NorthStream Credit Strategies Fund LP
Monthly Commentary: January 2023

FADE THE FOMO

The NorthStream Credit Strategies Fund returned +0.69% for the month of January. Risk assets have performed well in 2023 as inflation has eased and the Fed is becoming more "data dependent" as we approach what many expect to be the end of the Fed's tightening of monetary conditions. FOMO has become prevalent as the equity market breadth turned positive on January 12th, with the 10-day total of advancing stocks on the NYSE exceeding the declining stocks by a ratio of over 2X times.

Bond volatility has declined materially but we believe its trajectory and tempo are unlikely to continue - investors would be wise to fade the market's fear of missing out (FOMO). For the moment, market indicators are demonstrating confidence, but we question the soft landing narrative. Here are our observations:

- The MOVE index which measures bond market volatility, peaked in mid October of 2022 coinciding with the recent bottom in the S&P 500. Bond market volatility has fallen from a high of ~161 in October 2022 to around ~109 in mid February coinciding with the appreciation of risk assets. As the Fed is assumed to be on a more predictable path, bond volatility has declined significantly and is leading to much better risk sentiment.

- Inflation is priced to drop to 2.5% by year end and stay close to 2% in the long run. Looking at the Bloomberg forecasts for interest rates in the table below we see most parts of the yield curve yielding 3% or higher. Additionally, the spread between 2-year vs 10-year bond yields is expected to stay inverted until 2024.

US Bond Yield Forecasts

Region G7 Spread 2 Year - 10 Year

	Rate	Mkt Yld	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
	United States											
1)	US 30-Year	3.82	3.79	3.78	3.70	3.60	3.60	3.56	3.56	3.55	3.63	3.58
2)	US 10-Year	3.74	3.67	3.62	3.50	3.37	3.29	3.24	3.24	3.18	3.31	3.26
3)	US 5-Year	3.92	3.85	3.82	3.65	3.47	3.35	3.26	3.20	3.13	3.31	3.24
4)	US 2-Year	4.52	4.36	4.24	3.98	3.69	3.44	3.25	3.12	2.97	3.15	3.08
5)	US 3-Month Term SOFR	4.76	4.89	4.98	4.82	4.54	4.15	3.77	3.44	3.16	3.09	2.97
6)	Fed Funds Rate - Upper Bound	4.75	5.00	5.10	5.00	4.75	4.30	3.85	3.50	3.30	3.10	3.00
7)	Fed Funds Rate - Lower Bound	4.50	4.74	4.83	4.74	4.52	4.04	3.60	3.25	3.05	2.83	2.76
	2 Year - 10 Year Spread	-0.78	-0.69	-0.61	-0.48	-0.32	-0.15	-0.01	0.12	0.21	0.16	0.18

Source: Bloomberg

Based on the Bloomberg forecasts, inflation break-evens may be too low or real interest rates will be positive for the two-year forecast period. Although bond volatility has declined materially this inflation/rate disconnect leads us to believe the trajectory and pace of the bond market calm is unlikely to continue.

Are markets being too quick to price in a soft landing? Understandably, this is a confusing period for investors as the increase in interest rates has not impacted employment yet. The question we pose is;- has the decision to buy or sell risk assets simply become a bet on a soft landing for the US economy?

HOW SHOULD INVESTORS RESPOND?

I recently listened to an investment podcast where the guest speaker highlighted three areas that we believe are important in making investment decisions based on factors beyond just the probabilities of a soft landing[1].

Below we highlight the three important concepts facing investors as discussed in the podcast and provide our input on potential strategies in making portfolio allocations.

1. *"If you turn on financial media, it's amazing - there are only about seven names they talk about all day long. I think there is so much more that can be done below the radar screen".*

Use diversification and alternative asset allocation to hedge inflation. Investors are buying the tech stocks and large cap index names that performed extraordinarily well during the last phase of the bull market. Those names are less likely to provide the same returns in a higher interest rate environment. We agree that diversifying beyond the "seven names" is necessary going forward with some allocation to alternative assets that will provide a hedge against inflation.

2. *"There was a podcast with David Einhorn and he was talking about the death of value. But he did not really mean the death of value, what he really meant was that value has evolved or morphed into a much different thing, where you can't rely on someone else taking you out of your position because those funds don't exist".*

Don't pursue liquidity via the market's recognition of value - get it reliably from the issuer. Investment management mandate diversity may be at an all-time low. You can't count on any investment opportunity that relies on some-one else recognizing value and paying more for that asset. We seek investment opportunities that receive liquidity from the issuer/company. All bonds have scheduled coupons and mature unless they default. Most of our investment exits occur with the company providing a return of principal by calling, tendering, buying back or maturing the outstanding bonds.

3. *"The other thing that we are trying to do is time.. and who knows when it's going to happen, but time the inevitable, probable flush of the market. It could be 3 months from now, it could be three years from now. But we want to be sitting there with an opportunity to have a generational buying opportunity, to buy stuff on the super cheap and really just accrete the yields based on the value of where we bought it".*

Use the structural advantages of bonds to bolster cash certainty and be well positioned to seize opportunity. It's difficult to time a market bottom however cash does provide optionality to benefit from market corrections. When purchasing a high yield bond at a discount it is possible to create an attractive current yield and have the bond pull to par (appreciate) as it approaches maturity. Most high yield bonds have a duration of less than four years. It's possible to have a good estimate of your investment return over that period.

Admittedly it is a very confusing period with ambiguity about the economy. These three principles are intended to avoid making a binary bet on the "Soft Landing" debate in a Fed tightening cycle. We do not believe that bond volatility is finished with 5- or 10-year bonds drifting down to the expected inflation rate of 2.5%. We recommend that investors fade the FOMO for now.

Podcast: On the Tape - Earnings, Fed & Jobs. What are we Doing?? January 30th, 2023

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NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	**YTD**
2023	0.69%	-	-	-	-	-	-	-	-	-	-	-	**0.69%**
2022	1.35%	0.24%	5.67%	3.81%	3.74%	2.09%	-0.95%	-1.33%	-0.62%	1.39%	3.25%	3.09%	**23.70%**
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 January 31, 2023. 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: 143.32%

Performance & Risk Metrics	
Return Since Inception	143.32%
YTD	0.69%
1-YR Return	22.89%
Annualized Since Inception	14.08%
% of Positive Months	77.78%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.48%
Sharpe Ratio [1]	1.01

Correlation			
Index	**XGB** [2]	**TSX**	**S&P500**
Correlation	-18.98%	40.71%	25.59%
Upside Capture	79.09%	53.31%	35.29%
Downside Capture [3]	-117.97%	-11.98%	-14.94%

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.