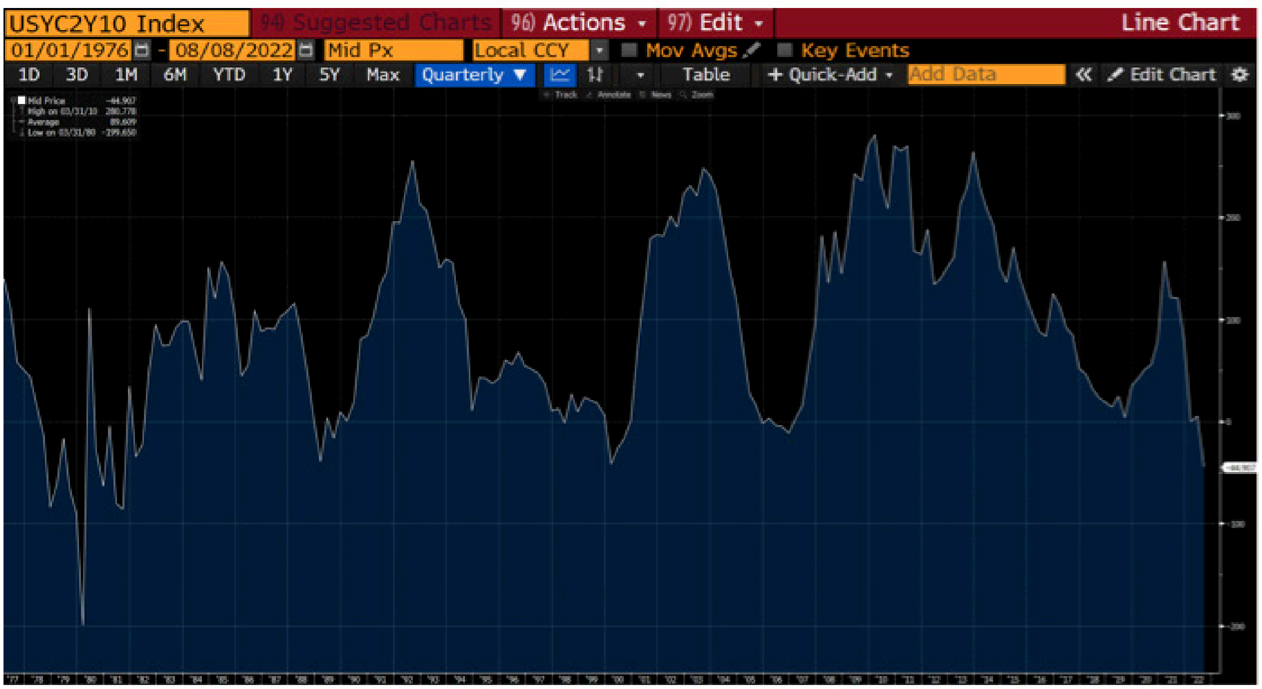
NorthStream Credit Strategies Fund LP
Monthly Commentary: July 2022

Risk Is Too High Without Enough Premium in Credit Spreads - For Now

There has been significant volatility in interest rates in 2022. The US-10 year has widened from 1.51% at the start of the year to a high of 3.47% in June, followed by a rally to 2.57% by the end of July. During this period, we have watched the US 2-year bond yield increase to 3.43% in mid June, resulting in an inverted yield curve. The spread on the US 2-year vs the US 10-year is approximately -45 basis points as shown in the chart below. An inverted yield curve describes the unusual drop of yields on long-term debt below the yields on short term debt. The last time the US yield curve had inversion of -45 basis points was in 2000 and prior to that in 1989. *We believe this is a signal that cannot be ignored.*

US 2-Year vs US 10-Year Spread (1977 - 2022)

