NorthStream Credit Strategies Fund LP

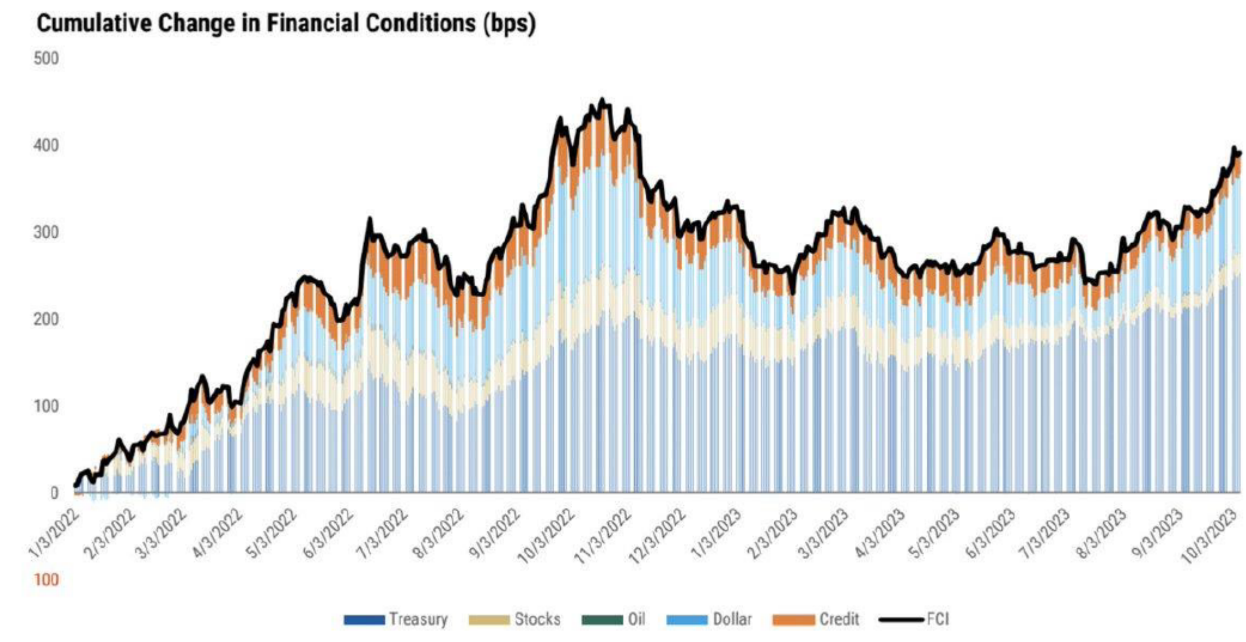
Monthly Commentary: September 2023

The NorthStream Credit Strategies Fund returned +0.68% for the month of September, +8.42% year-to-date and +17.00% for the last twelve months.

Interest rates continued to drift higher with the yield on US 10-year treasuries recently touching 4.80% in early October, increasing from 4.11% at the end of August. It has been a difficult period for long duration fixed income assets as the US 10-year and US 30-year treasury bonds are down -3.41% and -13.80% respectively for the year.

The September CPI release had core inflation at 4.1% marking the fifth consecutive month where the Fed did not get progress on sticky inflation. This will reinforce the higher for longer Fed stance. The increase in 10-year treasury yields is rational as bond purchasers want some term premium as it appears that the economy can handle a higher cost of financing.

Looking at Morgan Stanley's Financial Conditions Index we see that financial conditions are tightening to a level of 400 basis points as shown in the chart below. The tightening is almost entirely from the increase in interest rates and to a lesser extent the dollar. The impact on financial conditions from credit spreads and equities has been negligible in 2023 so far.



Source: Morgan Stanley Research

Rising interest rates have always caused equity P/E multiples to contract, but not this time around. Equity multiples for SPY have been expanding for more than a year while rates have been lifted aggressively by the Fed. Credit spreads tend to widen when equity markets are correcting. Neither credit spreads nor equity markets are contributing to tightening financial conditions yet. Although employment levels and wage growth are not factors in the financial conditions index, there are no signs of notable erosion in the demand for labour with the unemployment rate below 4%.

