaqueness as to the details of the strategy. It's easy for commentators to say that it's the "art of the deal", but people who are being serious about investment decisions and trying to deploy capital on a multi-year timeline would much rather see a clearly communicated strategy that they can evaluate themselves and adjust where appropriate to lower risk and maximize returns.

To this end, it has been interesting to step back and watch the trading action on a global basis. On the surface you might think that tariffs and the poor communication from the White House would have a de-stabilizing effect on stock markets, especially those markets having economies that are much weaker and less dynamic than the United States. Surprisingly, international equity markets have been much stronger than those in the United States to start 2025. European indices are in a full-blown bull market and China has emerged from a very long hibernation in the last six months. As you can see in the chart below, the year-to-date returns from these markets are very attractive and are occurring in contrast to the US markets that are down year to date and have given back all of the post-US election gains at the time of writing.

We have to admit that we didn't expect this outcome when the Republicans swept the US election in November. It's important to keep in mind that the US market has been outperforming those in Europe for the last 15 years, so a few months of outperformance shouldn't be taken as a major reversal in trend. Notwithstanding, it's interesting in the context of headlines driving maximum fear and investors moving money around in a period of uncertainty, for this to be a time of European outperformance. To put a finer point on it, as an example, Germany is up approximately 17% year to date while the NASDAQ in the US is down around 7%.

Global Equity Indices YTD Performance



Source: Bloomberg

So, why is this happening now? One thought is that the threat of tariffs is forcing other countries to prioritize policies that are focused on improving their economic performance independently of the United States and eliminating wasteful spending. In addition, European (and Canadian) markets are cheaper than US markets, so a combination of potentially improved long term economic performance and a meaningful value argument is rotating capital away from US markets and into European "value" markets. It's also important to note that we view this broad rotation as a general positive for the equity markets, or at least it is a mitigating factor to the widespread fear we are seeing in news headlines and strategist comments. If the global economic outlook was a growing risk, you would see money leaving stocks altogether, not rotating from one stock market to another. It doesn't mean that US and Canadian markets couldn't go down a little more from here, but we do think that the risk of a full-blown bear market is still quite slim.

To this point, fear is already very prevalent in the markets and current stock prices. That's not to say that stock prices couldn't go a little lower (there is room in various sentiment gauges for some incremental fear before finding a low) but many stocks under the surface are down materially from recent highs. For example, Nvidia is down 28% from highs, Royal Bank is down 10%, Amazon is down 17% and Shopify is down 20%.

Various sentiment indicators that we follow are nearing the low end of their typical ranges, so we would expect to see a bounce in stock markets in the next few weeks. If Europe can rally strongly in the face of "you're next" on the tariff battle, we think that Canadian markets and US markets can get back on track if there is a little less saber-rattling and a little more execution on improving our economic efficiency, planning and long-term strategy.

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

	1-Yr	3-Yr	5-Yr	Description
Growth+ Portfolio	17.2%	6.7%	11.9%	Long-Term Growth Focus
Inflation+ Portfolio	8.8%	8.4%	9.4%	Low Volatility Growth/Inflation Protection
Income+ Portfolio	9.0%	5.5%	7.4%	Income / Moderate Growth Focus
Preservation+ Portfolio	7.1%	3.3%	5.8%	Capital Preservation Focus
Alternative+ Portfolio	8.8%	6.4%	8.8%	Uncorrelated Growth/Capital Protection

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

Volatile markets like we've seen in 2025 highlight the benefits of having uncorrelated assets as part of your broad portfolio. Palisade has constructed its Wealth Management portfolios with a contingent of third-party funds that include alternatives within each of the models shown above. "Alternatives" is a very broad-brush description for this asset class, but some practical examples of these investment strategies include a Saskatchewan farmland fund, an arbitrage fund that seeks mispricing between related securities, and a low-risk mortgage lending fund. The objective of their inclusion is to generate long-term returns for the investor that will meet their targets without as much of a rollercoaster ride along the way. Targeted diversification and lower correlation to stock markets is expected to produce a more attractive risk reward profile in the long term.

