

PALOS

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Weekly Commentary

Issue No. 1 | JANUARY 4, 2021

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By Charles Marleau CIM[®] and William Mitchell CIM[®]

Goodbye 2020: it was a year like none other

Since the arrival of Covid-19 most of society has hunkered down as we battle the global pandemic. With lockdown in place and fewer options to occupy our minds, much of our attention turned to “The Trump Show” and keeping ourselves up to speed with the depressing trajectory of pandemic related statistics. As if these concerns were not enough, financial markets tested our resolve as the second quarter saw the fastest and sharpest bear market in history which was quickly followed by a breathtaking recovery. As many sectors of the economy have recovered and even thrived, others continue to suffer as do those individuals who work in industries such as hospitality, travel, and retail.

As the history books are written, we’re hopeful that 2020 will go down as the culmination of social media and “trash politics” dominating our day-to-day lives. Quite frankly, most of us are exhausted and angered by how politics and media have used an “us versus them” political strategy to divide democratic societies and at the grass roots level, families and friends. Furthering the discord in a manner that’s akin to tossing gasoline on the fire, competing cable news networks and social media have willingly used sensationalistic headlines to attract our collective ears and eyes with the end game of economic gain. In my opinion, the biggest casualty has been how as individuals we’ve allowed largely inconsequential information to dominate our daily lives. I long for a return to the days when we discussed “last night’s” game, the movie we saw over the weekend or the great new restaurant on Main Street.

However, we believe there is plenty of reason for optimism and hope. Within a couple of weeks, a new administration will replace the current one and political leanings aside, investors will surely welcome a greater degree of certainty. With Biden at the helm, we are likely to see a White House administration that appears committed to repairing four years of behaviour that has alienated allies, had a staggering effect on trade policy, and seemingly normalized volatile leadership from a president who preferred to govern by Twitter rather than by traditional methods.

Optimism is rising with the “icing on the cake” news that the vaccine rollout has begun, and we are therefore in the process of eradicating the Covid-19 virus. While the jury is still out as to when we will attain herd immunity and what percentage of the populous will even agree to get the vaccine, the fact remains that there

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is a light at the end of the tunnel. By many estimates we should see a return to normalcy by the second half of 2021 or in the worst case by the fourth quarter.

With growing confidence that we are winning the Covid-19 battle, we should also see a strong boost in economic activity that is supported by several tailwinds. Central banks around the globe have made it abundantly clear that stimulus programs will continue for as long as they are needed, and interest rates are forecast to remain low for the foreseeable future. Add in a pent-up demand from lock down and the fact that cash held in individual bank accounts are at historic highs, the catalysts are in place for a significant global economic recovery.

As we head into the next decade, we thought we'd look back in history to the post Spanish flu period of the 1920's. Known as "The Roaring '20's", the decade following the end of World War I and a pandemic that claimed millions of lives, ushered in a period of unprecedented economic prosperity. Advances in technology brought mass production of automobiles and home appliances that in turn hastened the growth in consumerism. American politics normalized in a post-war world and the appetite for travel, a shift to free-living culture, and massive industrialization brought in a decade of economic boom. The similarities to today are striking as new technologies like artificial intelligence, self-driving cars, security, renewable energy and even space travel, are occurring at a time when pent up demand from consumers and an appetite for new experiences is on the cusp. Dare we suggest that the groundwork has been laid for a repeat of arguably the greatest economic boom of our time. While only time will tell, there is certainly a reasonable argument to be made that better times lay ahead of us. Welcome 2021!

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.75	14.88%
Palos Equity Income Fund - RRSP	PAL101	\$6.38	13.83%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$14.13	84.60%
Palos-Mitchell Alpha Fund ³	PAL300	\$12.01	15.77%
S&P TSX Composite (Total Return with dividends reinvested)			5.60%
S&P 500 (Total Return with dividends reinvested)			18.39%
S&P TSX Venture (Total Return with dividends reinvested)			52.00%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.91%
Canadian Government 10-Year			0.68%
Crude Oil Spot			US \$48.52
Gold Spot			US \$1895.10
US Gov't10-Year/Moody BAA Corp. Spread			221 bps
USD/CAD Exchange Rate Spot			US \$0.7853

¹ Period ending December 31, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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