



## NorthStream Credit Strategies Fund LP

Monthly Commentary: March 2023

### Be Mindful of the Changing Yield Curve

**The NorthStream Credit Strategies Fund returned +0.50% for the month of March.** The S&P 500 gained +3.51% as the technology and communications services sectors each gained over 10%, however financials declined -9.74% as several banks collapsed due to large losses on long dated treasury bonds. These losses were triggered by the sharpest rise in the Fed funds rate in over four decades as the Fed raised rates another 25 basis points in March.

The rise in rates has had several consequences that put stress on the banking system causing the Fed to enact several short-term programs. These programs have increased the Fed's balance sheet to \$8.7 trillion, back near its all time high after the recent quantitative tightening program had reduced it to under \$8.4 trillion. The market rally and the perception of the return to QE translated into demand for big cap tech stocks such as Alphabet, Apple, Meta, Nvidia, Amazon, Microsoft, and Tesla. Incredibly, those seven stocks account for 88% of the S&P's 2023 gains, with the index up \$2.4 trillion this year or 7% overall. **It is not surprising that risk assets responded positively to easing financial conditions, however the narrow leadership does bring into question the sustainability of the market gains.**

The yield curve moved significantly in March. The yield curve inversion (US 2-year vs the US 10-year Treasury) moved from -90 bps to -56 bps at the end of the month. The 2-year US Treasury tightened 79 bps to yield 4.03% due to the banking stress and fears of a potential credit crunch. The yield on 2-year Treasuries is now well below the fed funds rate after briefly breaking above 5% in early March. The 10-year US Treasury tightened 45 bps to yield 3.47%, lagging the move in the 2-year US Treasury. **The significant change in the yield curve last month could be the start of a new phase where we witness lower front-end yields and a steepening yield curve (*Bull Steepening*) as we potentially exit a phase of higher front-end yields and flattening yield curves (*Bear Flattening*).**

A bull steepening is an environment where the yield curve is shifting down, with front end interest rates declining faster than the long end of the yield curve. This environment is bullish for government bonds as rates are coming down and hence bonds do very well. The yield curve shifts down in economic environments where growth is likely negative. Risk assets such as equities and credit spreads perform better in a positive growth environment. The recent changes in the yield curve could be a short-term impact of the banking system stress however we believe a bull steepening will occur eventually as the impact of higher rates slows the economy and impacts employment. **Our belief is that the conclusion of this period of elevated inflation needs to culminate with a positive slope to the yield curve.** The path for interest rate normalization will involve short rates declining upon evidence of lower inflation and growth.

We have mitigated the impact of the potential spread widening by shortening the portfolio duration below one year and maintaining several short positions. ***We believe a defensive portfolio positioning is warranted given the risks to growth currently being signalled by the bond market.***

NorthStream Credit Strategies Fund LP - Performance													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	0.69%	2.65%	0.50%	-	-	-	-	-	-	-	-	-	3.87%
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 March 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: 151.01%**

Performance & Risk Metrics			
Return Since Inception	151.01%		
YTD	3.87%		
1-YR Return	19.69%		
Annualized Since Inception	14.23%		
% of Positive Months	78.31%		
Maximum Drawdown	-14.81%		
Annualized Standard Deviation	9.38%		
Sharpe Ratio <sup>1</sup>	1.05		
Correlation			
Index	XGB <sup>2</sup>	TSX	S&P500
Correlation	-19.82%	39.95%	24.73%
Upside Capture	76.21%	53.31%	34.84%
Downside Capture <sup>3</sup>	-119.28%	-15.90%	-17.67%

<sup>1</sup> Using 1-year T-bills.

<sup>2</sup> iShares Canadian Government Bond Index ETF (XGB).

<sup>3</sup> 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.

2022 CANADIAN HF AWARDS

### NorthStream Credit Strategies Fund LP

**WINNER OF THE 2022 CANADIAN HF AWARDS**

**Credit Focused**

Best 1 Year Return	Best 3 Year Return	Best 5 Year Return
<b>1st Place</b>	<b>1st Place</b>	<b>1st Place</b>
Best 3 Year Sharpe Ratio	Best 5 Year Sharpe Ratio	
<b>1st Place</b>	<b>1st Place</b>	

- 1 Year Return 22.31%
- 3 Year Return 19.74%
- 5 Year Return 13.73%
- 3 Year Sharpe Ratio 1.38
- 5 Year Sharpe Ratio 1.19

Awards are based solely on quantitative performance data to June 30 2022.

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