

# PALOS

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## Palos Weekly Commentary

Issue No. 23 | JUNE 06 2019

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## Palos Funds

*By Charles Marleau, CIM  
& Joany Pagé, CFA*

### The Month of May brings Volatility

The month of May has been volatile as the markets have been whiplashed by yet another wave of trade fears and tariffs. The China & US trade deal is taking longer than expected and has turned into a blame game. However, it is in the interest of both nations to find a common resolution on trade. We will have more information on June 28 and 29, when both nations are expected to meet at the G20 summit in Osaka.

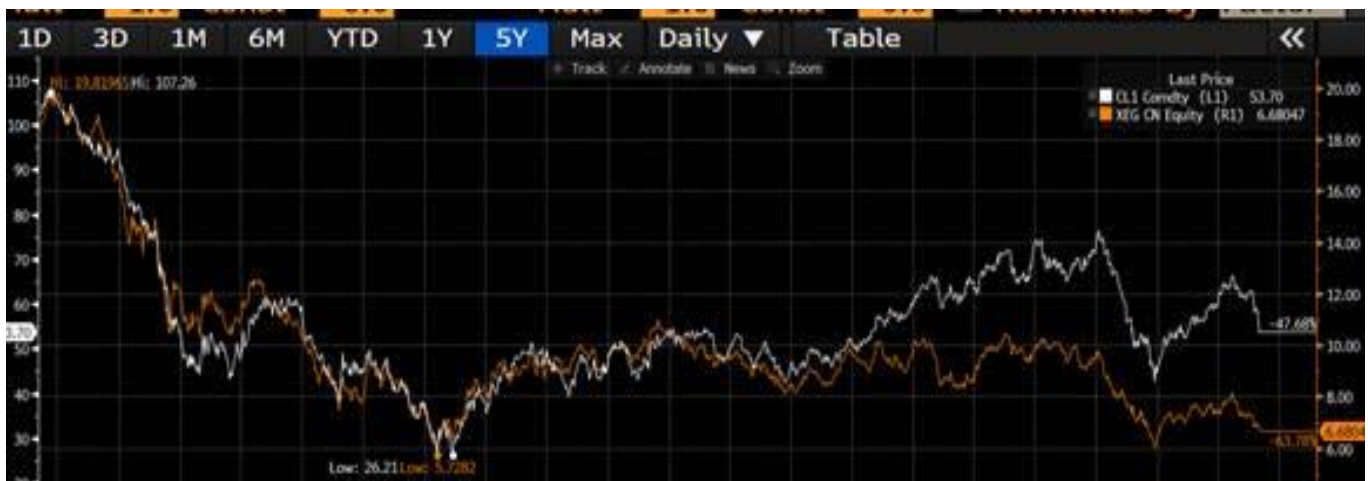
In addition, Mr. Trump is using his tariff card to threaten Mexico. By doing so, Trump is hoping that the Mexican government will plead, and help to reduce illegal immigration. I'm of the opinion that potential Mexican conflicts would threaten both Canadian and US manufacturing economies, as they are intertwined. I also believe that this Mexican situation will probably be short-lived as the Mexican president, Mr. Lopez Obrador, is rather diplomatic and seems to be acting in good faith in response to Mr. Trump's threat. I would be surprised if Mr. Lopez Obrador did not act on the immigration issue.

A few sectors, such as the auto, industrials, technology and commodities, have been bearing the brunt of the selloff. The bad news is that no one likes volatility. The good news is that auto, commodities, and some industrial stocks, are trading at historically low valuations. They seem to already be pricing in the worst-case scenario. For example, TECK is trading at 3x EBITDA and carries no debt. This remains true for Magna, Linamar, and Martinrea.

## Palos Funds cont.

By Charles Marleau, CIM  
& Joany Pagé, CFA

Below is a graph that shows how the Canadian energy index has underperformed crude oil, its underlying commodity.



Yes, there is headline risk, but valuations should support stocks. If I'm correct about Mexico, many Canadian equities should quickly reset.

On a more positive note, the low interest rate environment has been beneficial for sectors such as utilities, real estate, and telecommunications.

*Disclaimer: Palos Funds are shareholders of MRE, LNR, MG & TECK.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.57	11.09%
Palos Equity Income Fund - RRSP	PAL101	\$5.75	9.36%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.45	5.37%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$9.84	-1.57%
S&P TSX Composite (Total Return with dividends reinvested)			14.57%
S&P 500 (Total Return with dividends reinvested)			14.02%
S&P TSX Venture (Total Return with dividends reinvested)			7.04%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			2.13%
Canadian Government 10-Year			1.45%
Crude Oil Spot			US \$51.68
Gold Spot			US \$1,328.30
US Gov't10-Year/Moody BAA Corp. Spread			241 bps
USD/CAD Exchange Rate Spot			US \$0.7454

<sup>1</sup> Period ending June 5, 2019. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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