

PALOS

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Weekly Commentary

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

HAPPY NEW YEAR!

To our cherished clients, friends and colleagues we send our heartfelt wishes to you and your loved ones for good health, happiness and prosperity in 2023.

As for 2022, returns across all asset classes were the poorest in decades with virtually nowhere to hide. Prices in stocks, bonds, real estate, commodities, and digital currencies tumbled as a global bear market emerged. Among the culprits was inflation, which rose at its highest pace since the 1980's as the "easy money" policies implemented by central bankers during the pandemic came home to roost. The knee-jerk reaction of these central bankers was to try and tame inflation by rapidly raising interest rates. In the U.S., the Federal Open Market Committee (a.k.a. the Fed) hiked rates seven consecutive times in 2022. This included four consecutive increases of 0.75% between its May to November meetings: this equates to a very aggressive seventeen-fold increase from a target range of 0.25% to 0.50% in March, to a target range of 4.25 to 4.50% announced at its December 15 meeting.

By aggressively raising rates throughout 2022, central bankers believe consumers and corporations will spend less, housing prices will stabilize, and that consumer prices, input costs and labour costs (i.e. wages) will fall. In turn, this is expected to "cool off" a hot economy and rein in rampant inflation. On a positive note, there were plenty of indications early in the fourth quarter that many of the intended outcomes were being achieved as prices continued to fall in energy, food, housing, used autos, and shipping. The Fed's primary concern remains wage inflation due to a tight labour market. This may prove tougher to resolve as the workforce ages and job openings remain elevated.

However, these weren't the only issues impacting markets in 2022. An unexpected conflict in Europe and the accompanying energy crisis has elevated geopolitical uncertainty. Covid shutdowns persist in China and a collapse in digital currency platforms like Sam Bankman-Fried's FTX had worried investors clamouring for the exits. Uncertainty is plentiful and as regular readers of our newsletters know the markets loathe uncertainty. Finally 2022 is in the history books – good riddance!

On the "good news front" there are reasons for optimism. The post-Covid bull market that began in the spring of 2020 and lasted roughly 18 months, topped out in the fourth quarter of 2021. The current bear market is

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getting long in the tooth. Much of the bad news, as well as the growing realization that we may be headed for an “engineered recession”, has already been factored into prices. The worst may be behind us. In addition to this, prevailing investor sentiment indicators are signalling extreme pessimism and while it may seem counterintuitive, extreme pessimism has historically been a dependable leading indicator of an imminent market bottom.

Fed Chair Jerome Powell has been very clear; only when the “data” confirms that inflation is clearly in decline will the Fed pause or pivot from its present aggressive stance. It’s important to keep in mind that most of the data upon which the Fed is determined to rely upon are lagging indicators. As such, the data will not be evident until after the economy has slowed and inflation is under control. There’s a growing belief that the Fed erred in its interest rate policy by remaining in “stimulative” mode while insisting that rising inflation was “transitory”. Only time will tell if the Fed must backtrack.

With 2023 upon us, the Palos team is ploughing ahead with our dedication to actively managing your wealth interests. This includes continually doing our own research as we persistently look for new investment opportunities. Experience has taught us time and again that bear markets usually turn to bull markets without warning and that missing out on the “first leg” of a new bull market can be costly to long-term objectives. Remaining invested has proven to be the most profitable long-term strategy.

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Save for your future by contributing to a Registered Retirement Savings Plan (RRSP)

RRSP Benefits:

- RRSP contributions are a good way to reduce your taxable income
- Your investments grow tax deferred while held in your RRSP
- When you retire you can use your RRSP to receive regular income
- A spousal RRSP can reduce your combined tax burden
- You can borrow from your RRSP to buy your first home or pay for your education

RRSP Contribution Details:

- The **deadline** for making your 2022 RRSP contribution is March 1, 2023.
- Your **2022 RRSP contribution limit** is calculated as 18% of your 2022 earned income up to a maximum of \$29,210. The maximum will increase to \$30,780 in 2023.
- If you've already made your 2022 RRSP contribution, consider making your 2023 contribution in January 2023 to benefit from the power of tax-deferred growth.
- Unused contributions can be carried forward from a previous year. You can find your RRSP contribution information on your most recent CRA **Notice of Assessment**, or by calling the **CRA Tax Information Phone Service (TIPS)** at 1-800-267-6999.

The sooner you start contributing to an RRSP or TFSA, the more time you'll have to grow your money until it's time to retire. There's nothing like the power of tax-free compounding returns.

If you would like to open an RRSP account, contribute to an existing or Spousal RRSP, or if you have any questions about RRSPs, please contact your Palos Advisor.

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Save for your future by contributing to a Tax Free Savings Account (TFSA)

TFSA Benefits:

- TFSA investments grow tax free (Interest, capital gains and dividends are tax exempt)
- Withdrawals can be made whenever you wish and unlike an RRSP, they are tax-free
- TFSA contribution limits are not reduced following a withdrawal
- Withdrawals can be re-contributed in a subsequent calendar year(s)

TFSA Contribution Details:

- The TFSA contribution limit for 2022 is \$6,000 and will increase to \$6,500 in 2023
- TFSA contribution limits are cumulative since TFSA's were introduced in 2009. If you were born after 1991, your lifetime contribution limit including 2023 is \$88,000
- Canadian residents 19 years of age and who have a Social Insurance Number are eligible to open a TFSA
- To determine your TFSA contribution limits, you can refer to your most recent CRA **Notice of Assessment**, or by calling the **CRA Tax Information Phone Service (TIPS)** at 1-800-267-6999

TFSA's are an excellent way to save for your future

TFSA's can complement your taxable retirement income from a taxable account (RRSP, RRIF, LIRA)

The sooner you start contributing to TFSA, the more time you'll have to grow your money.

