



Palos Weekly Commentary

Investment Themes



U.S. Equities

U.S. equities closed higher for the week as stronger-than-expected earnings from the technology sector and a strengthening U.S. dollar steered money flows away from commodities to equities. The Fed sent a clear signal that further rate cuts are unlikely because confidence is mounting that the credit crisis is about to end.



Crude Oil

Crude oil prices closed lower for the week as the strengthening U.S. dollar reduced demand by speculators for commodities as a hedge against inflation. Inflationary expectations eased because the FRB is likely to pause and let the free market determine the faith of money rates. Larger than expected energy stockpiles of crude oil and distillates is starting to have its toll on the market adding to the sell-off.



Corporate Spreads

Corporate spreads narrowed during the week as some renewed optimism over the prospects of the American economy appeared more encouraging than previously. Accordingly, tolerance for risk appetite increased.



U.S. Treasuries

U.S. Treasuries prices closed lower for the week as weaker-than-expected unemployment number led investors to speculate that the Fed will cease cutting interest rate, sending yields upwards. Furthermore, renewed optimism on the U.S. economy reduced demand for the safety of Treasuries as investors' appetite for risk resumes. Two year short yields rose more than 10-Year long yields, effectively steepening yield curve term.



Canadian Dollar

The Canadian dollar closed lower for the week as investors speculate that the Fed will stop cutting the target federal fund rate while the Bank of Canada may continue to decrease the bank rate. Thus, the Loonie weakened relative to the U.S. dollar over prospects that future interest rate differentials could negatively narrow. Furthermore, declining commodity prices added further downward pressure on the exchange rate.



Commodities

The price of commodities generally fell as a rally in the dollar eroded demand for energy, metals, crops and livestock. Among the biggest movers were rough rice futures, the price of which dropped almost 20% from their April 24th all time high. In contrast, the price of corn futures in Chicago climbed to a record high on supply concerns. A government report showed that farmers in the U.S., the world's biggest corn producer, planted only half as much as a year ago because of cold and wet weather.



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Comment Corner

When bad news is good news...perhaps you have been following the headlines regarding the Canadian ABCP market, the US Subprime mortgage meltdown, or even Berkshire Hathaway's earnings getting cut by more than half in the first quarter of 2008 due to declines in derivative positions. Clearly Central Bankers' phones are ringing off the hook these days, and their golf games are getting postponed. Palos alternatively has been having some of its best trading of the year (and we will be appearing in an exclusive Globe and Mail review this week, we are told). As we navigate clear of the financial storms, we are about to benefit from the enormous Central Bank liquidity pumping machines and the fiscal stimulus of the US government. Our proprietary indicators suggest that the worst of the credit fears are behind us 'economically-speaking'; Canada is weathering the storms far better than the US, and there will be an improvement in both economies in the later half of the year. We have suggested in the past that while it is always a good time to invest in tax efficient dividend or distribution paying equity income securities, now may even be a more appropriate time to invest as financial conditions should respond favorably to the aggregate stimuli of the Canadian, British, Swiss, and US Central Banks.

--- Robert Sands, VP & Chief Compliance Officer

Figure 1: Performance

Funds	Value	Weekly Returns	Year-To-Date Returns
Palos Income Trust Fund, L.P.	CAD\$ 11.62	1.18%	2.84%
Palos Equity Income Fund - RRSP	CAD\$ 10.45	0.95%	6.60%
Palos International Equity Income Fund PLC - CAD	CAD\$ 8.72	-1.02%	2.26%
Palos International Equity Income Fund PLC - EUR	EUR€ 7.90	0.77%	-6.80%
Palos International Equity Income Fund PLC - USD	USD\$ 10.00	-1.48%	-0.45%
CTI Palos Equity Fund, L.P.	CAD\$ 12.53	0.16%	3.84%
CTI Palos Equity Fund - RRSP	CAD\$ 10.65	0.22%	6.47%
CTI Palos Bond Fund - RRSP	CAD\$ 9.90	0.09%	-1.03%
Gauthier Palos Goba Macro Fund, L.P.	CAD\$ 8.94	1.70%	-2.08%
MVest Opportunity Fund, LLC	N.A.	N.A.	N.A.
Palos Capital Pool, L.P. (March 31, 2008 ex-dividend)	CAD\$ 12.08	N.A.	2.48%
Palos Majestic Commodity Fund L.P.	CAD\$ 10.00	N.A.	N.A.

Figure 2: Benchmarks, Interest Rates & Commodities

Benchmarks, Interest Rates & Commodities	Value	Weekly Change	Year-To-Date Change
S&P 500 Total Return Index	1,413.90	1.18%	-3.08%
S&P TSX Composite Total Return Index	14,280.28	1.33%	4.12%
S&P TSX Capped Income Trust Total Return Index	157.15	0.49%	12.35%
MSCI All Countries World Total Return Index - CAD	615.12	0.57%	-5.48%
DEX Universe Bond Total Return Index	N.A.	N.A.	N.A.
US Government 10-Year Yield	3.86%	-0.01%	-0.21%
Canadian Government 10-Year Yield	3.61%	-0.15%	-0.41%
Crude Oil Spot	USD\$ 116.41	-USD\$ 2.11	USD\$ 20.41
Gold Spot	USD\$ 858.00	-USD\$ 29.20	USD\$ 15.30
US Government 10-Year/Moody's BAA Corporate Yield Spread	312 bps	1 bps	48 bps
USD/CAD Exchange Rate Spot	0.9810USD/1.00CAD	-0.0051USD/1.00CAD	-0.0378USD/1.00CAD



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