



Palos Weekly Commentary

Investment Themes



U.S. Equities Closed Lower on Slowing Manufacturing

U.S. stocks closed lower for the week due to the slowing manufacturing sector. Investor concerns were focused on weaker-than-expected regional manufacturing results, computed by the Philly Fed, as well as additional declines in the Conference Board's monthly index of leading economic indicators.



Crude Oil Prices Rise on Geopolitical Concerns despite Stockpile Increase.

Crude oil prices closed higher for the week, as Turkish forces crossed into northern Iraq, despite rising stockpiles indicating that the pace of the U.S. economy is slowing. The incursion is the first in 11 years by Turkey, effectively increasing assaults against Kurdish militants following two months of air strikes in Iraq, home to the world's third-largest oil reserves. Rising geopolitical tensions were enough to offset rising inventory statistics announced earlier during the week.



Corporate Spreads Narrow as Default Risk Recedes

Credit spreads narrowed during the week as investors speculated on

potential bailouts of mono-line insurers. Furthermore, the funding of SIV's and ABCP's is improving in terms of cost and size.



Yield Curve Flattened as Inflation Expectation Increased with the Market Speculating no Fed Action

U.S. 10-Year Treasury notes closed lower by the end of the week as inflation expectations increase. Additionally, traders called off bets that the Fed will cut its target lending rate by 0.75 percent in March. Consequently, the term structure flattened this week as the difference between the 10-year rate and the 2-Year yield narrowed.



Canadian Dollar Declines on Lower-Than-Forecast Retail Sales

The Canadian dollar fell vis-à-vis the U.S. dollar as December retail sales in Canada were weaker than prevailing forecasts, pressuring the Bank of Canada to further cut interest rates. Narrowing interest rate differentials and a slowing US economy are adding downward pressure on the Loonie's value. Traders are speculating that the Bank of Canada will lower its benchmark interest rate to 3.75 percent in March.

Investment Themes:

- **Equity Markets:**
U.S. Equities Close Lower on Slowing Manufacturing
- **Energy Markets:**
Crude Oil Prices Rise on Geopolitical Concerns despite Stockpile Increase
- **Credit Spreads:**
Corporate Spreads Narrow as Default Risk Recedes
- **US Treasury :** Yield Curve Flattened as Inflation Expectation Increased with the Market Speculating no Fed Action
- **Canadian Dollar:** Canadian Dollar Declines on Lower-Than-Forecast Retail Sales

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.



Performance

Funds	Value	Weekly Returns	Year-To-Date Returns
Palos Income Trust Fund LP	CAD\$11.39	1.79%	-1.03%
Palos Equity Income Fund - RRSP	CAD\$10.29	1.78%	2.88%
Palos International Equity Income Fund PLC - CAD	CAD\$8.63	2.01%	-1.15%
Palos International Equity Income Fund PLC - EUR	EUR€8.24	-0.01%	-4.36%
Palos International Equity Income Fund PLC - USD	USD\$9.88	0.01%	-3.61%
CTI Palos Equity Fund LP	CAD\$12.21	2.81%	1.25%
CTI Palos Equity Fund - RRSP	CAD\$10.18	1.93%	1.80%
CTI Palos Bond Fund LP	CAD\$10.30	-0.17%	0.51%
CTI Palos Bond Fund - RRSP	CAD\$9.99	-0.00%	-0.00%
Gauthier Palos Global Macro Fund LP	CAD\$8.96	-0.61%	-1.84%
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	1,353.11	0.29%	-7.55%
S&P TSX Composite Total Return Index	13,585.93	2.73%	-1.54%
S&P TSX Capped Income Trust Total Return Index	146.70	2.20%	2.92%
MSCI All Countries World Total Return Index - CAD	591.98	0.60%	-9.04%
DEX Universe Bond Total Return Index	N.A.	N.A.	N.A.
US Government 10-Year Yield	3.80%	0.03%	-0.27%
Canadian Government 10-Year Yield	3.88%	0.06%	-0.19%
Crude Oil Spot	\$99.05	3.72%	3.20%
Gold Spot	\$944.70	4.64%	12.73%
US Government 10-Year/Moody's BAA Corporate Yield Spread	307 bps	-11 bps	42 bps
USD/CAD Exchange Rate Spot (USD per CAD)	0.9875	-0.0056	-0.0313

Sincerely,

Charles Marleau

Tommy Nguyen

Minh Nguyen

Robert Sands Jr.