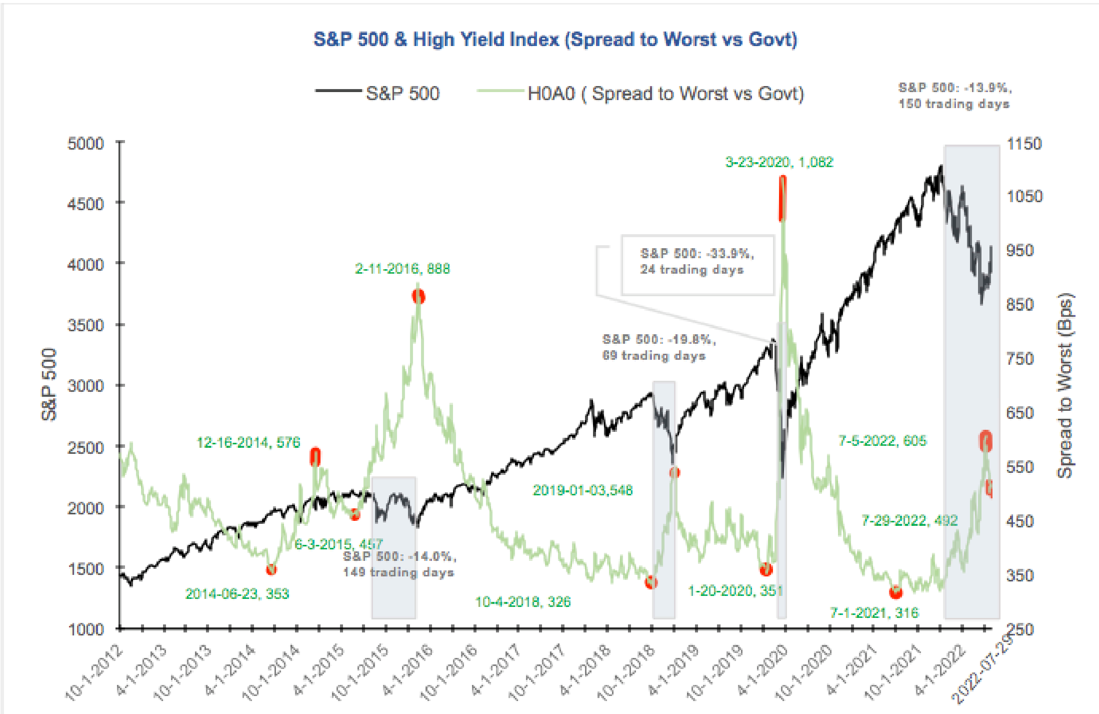


Source: Bloomberg

An inverted curve has proven in the past to be a reliable lead indicator of a recession. Currently the risk premium for high yield bonds measured in credit spreads are at levels not usually associated with recessions. In fact, spreads tightened in the second half of July as investors began to anticipate the Fed easing by mid 2023 and confidence in a soft landing. High yield credit spreads currently stand at 462 basis points which is also the exact 10-year average.

Between December 1996 and December 2021, there were 28 months when the economy was in recession. The median spread on high yield bonds during those months was about 835 basis points based on ICE Bofa indexes. Currently the duration of the high yield index is 4.2 years. If the spread to worst widened to 835 basis points from the current level of 462, it would result in a loss of principal of more than 15 points of par value on the high yield index.

The chart below shows how spreads reacted during market declines in the S&P 500 over the past ten years. We see that spreads widen out coincidentally with a material equity market decline. Of the four periods where the S&P 500 corrected, only one other period (2020) had two consecutive periods of negative GDP.



Source: Bloomberg

The short duration of the correction in 2020 was caused by the accommodative monetary policy and extraordinary fiscal stimulus. We have had two periods of negative quarterly GDP in 2022 with the Fed on track for further rate increases. The equity market correction in 2022 has lasted 150 days similar to 2016 where the spread to worst widened to 888 basis points. At the current spread to worst of 462 basis points and the expectation of further tightening financial conditions, *we believe the risk profile of the credit markets is not favourable*. We expect that the current economic deceleration will end with wider credit spreads before the end of the current recession is visible.

