

PALOS

CONTENTS

Weekly Commentary

Issue No. 46 | NOVEMBER 14, 2022

The U.S. Midterms – What it means for Investors	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

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

The U.S. Midterms – What it means for Investors

On November 8th Americans went to the polls as the U.S. midterm elections were held. Midterms are general elections held at the midpoint of a presidential term for the purpose of electing all 435 representatives in the House of Representatives and 34 or 35 of the 100 seats in the Senate. The midterms include state-level elections to determine State Governors and other offices of state legislatures. The midterm elections are widely viewed as a referendum on the sitting president and his party. Historically, the party in power tends to lose seats to the opposition during midterms.

As of Saturday, we've received confirmation that incumbent Senator Catherine Cortez Masto (Dem.) of Nevada has defeated Trump backed challenger Adam Laxalt. With the win, the Dems will retain a slim majority (50-49) in the 100-seat Senate. A December 6 runoff in Georgia between incumbent Senator Warnock (Dem.) and Trump backed Walker (Rep.) was anticipated to be the potential "tie breaker" for control of the Senate. This is now of lesser significance, although a two-vote margin of 51-49 would be preferable for the Dems.

Vote counting continues for control of the House of Representatives. Current projections are pointing to a narrow Republican victory for the house. Should this stand, we're looking at a split Congress. The result is a "lame duck" session where legislative gridlock could potentially disrupt Joe Biden's power to pass initiatives through Congress, effectively at will. Despite sky-high expectations for a Republican "Red Wave", many of the Trump-backed candidates who were expected to challenge for Senate seats failed. Don Bolduc in New Hampshire and Blake Masters in Arizona were both defeated while Democrat John Fetterman "flipped" Pennsylvania by defeating Trump hopeful Mehmet Oz.

It's clear that we're headed for two more years (at least) of disruptive politics as we head to the starting line for the 2024 race to the White House. The underwhelming results from the top of the ballot down have incited plenty of "finger pointing" within the Republican party. The battle lines between "Trumpers" and "Non-Trumpers" are being drawn and this could be bad news for the former President Trump's expected 2024 run, which he's anticipated to announce as soon as tomorrow (Nov. 15). The campaign may have already begun with Trump initiating attacks on critics within the GOP and challengers like Florida Governor Ron DeSantis. DeSantis boosted his ranking in the party by winning a landslide victory in the Florida Gubernatorial

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

race. Trump has already criticized DeSantis publicly and in typical Trump fashion has nicknamed the Florida Governor “Ron DeSanctimonious”!

The divisive, fascinating and often peculiar political process of our neighbors is important to monitor given “what happens in America” carries implications for the global economy and financial markets. Almost a week removed from the midterms, the question as to whether the Dems can retain majority power in congress remains unanswered. The probable outcome, according to pollsters, is a split with Dems controlling the senate by one or two votes and the GOP (Republicans) holding a slim majority in the house. If current projections stick, what does this mean for the markets?

The answer: uncertainty. With a split congress the Dems can maintain influence over the judicial confirmation process, but the Dems will likely face more scrutiny and oversight from the GOP. Compromise will be required on important issues like the debt ceiling which has proven to be a “headline market mover” in the past. A Republican controlled house will surely demand that Biden restrain spending and reign in proposed changes to tax legislation. The SAFE Banking Act, which aims to ensure that financial institutions can legally provide services to the cannabis industry, may be in danger as many Republicans currently oppose the act – a potential negative for cannabis stocks. Spending and changes to healthcare coverage may not pass and defense spending could receive a boost, both positive outcomes for the respective sectors (healthcare and defense). Climate legislation, given Republican support for fossil fuels, could be a battle ground requiring compromise – a potential win for the energy sector (including Canada?).

While it’s impossible to anticipate how the future will unfold, what we can do is use past performance following midterms as a guide. Historically, using the S&P500 Index as a barometer, markets are weak in the two quarters leading into midterms and there’s no disputing that this has been the case in 2022. However, equities performance as measured by the S&P500, have been positive with average returns exceeding of 14% for the 12-month period following midterms on every occasion since 1946!

In closing, we emphasize that commenting on politics is not our goal. However, politics have an influence on the economy and financial markets, and this is obviously of importance to us. We will continue to monitor the global political events in Washington (and Ottawa) and the impact on financial markets and investors. Indeed, we live in interesting times.

Follow us on LinkedIn:



Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.75	-4.65%
Palos Equity Income Fund - RRSP	PAL101	\$6.74	-5.86%
Palos WP Growth Fund - RRSP	PAL213	\$13.16	-30.17%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.60	-16.27%
S&P TSX Composite (Total Return with dividends reinvested)			-2.77%
S&P 500 (Total Return with dividends reinvested)			-15.09%
S&P TSX Venture (Total Return with dividends reinvested)			-36.08%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.81%
Canadian Government 10-Year			3.15%
Crude Oil Spot			US \$88.96
Gold Spot			US \$1,769.40
US Gov't10-Year/Moody BAA Corp. Spread			237 bps
USD/CAD Exchange Rate Spot			US \$0.7533

¹ Period ending November 11th, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

Weekly Commentary

Issue No. 46 | NOVEMBER 14, 2022

Disclaimer:

This publication is proprietary to Palos Management Inc. (along with its affiliate Palos Wealth Management Inc., "Palos"). This publication may be copied, downloaded, stored in a retrieval system, further transmitted, reproduced, disseminated, and/or transferred, in any form or by any means, but only as long as it is unaltered and attributed to Palos. This publication and its contents may not be sold or licensed without Palos' written permission. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made or implied regarding accuracy or completeness. The information provided does not constitute investment advice and it should not be relied upon on as such. If you have received this communication in error, please notify us immediately by electronic mail or telephone. This document may contain certain forward-looking statements that are not guarantees of future performance and future results could be materially different. Past performance is not a guarantee of future performance. "S&P" is a registered trademark of The McGraw-Hill Companies, Inc. "TSX" is a registered trademark of TSX Inc. The Bloomberg USD High Yield Corporate Bond Index is a rules-based, market value weighted index engineered to measure publicly issued noninvestment grade USD fixed rate, taxable, corporate bonds. To be included in the index a security must have a minimum par amount of 250MM. Palos Funds are not available for non-Canadian residents.

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