If you would like to make a TFSA contribution or open an TFSA account, please contact your Palos Advisor.

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Épargnez pour votre avenir en cotisant à un régime enregistré d'épargne-retraite (RÉER)

Les avantages d'un RÉER:

- Les cotisations à un REER sont un bon moyen de réduire votre revenu imposable.
- Vos placements bénéficient d'un report d'impôt lorsqu'ils sont détenus dans votre RÉER.
- Lorsque vous prenez votre retraite, vous pouvez utiliser votre RÉER pour recevoir un revenu régulier.
- Un RÉER de conjoint peut réduire votre charge fiscale combinée.
- Vous pouvez emprunter de votre RÉER afin d'acheter votre première résidence ou pour financer des études.

Les choses à savoir :

- **La date limite** de cotisation au RÉER pour 2022 est le 1er mars 2023.
- Votre **plafond de cotisation au RÉER pour 2022** est calculé à partir de 18% de vos revenus gagnés en 2022, jusqu'à un maximum de 29 210 \$. Ce maximum sera augmenté à 30 780 \$ en 2023.
- Si vous avez déjà cotisé à votre RÉER pour 2022, envisagez d'effectuer votre cotisation de 2023 en janvier 2023 afin de bénéficier dès maintenant de l'effet différé des impôts.
- Les cotisations non-utilisées peuvent être reportées d'une année précédente. Vous pouvez vous renseigner sur vos cotisations à un RÉER en consultant votre **avis de cotisation le plus récent de l'ARC** ou en appelant **le Système électronique de renseignements par téléphone (SERT)** au 1-800-267-6999.

Le plus tôt vous commencerez à cotiser à un RÉER ou à un CELI, le plus longtemps vous disposerez pour faire fructifier votre argent jusqu'au moment de la retraite. Rien ne vaut la puissance des rendements composés non imposables.

Si vous souhaitez ouvrir un compte RÉER, contribuer à un RÉER existant ou à un RÉER de conjoint, ou si vous avez des questions sur les RÉER, veuillez communiquer avec votre conseiller Palos.

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Épargnez pour votre avenir en cotisant à un compte d'épargne libre d'impôt (CELI)

Les avantages du CELI:

- Faire fructifier votre épargne à l'abri de l'impôt (les intérêts, les gains en capital et les dividendes seront non taxables)
- Vous pouvez effectuer des retraits quand vous le désirez et contrairement à un REER, ils ne seront pas taxables.
- Vos limites de contribution à un CELI ne seront pas réduites à la suite d'un retrait de celui-ci.
- Vos retraits peuvent être de nouveau cotiser dans les années subséquentes.

Les choses à savoir :

- Le montant limite de cotisation à un CELI pour 2023 est de \$6,500
- Depuis leur introduction en 2009, les limites de contributions à un CELI sont cumulatives. Si vous êtes nés après 1991, votre limite de contribution à vie est de \$88,000 (2023 compris) .
- Si vous êtes un résident canadien de plus de 19 ans et que vous détenez un N.A.S. Vous êtes alors éligible à un CELI.
- Si vous voulez connaître vos limites de contribution, vous trouverez toutes les informations pertinentes sur votre plus récent **avis de l'ARC**. Vous pouvez obtenir également ces renseignements par l'entremise du **Système électronique de renseignements par téléphone (SERT)** en composant le 1-800-267-6999.

Le CELI est un excellent moyen d'épargner pour votre avenir

LE CELI est un appoint de revenu qui vient compenser les montants qui sortiront des régimes enregistrés et qui eux sont imposables (REER, FERR & CRI)

Le plus tôt vous commencerez à faire des contributions à votre CELI, plus vous aurez du temps devant vous pour faire fructifier votre épargne.

Si vous souhaitez ouvrir un compte CELI ou faire une cotisation à votre CELI, veuillez contacter votre conseiller à Palos.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.25	-7.95%
Palos Equity Income Fund - RRSP	PAL101	\$6.51	-8.75%
Palos WP Growth Fund - RRSP	PAL213	\$12.28	-33.62%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.61	-20.85%
S&P TSX Composite (Total Return with dividends reinvested)			-6.04%
S&P 500 (Total Return with dividends reinvested)			-18.34%
S&P TSX Venture (Total Return with dividends reinvested)			-38.86%
Chart 2: Market Data ¹			Value
US Government 10-Year			3.87%
Canadian Government 10-Year			3.30%
Crude Oil Spot			US \$80.26
Gold Spot			US \$1,826.20
US Gov't 10-Year/Moody BAA Corp. Spread			205 bps
USD/CAD Exchange Rate Spot			US \$0.7378

¹ Period ending December 30th, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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