

PALOS

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Weekly Commentary

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By Charles Marleau, CIM

FedEx and Walmart: U.S. Powerhouses Fueled by E-commerce

It's not often that I write about U.S. equities, but last week's earnings report from FedEx Corporation caught my attention (NYSE: FDX). FDX released surprisingly strong fourth quarter results on June 30. Revenues beat analyst expectations and adjusted earnings per share (EPS) were \$2.53 versus analyst expectations for \$1.53. The beat was attributed to a significant surge in residential deliveries. Another recent winner has been Walmart (NYSE: WMT). On July 7, WMT announced the launch of a subscription-based service called Walmart +. This new service is aimed directly at Amazon Prime. Following the news, WMT stock jumped higher by 7% on the day and is up 5% on the year.

You may be wondering why the outperformance of FDX and WMT is of such interest to me? For starters, the strong results from FDX are clearly a derivative of the explosion in e-commerce. This trend is certain to persist in a post-Covid world and will impact all facets of e-commerce like shipping, storage, distribution, and delivery. From a Canadian perspective, we can expect the same structural change to take hold. In fact, given our country's geographic vastness, the demands may be greater. The good news is that several of the companies we are invested in are well positioned to benefit.

Cargojet Inc. (TSX: CJT), with a focus on time-sensitive overnight deliveries, will benefit from its relationship with clients like Amazon, Purolator, and DHL. CJT holds a 90% share of the Canadian market, has long-term contracts in place, and has Amazon as a major investor. Through July 8, the stock is up an impressive 62% in 2020. Another holding is TFI International (TSX: TFI), the largest trucking company in Canada and one of the largest in North America. While TFI saw a dramatic decline in its share price in the weeks following the outbreak, the stock has seen a dramatic 110% rally off the March bottom and is higher by 18% for the year. TFI specializes in "last mile" delivery and has seen its margins grow in this segment. Add in Mullen Group (TSX: MTL), another "last miler" with a focus on industrial transportation in Western Canada. MTL should also see a tailwind from infrastructure projects.

The explosion in e-commerce is not restricted to logistics and transportation. Canadian technology companies with "cutting edge" e-commerce expertise include Shopify, Lightspeed, and Kinaxis. Shopify (TSX: SHOP),

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which is the Palos Income Fund's largest holding in the tech sector, provides cloud based, multi-channel e-commerce solutions for small and medium sized businesses. SHOP shares are up an astounding 166% for the year, which makes it the largest company in Canada with a market cap of \$164 billion. Lightspeed (TSX: LSPD) is a Montreal based, payments and e-commerce company that specializes in cloud-based solutions that include inventory management, point-of-sale payments, and omni-channel marketing. LSPD serves small and medium sized businesses around the globe. LSPD shares are up 3% for 2020 and 132% since its March 2019 initial public offering. Kinaxis (TSX: KXS), providers of cloud-based solutions for supply chain and operations management, has been another outstanding performer. KXS shares are up 108% for 2020.

While I could carry on with names of other e-commerce beneficiaries we're invested in (Canadian Tire, Dollarama, Goodfood, Walmart), my point is this. The key to successful investing has always rested upon having the ability to recognize secular change. In a post-Covid world, the exacerbation of e-commerce, logistics, and technology will be massive. In the same light, traditional brick and mortar retail, leisure, and travel will face headwinds and may take a long time to recover. Our investment approach is two-fold. First, it is crucial to distinguish between those sectors of the economy that will benefit from a changed world and those that will not. Secondly, I maintain my conviction that a well-diversified portfolio focused on the strongest companies will continue to offer the best recipe for investing success.

Disclaimer: Palos Funds are shareholders of WMT, CJT, TFII, MTL, SHOP, LSPD, KXS.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.15	-10.63%
Palos Equity Income Fund - RRSP	PAL101	\$5.16	-8.72%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$7.93	3.55%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.08	-22.15%
S&P TSX Composite (Total Return with dividends reinvested)			-6.18%
S&P 500 (Total Return with dividends reinvested)			-0.38%
S&P TSX Venture (Total Return with dividends reinvested)			18.77%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.64%
Canadian Government 10-Year			0.55%
Crude Oil Spot			US \$40.55
Gold Spot			US \$1,801.90
US Gov't 10-Year/Moody BAA Corp. Spread			274 bps
USD/CAD Exchange Rate Spot			US \$0.7356

¹ Period ending July 10, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188
F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110
F. +1 (647) 343-7772

www.palos.ca