

PALOS

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Palos Weekly Commentary

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Palos Funds

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Canadian National Railway Strong as Nails

Earnings season is back at the forefront and one of the Canadian bellwether stocks reported on Tuesday night. Canadian National Railway (TSX: CNR) reported in-line 3Q 2019 results which were driven by cost cutting and lower taxes. However, they are reducing their guidance from low double digit to high single digit EPS growth. The company is being proactive and has started to put locomotives and railcars into storage and reducing their headcount in the markets where they are seeing some softness in volumes. This is why CNR has one of the best operating metrics in the industry. Management definitely has the tools and the expertise to move quickly and efficiently. I'm very pleased to see how quickly and proactively the company is acting ahead of anticipated slower growth. It seems that the long-term vision of the company is intact as they maintained their capex guidance for 2019. CNR seems committed to continue investing in capacity, efficiency, and long-term projects. However, the company is also being prudent as they pushed their 2020 budget to December to have better visibility.

CNR has a strong history of managing growth and showing resilience during a slowdown and I don't see this strategy changing anytime soon. CNR will continue to be best-in-class.

Disclaimer: Palos Funds are shareholders of CNR.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.10	10.18%
Palos Equity Income Fund - RRSP	PAL101	\$5.50	8.47%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$6.74	-4.76%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) ³	PAL300	\$9.31	-1.02%
S&P TSX Composite (Total Return with dividends reinvested)			16.92%
S&P 500 (Total Return with dividends reinvested)			21.80%
S&P TSX Venture (Total Return with dividends reinvested)			-2.34%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.76%
Canadian Government 10-Year			1.52%
Crude Oil Spot			US \$55.97
Gold Spot			US \$1,489.90
US Gov't10-Year/Moody BAA Corp. Spread			219 bps
USD/CAD Exchange Rate Spot			US \$0.7650

¹ Period ending October 23, 2019. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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