

# PALOS

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## Weekly Commentary

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By *Charles Marleau CIM<sup>®</sup>* and *William Mitchell CIM<sup>®</sup>*

## Q4 Earnings Season Kicks Off

The period when the bulk of companies release their quarterly or yearly results is commonly referred to as “earnings season”. Market participants view earnings performance as the primary measuring stick on how a company has performed relative to analysts’ estimates (i.e., the past). The second element that is closely followed is the forward-looking guidance and commentary that’s normally provided by management on an “earnings call” that follows the numbers. The latter allows analysts to submit questions to management which in turn sets analyst expectations for subsequent quarters (i.e., the future).

The week of January 23 to 27 “kicked off” earnings season and we saw several bellwether companies report. The “bellwether” group includes widely held and widely followed companies that carry an outsized weight when analysing earnings seasons’ influence on overall markets. On the calendar last week were electric vehicle manufacturer **Tesla (TSLA:NASDAQ)**, software mega-cap **Microsoft (MSFT:NASDAQ)**, copper producer **Freeport-McMoRan (FCX:NYSE)**. Earnings and guidance from each of these companies are widely followed by analysts, economists and investors due to their tendency to act as reliable indicators on the state of the global economy.

On Tuesday, Microsoft announced earnings of \$2.32 per share versus \$2.29 expected and revenue of \$52.75 billion versus \$52.94 billion expected. The company took a \$1.2 billion charge related to the recent elimination of 10,000 jobs and disclosed expectations for \$50.5 to \$51.5 billion in revenues for the upcoming quarter which is slightly below prior expectations. Revenue derived from the Cloud segment grew by 31%, slightly beating estimates, although the pace is expected to slow going forward. The Personal Computing business (i.e., Windows, Xbox and tablets) saw a revenue decline of 19% while the Productivity and Business segment (i.e., Microsoft 365 and LinkedIn) saw a revenue decline of 19% as growth slowed.

On the earnings call, CEO Satya Nadella said business saw a “drop-off towards the end of 2022”. Following disappointing forward-looking statements, MSFT shares fell in the afterhours session. The decline continued following Wednesday’s opening bell, however by the end of the week MSFT rallied and by Friday shares were higher by 2.5%. In fact, since making a multi-year low on November 3, 2022, MSFT shares are higher by 15.8% despite the obvious headwinds facing “big tech”.

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On Wednesday, U.S. based copper producer **Freeport-McMoRan (FCX:NYSE)** reported before the open while electric vehicle maker **Tesla (TSLA:NASDAQ)** reported after the close. Copper is often referred to as “Dr. Copper” given its historic ability to act as a predictive indicator on the trajectory of global economic activity. Copper is required for electrical applications (e.g., home construction and appliances), electric vehicles (high copper content in battery packs), industry (consumer products and machinery) and renewable energy (wind turbines). Hence, demand for copper and the performance of copper producing companies, while not infallible, is viewed as a reliable indicator of future economic activity.

FCX reported Q4 adjusted earnings of \$0.52 per share, down from \$0.96 one year earlier. Revenue for the quarter was \$5.76 billion versus \$6.16 billion compared to last year. The results were in line with analyst expectations and shares were virtually unchanged by the week’s end however it’s notable that since the July 2022 low, FCX shares are higher 78.6% as of Friday: by definition a bull market. A sustainable tailwind follows decarbonization efforts which will require massive amounts of copper. This, in combination with a multitude of challenges related to geopolitics, waning supply, increasing scarcity and the growing costs of mining, imply that growing demand and rising prices will be a substantial benefit to established miners like Freeport.

Tesla reported after the close, with the company beating estimates on both earnings (\$1.19 per share vs. \$1.13 expected) and revenue (\$24.3 billion vs. 24.2 billion expected). Revenue from auto sales, which represents the vast majority of revenues, grew by 33% year-over-year despite gross margins falling to 25.9% - the lowest in five quarters. Recent price cuts appear to have stimulated demand. On the earnings call, CEO Elon Musk commented that January has seen “the strongest orders year-to-date in our history” and that Tesla has the capacity to ramp production to two million vehicles in 2023. The stock reacted positively in the after-hours session and by the end of the week TSLA shares were up by 23.2 % from Wednesday’s close and by an impressive 64.6% since the January 3 low.

While we’ve limited our comments to three influential companies, there were many others who also reported last week. In our view, stocks have shown remarkable resiliency despite some earnings being less than stellar. This gives us a shot of confidence. In our assessment, recent price action is showing an upward bias despite plenty of bad news, and this tells us that market sentiment is improving and that the worst may be behind. Only time will tell if this is the case. On the calendar this week are “heavy weights” **META Platforms** (formerly Facebook), **Apple** and **Google** as well as the Fed’s much anticipated February decision on interest rates and commentary on inflation, and finally the non-farm employment report on Friday. A busy week indeed and we will circle back next week with the market’s reaction and our observations.

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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.**

By Charles Marleau CIM<sup>®</sup> and William Mitchell CIM<sup>®</sup>

## 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.**

By Charles Marleau CIM<sup>®</sup> and William Mitchell CIM<sup>®</sup>

## 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 *Systeme 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) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.82	6.99%
Palos Equity Income Fund - RRSP	PAL101	\$6.91	6.18%
Palos WP Growth Fund - RRSP	PAL213	\$13.44	7.68%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$8.74	9.65%
S&P TSX Composite (Total Return with dividends reinvested)			7.12%
S&P 500 (Total Return with dividends reinvested)			6.11%
S&P TSX Venture (Total Return with dividends reinvested)			9.08%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			3.50%
Canadian Government 10-Year			2.89%
Crude Oil Spot			US \$79.68
Gold Spot			US \$1,929.40
US Gov't10-Year/Moody BAA Corp. Spread			191 bps
USD/CAD Exchange Rate Spot			US \$0.7513

<sup>1</sup> Period ending January 27th, 2023. Data extracted from Bloomberg

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

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

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