

# PALOS

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## Weekly Commentary

Issue No. 6 | FEBRUARY 6, 2023

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

## Q4 Earnings Season – The Peak Week as the Big Names Report

**Caterpillar (CAT:NYSE)** and **UPS (UPS:NYSE)** reported before the bell on Tuesday. CAT designs, manufactures, markets, and finances heavy equipment for the construction, mining and forestry industries. The industrial behemoth's results are obviously aligned with macroeconomic conditions and capital expenditures related to construction and mining. While Q4 sales beat estimates, EPS (earnings per share) was hurt by foreign exchange headwinds on non-U.S. operations. CAT shares were lower by 5.3% as of Friday's close however, we are inclined to view this minor sell-off as short-term profit taking. CAT shares recently hit a new all-time high (January 27, 2023) and the share price has increased by 52.5% since its recent low last September.

UPS reported a 3% revenue decline in Q4, but despite this, shares reacted positively with an 8.3% gain by the end of the week. UPS disclosed that although shipping volumes declined, sales showed a slight increase and the outlook for 2023 is upbeat. UPS shares are up 20.4% from their October low. A new bull market, by definition, begins when price increases by 20% off a recent low. If we accept this, then we must also accept that both CAT and UPS are currently in a bull market. This is promising news for the bulls given the overwhelming number of pundits and prognosticators who remain steadfastly in the bear camp, or at a minimum, are cautious on the prospects for stocks.

Meta Platforms (META:NASDAQ) reported after the close on Wednesday. The company's family of apps (FoA), which include social media platforms Facebook, Instagram, Messenger and WhatsApp, account for roughly 98% of company revenues. The Reality Labs (RL) division (i.e., Metaverse) is focused on the development of virtual reality software and hardware products. CEO Mark Zuckerberg has recently faced much criticism for his massive gamble on Metaverse. So far, the project has required significant investment and has yielded substantial losses. Of note, META was among the worst performing high profile stocks having tumbled a remarkable 76.7% between its September 2021 high and its November 2022 low. However, an announced revenue beat, accompanied by plans to trim spending, saw several analysts issue upgrades and this led shares higher by 23.8%. META shares are up 109.8% since its November 3 low thus confirming another stock in bull market mode.

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After the close on Thursday we saw the “Three A’s” report. For Q4, **Alphabet (GOOG/GOOGL:NASDAQ)** missed on both revenues and EPS with revenue growth at its lowest since the start of the pandemic. Lower advertising revenues, competition from TikTok and higher costs impacted results. Further, management announced a \$1.9 to \$2.3 billion charge related to layoffs of approximately 12,000 employees. Shares in GOOG initially rose, then subsequently fell over 6% in after-hours trading. However, the stock rebounded sharply during Thursday’s regular session finished the day up 7.3% and up 8.0% for the week. GOOG shares are up 26.0% since its November 3 low confirming yet another bull!

Next up was **Amazon (AMZN:NASDAQ)**, and although Q4 sales beat expectations, Amazon Web Services (AWS) saw sales growth come in under analyst estimates, and forward-looking guidance from management was weak. Shares tumbled 8.4% on Friday although we should note that AMZN was up 7.4% on Thursday. AMZN shares remain well below their all-time high set in November 2021 (-43.8%) although the stock is up by 26.3% since the December 28 low. You guessed it, another bull confirmed.

The last of the “big three” to report was **Apple (AAPL:NASDAQ)**. Sales for the October-December quarter, commonly referred to as the “holiday shopping quarter”, came in lower by 5% compared to the same time last year. This marked the first sales decline for AAPL since 2019. CEO Tim Cook attributed the weakness to foreign exchange headwinds caused U.S. dollar strength, production challenges related to China’s zero-covid policy (particularly for iPhone 14), and a weak macroeconomic environment impacting consumer spending. Shares swiftly tumbled over 6% in extended trading. Once new information from the earnings call was absorbed, a more upbeat tone spurred a rally and shares closed the session marginally lower. Although no forward guidance was offered, analysts seemingly concluded that a weakening U.S. dollar and a reopening of the Chinese economy should push sales momentum in the next quarter. This is a reasonable assumption in our view. When regular trading resumed on Friday morning, shares marched higher to close up by 2.4% for the day and 5.9% for the week. AAPL has rallied by 23.5% since making an 18-month low on the first trading day of 2023.

If the last week of January marked the kickoff to earnings season, the first week of February was the Super Bowl with about one-third of all companies reporting. Mega-cap companies Amazon, Alphabet and Apple are important to follow for the simple reason they are dominant businesses whose shares are amongst the most widely held and sit atop the list of the largest companies by market cap. Industrial bellwethers Caterpillar and United Parcel Service are key businesses to follow due to their respective sensitivity to industrial activity and trends in consumer spending (e-commerce deliveries). Monitoring the market’s reaction to earnings results gives us an objective “feel” regarding investor appetite for risk assets as well as market direction.

What impressed us most was the way the markets processed the “bad” news. When markets are weak, bad news usually instigates a strong downward move in prices. When markets show resiliency in the face of “bad” news (i.e., prices don’t fall and, in some cases, move higher), we interpret this as a positive signal that sentiment is strengthening (i.e., investors are growing increasingly bullish). To confirm a change in trend, we will turn our attention to technical analysis (“the charts”) which is a proven and unbiased tool used for identifying and confirming changes in trend. Our current determination is that the “technical” are suggesting

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the bottom may already be in place. This comes as no surprise to us as we are fully aware that markets always turn well before the headlines.

*NOTE: For informational purposes, the “extended session” is a period between 4:00 pm to 8:00pm when individual stocks may continue to trade on electronic communications networks (ECN’s). A “premarket session” opens at 4:00am. These trades do not take place on a traditional exchange like the New York Stock Exchange (NYSE). After-hours or pre-market trading often occurs on days when material news is released before the open or after the regular exchanges close for the day. As a cautionary note, trading on ECNs carries elevated risk due to lower liquidity, limited transparency, and little participation by liquidity providers. For these reasons, Palos refrains from trading in afterhours markets.*

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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) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.92	8.14%
Palos Equity Income Fund - RRSP	PAL101	\$6.96	6.93%
Palos WP Growth Fund - RRSP	PAL213	\$13.93	11.529%
Palos-Mitchell Alpha Fund <sup>3</sup>	PAL300	\$8.94	12.20%
S&P TSX Composite (Total Return with dividends reinvested)			7.37%
S&P 500 (Total Return with dividends reinvested)			7.86%
S&P TSX Venture (Total Return with dividends reinvested)			8.74%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			3.52%
Canadian Government 10-Year			2.93%
Crude Oil Spot			US \$73.39
Gold Spot			US \$1,862.90
US Gov't 10-Year/Moody BAA Corp. Spread			189 bps
USD/CAD Exchange Rate Spot			US \$0.7465

<sup>1</sup> Period ending February 3rd, 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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