Our game plan for 2022 has worked well, allowing us to preserve capital in an environment where interest rates have risen, and credit spreads have widened. The high yield index started the year with a yield to worst of 4.32% and a spread to worst of 330 basis points, which we believed was fully valued. We began culling our portfolio on the first trading day of 2022 with a reduction of our long duration bonds and BB rated credits that had very tight credit spreads. We started the year with a portfolio duration of 3.24 years which needed to be materially reduced in a rising rate environment. We reduced our portfolio duration by selling many of our long positions, keeping mostly cyclical names which performed well in an inflationary environment. We increased our shorts and market hedges to 25% of the portfolio value in May 2022. In early July we reduced our short exposure to 13% of the portfolio value and have materially increased our cash balances. Our portfolio duration is currently at 1.4 years.

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The NorthStream Credit Strategies Fund returned -0.95% for the month of July with our remaining long positions that are rather short duration appreciating less than the move in our short positions and market hedges.

Our portfolio positioning has been successful by adapting quickly to rapidly changing economic and market conditions. *Presently we are focused on having ample liquidity and being prepared for the period where credit spreads widen rapidly as demonstrated in the chart above in 2016, 2018 and 2020.*

NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2022	1.35%	0.24%	5.67%	3.81%	3.74%	2.09%	-0.95%	-	-	-	-	-	**16.90%**
2021	10.84%	4.70%	4.87%	-0.06%	1.23%	4.20%	-0.20%	-0.55%	3.78%	1.09%	-0.56%	0.08%	**32.94%**
2020	0.32%	-0.43%	-14.44%	0.43%	1.03%	3.67%	1.01%	2.99%	1.88%	2.36%	2.18%	9.47%	**9.09%**
2019	1.08%	1.34%	0.41%	0.79%	-1.41%	1.00%	0.99%	-0.31%	0.86%	-1.99%	0.01%	0.75%	**3.53%**
2018	1.32%	0.01%	0.72%	0.72%	0.52%	-0.17%	0.30%	0.30%	-0.11%	-0.61%	-1.44%	-0.67%	**0.85%**
2017	2.69%	0.66%	-0.89%	0.64%	0.63%	0.02%	0.31%	1.30%	1.03%	1.40%	0.66%	1.58%	**10.46%**
2016	-	-	-	-	0.49%	0.81%	3.40%	2.98%	2.29%	2.12%	0.75%	2.88%	**16.80%**

The NorthStream Credit Strategies Fund LP ("the Fund") launched on May 2, 2016. The monthly returns above are shown net of all fees and expenses and are based on the Fund's Class X Lead Series NAV. Monthly NAV and returns are calculated by SGGG Fund Services Inc. Past performance is not indicative of future results. Performance, risk metrics and correlations are as of July 31, 2022. Note that the use of the XGB, TSX, and S&P 500 in the performance tables below is for informational purposes only. The XGB (iShares Canadian Government Bond index ETF), TSX, and S&P 500 have a different composition than the Fund and are not comparable benchmarks. The XGB, TSX, and S&P 500 were chosen to compare the Fund's performance returns against other asset classes.

Return Since Inception: 128.38%

Performance & Risk Metrics	
Return Since Inception	128.38%
YTD	16.90%
1-YR Return	21.39%
Annualized Since Inception	14.13%
% of Positive Months	78.67%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.71%
Sharpe Ratio[1]	1.13

Correlation			
Index	**XGB[2]**	**TSX**	**S&P500**
Correlation	-23.93%	42.61%	25.43%
Upside Capture	80.92%	57.63%	36.87%
Downside Capture[3]	-129.52%	-11.95%	-16.32%

[1] Using 1-year T-bills.
[2] iShares Canadian Government Bond Index ETF (XGB).
[3] Negative downside capture vs. XGB, TSX, and S&P 500 is a result of NorthStream generating positive returns in months when these indices generated negative returns.