



## Palos Weekly Commentary

### Investment Themes



**U.S. Equities closed lower as shipment volumes decline and financing arms take write-downs**

U.S. Equities closed lower for the week as transport-service companies reported declining shipment volumes resulting from weakening economic activity. Furthermore, conglomerates reported disappointing earnings within their finance business units. Large multi-national conglomerates typically have a financing arm that provides financing for buyers of their products and services. These business units usually repackage loans made to customers in diversified tranches, thus reducing the credit risk, and sell them. The on-going credit crisis has forced the financing arms of conglomerates to take write-downs on unsold loans. Large conglomerates typically are bell-weather firms meaning that other firms are likely to report similar results.



**Crude Oil closed higher for the week as investors seek inflation hedge**

Crude oil prices closed higher for the week as speculators and investors continue to seek refuge in commodities as an inflation and dollar hedge. Furthermore, upward price pressure also resulted from the overall strength in energy markets. Indeed, rising prices for Heating Oil and Natural Gas propelled by colder-than-average weather pushed Crude Oil prices higher as OPEC reduced production and refineries intended to normalize price differentials.



**Corporate Spreads closed slightly lower as credit risk stabilizes**

Corporate Spreads closed slightly lower for the week as credit markets saw a marginal revival for risk appetite. The narrowing of credit spreads is associated with the perceived level of credit risk in the market. Credit spreads are beginning to perform independently of equity markets as investors are starting to consider long term growth prospects stabilizing credit risk.



**U.S. Treasuries closed higher for the week as investors seek safety**

U.S. Treasuries closed higher for the week as investors flocked to the safety of Government issued securities after large multi-national conglomerates reported loan write-downs. Two year bond yields declined more than the ten years' as term structure differentials widened due to traders re-pricing a greater-than-50 percent chance of Fed's benchmark lending rate easing further.



**Canadian Dollar closed lower for the week as growth prospects dim**

The Canadian dollar closed lower for the week relative to the U.S. dollar as concerns for the U.S. economy prompted traders to sell currencies tied to commodities. Although the theory of decoupling of North American economies continues to prevail, the Forex market is not entirely convinced just yet. Despite strengthening commodity prices during the week, the Canadian dollar followed the movement in equity markets, indicating that growth prospects are dimming.



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### Investment Themes

- Equity Markets:**  
 U.S. Equities closed lower as shipment volumes decline and financing arms take write-downs
- Energy Markets:**  
 Crude Oil closed higher for the week as investors seek inflation hedge
- Credit Spreads:**  
 Corporate Spreads closed slightly lower as credit risk stabilizes
- US Treasury:**  
 U.S. Treasuries closed higher for the week as investors seek safety
- Canadian Dollar:**  
 Canadian Dollar closed lower for the week as growth prospects dim

## Comment Corner

It may be a bold and chilling observation but from all appearances the Palos Income Fund offers higher yields than bank stocks with less risk and effort. From a comparative return, capital preservation and tax efficiency, the Palos Income Fund can easily be construed as an attractive and superior investment alternative for investors who seek steady income. Firstly, the fund pays a distribution yield of 8.2% compared to 4.2% dividend yield for the Royal Bank of Canada. Secondly, both the Palos Income Fund and The Royal Bank of Canada have a four star ranking by the Globe and Mail. Thirdly, Palos' distributions are more tax efficient because a large part of the distributions are made up of capital gains and return of capital. Fourthly, the Fund is diversified and, in turn, is subjected to less risk and offering better preservation of capital.

Figure 1: Performance

Funds	Value	Weekly Returns	Year-To-Date Returns
Palos Income Trust Fund LP	CAD\$ 11.30	-0.35%	0.02%
Palos Equity Income Fund - RRSP	CAD\$ 10.18	-2.43%	1.81%
Palos International Equity Income Fund PLC - CAD	CAD\$ 8.58	-1.49%	0.61%
Palos International Equity Income Fund PLC - EUR	EUR€ 7.72	0.00%	-8.31%
Palos International Equity Income Fund PLC - USD	USD\$ 9.83	0.41%	-1.83%
CTI Palos Equity Fund LP	CAD\$ 12.26	0.32%	1.60%
CTI Palos Equity Fund - RRSP	CAD\$ 10.41	0.49%	4.14%
CTI Palos Bond Fund LP	CAD\$ 10.45	-0.36%	1.96%
CTI Palos Bond Fund - RRSP	CAD\$ 9.95	0.15%	-0.52%
Gauthier Palos Global Macro Fund LP	CAD\$ 8.62	-1.83%	-5.55%
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	1,332.83	-2.69%	-8.68%
S&P TSX Composite Total Return Index	13,683.03	0.12%	-0.37%
S&P TSX Capped Income Trust Total Return Index	151.96	0.36%	8.03%
MSCI All Countries World Total Return Index - CAD	587.59	-1.67%	-9.71%
DEX Universe Bond Total Return Index	N.A.	N.A.	N.A.
US Government 10-Year Yield	3.47%	0.00%	-0.60%
Canadian Government 10-Year Yield	3.55%	0.03%	-0.47%
Crude Oil Spot	USD\$ 110.14	USD\$ 3.91	USD\$ 14.14
Gold Spot	USD\$ 923.60	USD\$ 14.60	USD\$ 80.90
US Government 10-Year/Moody's BAA Corporate Yield Spread	343 bps	-8 bps	79 bps
USD/CAD Exchange Rate Spot	0.9766USD/1.00CAD	-0.0147USD/1.00CAD	-0.0422USD/1.00CAD

Sincerely,

Charles Marleau

Tommy Nguyen

Minh Nguyen

Robert Sands Jr.

