



Palos Weekly Commentary

Investment Themes



U.S. Equities Close Higher Despite Weaker Consumer Confidence and Slower Manufacturing

U.S. stocks closed higher for the week despite declining towards the end, on falling consumer confidence levels and a slower manufacturing sector. Retailers, Industrials and Energy stocks led the decline as economic indicators signaled slowing consumer demand and a cooling labor market in the U.S.



Consensus Shows that Oil May Fall as U.S. Stockpiles Increase

Crude oil prices may decline as U.S. inventories rise, demand for fuel declines and consumer confidence slides. Street consensus indicates that prices may decline as U.S. crude-oil inventories rose 18 million barrels. Implied fuel demand declined to 20 million barrels a day. The crude-oil market has shown resiliency. However, inventory data is sending bearish signals due to higher inventory levels and lower demand. Although price levels are higher than the previous weekly levels, slowing consumer confidence added downside

pressure on prices.



U.S. Treasuries Advance on Slowdown Concern and Climbing Default Risk

U.S. 10-year Treasury bond prices rose, as yields declined, with reports indicating a contraction in manufacturing and U.S. consumer confidence eroding. U.S. Two-year Treasury notes rose also as traders grow increasingly convinced that the Federal Reserve will slash its target lending rate by 75 basis points next month to further alleviate tight credit markets and to help turn around the U.S. economy.



Corporate Spreads Widen as Default Risk Rises

Credit spreads widened during the week as investors speculated on growing defaults. Despite the 1.25 percent cut in benchmark rates, borrowing costs remain high for corporations.



Canadian Dollar Declines on Trade Surplus Results

Canada's thinning trade surplus sent the Canadian dollar lower this week

Investment Themes:

- **Market: U.S.**
Equities Close Higher Despite Weaker Consumer Confidence and Slower Manufacturing
- **Energy:** Consensus Shows that Oil May Fall as U.S. Stockpiles Increase
- **US Treasury:** U.S. Treasuries Advance on Slowdown Concern and Climbing Default Risk
- **Credit Spreads:** Corporate Spreads Widen as Default Risk Rise
- **Canadian Dollar:** Canadian Dollar Declines on Trade Surplus Results

Inside this issue:

Investment Themes	1
Performance	2
Benchmarks, Rates & Commodities	2

versus the U.S. dollar; however, the currencies remained locked in a tight range. The decline was attributed to Canada's December trade surplus results, which fell to a nine-year low. Despite this decline, both currencies remain in a range. Overall, the Loonie declined slightly as investors were more focused on negative Canadian economic data as opposed to widening Performance

Canada-U.S. interest rate differentials. Furthermore, conflicting economic signals such as resilient Canadian employment numbers should provide support for the Canadian dollar going forward.

With the RRSP Contribution Deadline looming, Palos would like to kindly remind our investors of the many benefits of investing in an RRSP Account. Our investment professionals are always at your disposal to address any question or concern. Palos RRSP Eligible Funds - Enjoy performance you have come to expect with the added benefit of a tax-deferred RRSP Account.



Funds	Value	Weekly Returns	Year-To-Date Returns
Palos Income Trust Fund LP	\$11.19	2.46%	-2.77%
Palos Equity Income Fund - RRSP	\$10.11	2.20%	1.08%
Palos International Equity Income Fund PLC - CAD	\$8.46	1.44%	-3.09%
Palos International Equity Income Fund PLC - EUR	€8.29	2.85%	-4.10%
Palos International Equity Income Fund PLC - USD	\$9.83	2.40%	-3.78%
CTI Palos Equity Fund LP	\$11.88	1.39%	-1.51%
CTI Palos Equity Fund - RRSP	\$9.99	-0.00%	-0.00%
CTI Palos Bond Fund LP	\$10.32	-0.04%	0.68%
CTI Palos Bond Fund - RRSP	\$9.99	-0.00%	-0.00%
Gauthier Palos Global Macro Fund LP	\$9.02	1.75%	-1.24%
MVest Opportunity Fund LLC	N.A.	N.A.	N.A.
Palos Capital Pool LP	N.A.	N.A.	N.A.

Benchmarks, Interest Rates & Commodities

Benchmarks, Interest Rates & Commodities	Value	Weekly	Year-To-Date
S&P 500 Total Return Index	1,349.99	1.46%	-7.82%
S&P TSX Composite Total Return Index	13,226.76	1.84%	-4.15%
S&P TSX Capped Income Trust Total Return Index	143.65	2.90%	0.71%
MSCI All Countries World Total Return Index - CAD	591.38	2.09%	-9.13%
DEX Universe Bond Total Return Index	N.A.	N.A.	N.A.
US Government 10-Year Yield	3.77%	0.13%	-0.30%
Canadian Government 10-Year Yield	3.81%	-0.01%	-0.26%
Crude Oil Spot	\$95.64	4.22%	-0.35%
Gold Spot	\$902.80	-1.70%	7.73%
US Government 10-Year/Moody's BAA Corporate Yield Spread	318.14 bps	9.42 bps	64.46 bps
USD/CAD Exchange Rate Spot	0.9931	-0.0075	-0.0084

Sincerely,

Charles Marleau

Tommy Nguyen

Minh Nguyen