PALISADE FUND COMMENTARY

The **Palisade Select Fund** ("PSF") was down 1.6% in February. The S&P/TSX Capped Energy Index ("Energy Index") was down 1.9% and the WilderHill Clean Energy Index ("ECO") was down 10.2% for the month. The most important discussion point for oil and gas is the news that occurred after month end when OPEC+ announced that they will be bringing production back to the market starting next month in a steady fashion through the end of Q3 2026. This was a surprise to investors and amounts to approximately 2.2 million barrels/day total in monthly increments of 180,000 barrels/day. The impact of this negative surprise needs to be split between the effects on crude oil and then separately for natural gas. This news is positive for natural gas in that there would be lower associated gas production in the US if higher OPEC oil production forced US producers to shut in less economic oil production, and thus shut in the natural gas production that comes with it. This effect immediately showed up in natural gas prices as the commodity rose by 17% in the three days following the OPEC announcement and is currently at 52-week highs at the time of writing.

The PSF continues to have a large weighting in the natural gas names and we will continue to maintain that through the market volatility.

On crude oil, the headline risk from the OPEC+ decision is clearly negative, but it is buffered by a few points. Most importantly, there are increased sanctions coming for Iran and Venezuela. Those barrels leaving the market should at least provide a cushion to the slow increases coming from OPEC+. A second consideration is the fact that many OPEC+ countries were already producing above their quotas, so there may be a scenario where their quota increases, but production doesn't increase as much because they are already producing within the new quota level. The third consideration is sentiment. Sentiment for oil producers has been exceptionally poor for the last ten months. Negative extremes in September and December led to short lived bounces, and again today we find ourselves with an abundance of negative sentiment.

After the initial move down on the OPEC+ news, we have seen both the commodity and stock prices put up a fight in recent days while Canadian producers are largely announcing pretty good quarterly financial performance. We carried 11% cash in PSF through most of the month, with an increase to 14% nearer to month end. In the last couple of days, we have been putting some of that to work by adding to our position in Canadian Natural Resources ("CNQ"). Oil sands producers have been particularly punished in the market over the last ten months, but CNQ continues to execute well and just announced stellar quarterly financial results.

The **Palisade Absolute Fund** ("PAF") was down 0.5% in February. The PAF continues to operate somewhat separately from the broad market indices. Indices were down in February, but under the surface there has been more damage. We mentioned last month that we had lowered the PAF's net and gross exposure to account for additional tariff risk, and that was beneficial this month. We were around 35% net long at points during the month, with that number increasing into the low 40% range as we covered some shorts on the weakness late in the month.

In an ideal situation, we will have a buying opportunity in the next few weeks to increase the net exposure back to the 55% range. Buying would be focused on stocks that have held in better (i.e. showing relative strength) during the pullback and would continue to avoid stocks that are directly impacted by tariffs between the US, Canada and Mexico. In just the last few days, we have seen some of the tariff stocks bounce, which we see as an opportunity to increase our short exposure. Our growth screens continue to highlight companies whose operational performance allows them to grow and perform separately from the general day-to-day direction of the stock market.

The **Palisade Vantage Fund** ("PVF") was up 0.9% in February. For the month, the S&P/TSX Canadian Dividend Aristocrats Total Return Index ("Aristocrats Index") was up 0.1% while the S&P/TSX Composite Total Return Index ("TSX Composite") was down 0.4%. PVF was the beneficiary of lower bond yields during the month as broader economic uncertainty drove cash into the safety of bonds, which lowers their yields/interest rates. When rates go down, stocks with high dividend yields look more attractive and thus also attract capital flows. As such, some of the biggest winners in PVF this month included Intact Financial, Power Corp, Visa, Chartwell Retirement Residences, Bank of Montreal and Pembina Pipelines. We carried around 11% cash in PVF during the month in an attempt to play a small amount of defense, so we're looking forward to redeploying that cash in the next few weeks to take advantage of the market declines.

Given the uncertainty that we've seen to start the year, we would encourage you to reach out at any time if you have any questions about the markets or your investments with us.

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.