

PALOS

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Palos Weekly Commentary

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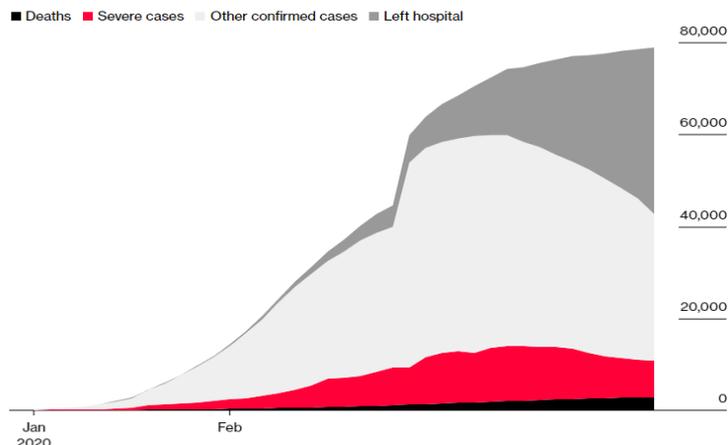
By Charles Marleau, CIM

The Markets Catch the Coronavirus #2

The world continues to be inundated with 24/7 media coverage of the COVID-19 outbreak. Headlines on the epidemic continue to spread through newswires and social media. This has incited irrational behavior in global markets. Unfortunately, the economic impact of the outbreak is difficult to quantify, and its equally difficult to predict if and when we'll see this resolve. The facts are that emotions and fear are driving this market. As a result, we continue to see a flight from sectors or industries with high sensitivity to the virus' potential impact on the economy. Airlines, hospitality, restaurants, cruise lines, casinos & resorts, energy, and materials have all been affected by this sell off.

However, there is some positive information that the media is seemingly ignoring because it doesn't generate traffic and hits. For example, we are seeing a slowdown in Johns Hopkins monitor cases at the epicentre of the virus. According to John Hopkins, the number of global confirmed cases has reached 83,933. Of interest is the number of patients that have been released from hospitals. This number has increased significantly, especially in China, where the number of recoveries has reached 36,117. A majority of the cases in China are not severe enough to cause a significantly higher mortality rate. (see below for chart)

Rise in Confirmed Cases in Mainland China Since Jan. 20



Data as of February 27, 2020, 8:18 PM EST
Source: National Health Commission of the PRC

By Charles Marleau, CIM

The Fund has started to take advantage of opportunities as they arise. Experience has taught me that succumbing to the fear and panic can only be a distraction that diverts us from our long-term objectives. I'm still constructive for the long-term. I expect that in the short-term, markets will remain volatile as many traders continue to pressure markets; possibly due to margin calls. With stressed markets comes opportunity. The fund is cautiously taking advantage of the weakness to accumulate quality names in the utilities, real estate, and consumer staples sectors. Being unfairly punished are stocks like Telus, Capital Power, Northland Power, Boardwalk REIT's, Park Lawn, Jamieson Wellness, Metro, Dream Real Estate, Tricon, and Dollarama. We are slowly reducing our gold equity exposure. Consensus is implying that the probability of a 25-basis point cut is now at 100%, and at 60% for 50 bps. Given this, we prefer holding an overweight position in both interest rate sensitive and income generating companies like telcos, utilities and REITs.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.83	-7.92%
Palos Equity Income Fund - RRSP	PAL101	\$5.36	-6.27%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$6.75	-11.78%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) ³	PAL300	\$9.39	-9.53%
S&P TSX Composite (Total Return with dividends reinvested)			-4.26%
S&P 500 (Total Return with dividends reinvested)			-8.27%
S&P TSX Venture (Total Return with dividends reinvested)			-13.80%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.15%
Canadian Government 10-Year			1.13%
Crude Oil Spot			US \$44.76
Gold Spot			US \$1,566.70
US Gov't10-Year/Moody BAA Corp. Spread			231 bps
USD/CAD Exchange Rate Spot			US \$0.7467

¹ Period ending February 28, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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