



Palos Weekly Commentary

Investment Themes



Canadian equities closed higher for the week, led by a financial sector rally

Canadian equities closed higher for the week, led by a rallying financial sector. Canadian banks moved higher along side their U.S. counterparts as more large American banks were able to raise large amounts of capital. Accordingly, fears of credit losses in the financial sector abated despite negative pressure from the commodity sector which was negatively affected by renewed strength in the US dollar. The Telecom sector regained its strength as the highly anticipated air wave auction signaled that there will be no new entrants in the industry that could potentially disrupt the incumbent large players.



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Crude oil closed slightly higher for the week as gasoline stockpiles continue to fall. Refinery statistics from this week closely resemble last week's figures as utilization rates remained low. Furthermore, this week's ISM results, indicating a lower than expected manufacturing slowdown, helped in offsetting early-week's weakness in crude oil prices due to speculation that stockpiles were effectively increasing.



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Corporate spreads closed slightly lower for the week as investor risk appetite slowly resumed. Credit risk declined with the successful capital raising by U.S. banks. Falling Treasury yields helped to compress risk premiums as the market showed favor for higher risk levels.



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U.S. Treasuries closed lower for the week as investors redirected funds towards equities. Successful capital raising by large banks renewed appetite for risk. Treasury yields increased as investors became increasingly re-assured of the fate of the financial sector. Short-term 2-year rates rose more than long-term 10-year yields, further flattening the yield curve.



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The Canadian Dollar closed higher for the week as price for commodities increased. Investors renewed their appetite for risk after large U.S. banks successfully raised capital. Furthermore, the Fed indicated that there is currently no other financial institutions that require any rescuing. Renewed economic optimism reinvigorated, in the latter part of the week, demand for commodities. Because Canada exports commodities in large quantities demand for the Loonie soared.



Investment Themes

- Equity Markets:**
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- Energy Markets:**
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- Credit Spreads:**
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- US Treasury:**
 U.S. Treasuries closed lower for the week as investors redirected funds towards equities
- Canadian Dollar:**
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Comment Corner

The world is at a point of inflection: either deflation or inflation. On the one hand, credit conditions are impaired to the point that a major process of de-leveraging may be underway making lending and borrowing difficult as illustrated by the recent surge in cash balances and debacle in the turnover of money. The occurrence is suggesting that deflationary pressures are setting in. In this regard, investors should consider moving funds to Canada. Canada stands out among all developed countries with an enviable record of fiscal responsibility, financial discipline, price stability and open market flexibility. Canada enjoys the six highest standard of living in the world and has the broadest social safety net in the OECD. Yet, Canada has the lowest debt to GDP ratio, the largest trade surplus, the least amount of residential inflation and the highest budget surplus than any of the G-7 or N-11. It is remarkable that Canada has repeatedly shown the best job creation record while maintaining a very strong financial footing. On the other hand, the amount of cheap liquidity that is pouring into the financial system as bank capital replenishes could revive inflationary expectations at such an alarming rate that the combination of robust demand from invulnerable emerging markets with large foreign exchange reserves may hold up the commodity boom for a long period of time. In this regard, Canada is massively endowed with essential, accessible and inexpensive resources like water, metal, forest, agriculture and energy products. It holds 10% of the world's fresh water supply and as almost as much oil reserves as Saudi Arabia. Palos knows of no other country that can offer near equal protection and opportunity from either the potential deflationary or inflationary threats that the current economic circumstances pose. With the Canadian dollar trading near par with the US dollar, Canada should be considered as attractive and opportunistic alternative for it is abound with investments that offer upfront dividend payments.

Figure 1: Performance

Funds	Value	Weekly Returns	Year-To-Date Returns
Palos Income Trust Fund LP	CAD\$ 11.34	1.99%	0.34%
Palos Equity Income Fund - RRSP	CAD\$ 10.43	1.85%	4.34%
Palos International Equity Income Fund PLC - CAD	CAD\$ 8.71	3.24%	2.06%
Palos International Equity Income Fund PLC - EUR	EUR€ 7.72	1.93%	-8.31%
Palos International Equity Income Fund PLC - USD	USD\$ 9.79	1.91%	-2.27%
CTI Palos Equity Fund LP	CAD\$ 12.22	2.69%	1.28%
CTI Palos Equity Fund - RRSP	CAD\$ 10.36	3.22%	3.63%
CTI Palos Bond Fund LP	CAD\$ 10.49	-0.80%	2.33%
CTI Palos Bond Fund - RRSP	CAD\$ 9.93	-0.39%	-0.67%
Gauthier Palos Global Macro Fund LP	CAD\$ 8.78	0.36%	-3.78%
MVest Opportunity Fund LLC	N.A.	N.A.	N.A.
Palos Capital Pool LP	N.A.	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	1,370.40	4.22%	-6.16%
S&P TSX Composite Total Return Index	13,668.19	3.32%	-0.49%
S&P TSX Capped Income Trust Total Return Index	151.50	2.38%	7.65%
MSCI All Countries World Total Return Index - CAD	596.38	3.72%	-8.36%
DEX Universe Bond Total Return Index	N.A.	N.A.	N.A.
US Government 10-Year Yield	3.47%	0.03%	-0.61%
Canadian Government 10-Year Yield	3.53%	0.08%	-0.50%
Crude Oil Spot	USD\$ 106.23	USD\$ 0.61	USD\$ 10.23
Gold Spot	USD\$ 909.00	-USD\$ 21.60	USD\$ 66.30
US Government 10-Year/Moody's BAA Corporate Yield Spread	346 bps	-2 bps	82 bps
USD/CAD Exchange Rate Spot	0.9913USD/1.00CAD	0.0132USD/1.00CAD	-0.0275USD/1.00CAD

Sincerely,

Charles Marleau

Tommy Nguyen

Minh Nguyen

Robert Sands Jr.