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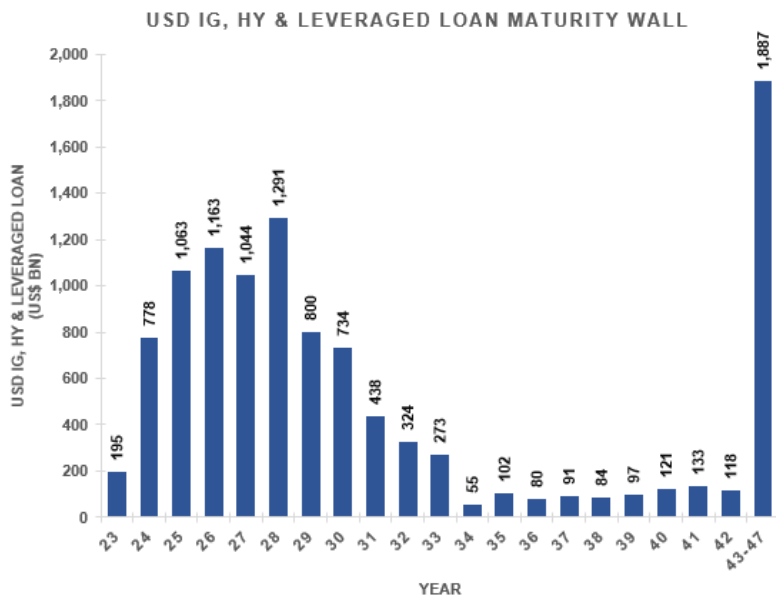
In a higher-for-longer environment the potential catalyst for tighter financial conditions may be the refinancing cliff. If we look at the debt maturity wall for North American credit markets in the table below, we see the combined debt maturities for the US investment grade, high yield and leveraged loans is equal to $778 billion in 2024 and remains at a run rate of over a trillion for the next four years. Over half of all the $10.9 trillion market value of corporate debt outstanding will need to be refinanced by 2028.



Source: Bloomberg, Goldman Sachs Global Investment Research, S&P Capital IQ LCD

The sectors or companies that have large amounts of floating rate debt are showing some signs of credit spread widening. The surge in interest rates and pullback in bank lending following the regional banking crisis earlier this year has led to substantial stress in US commercial real estate (CRE). Over the next couple of years, the CRE problem may not be just be an office problem. All real estate assets will have to come to terms with the higher rate environment. It could easily take several years for the office market to stabilize. Companies or industries that undergo balance sheet repair need several years to right size debt levels and reduce interest expense.

This stress is not only inflicting sizable pain on real estate investors, but also stoking further worries about the stability of small/regional banks, where the vast majority of US CRE bank lending sits. CRE depends heavily on financing and is thus inherently sensitive to credit availability. At the end of 2022, $5.6tn of commercial and multifamily loans were outstanding in the US. Half of these loans sit directly on commercial bank balance sheets, with small banks capturing a much larger share than large banks.

The current crisis in the office market has been described by some real estate experts as being a "trainwreck in slow motion". In future commentaries we will describe how we have positioned the portfolio to benefit from this observed "trainwreck in slow motion".

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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%	2.65%	0.50%	0.49%	0.75%	1.10%	0.46%	0.81%	0.68%	-	-	-	**8.42%**
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 September 30, 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: 162.00%

Performance & Risk Metrics	
Return Since Inception	162.00%
YTD	8.42%
1-YR Return	17.00%
Annualized Since Inception	13.87%
% of Positive Months	79.78%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	9.06%
Sharpe Ratio[1]	1.32

Correlation			
Index	**XGB[2]**	**TSX**	**S&P500**
Correlation	-18.43%	39.10%	24.36%
Upside Capture	75.89%	51.38%	34.09%
Downside Capture[3]	-113.10%	-17.13%	-18.28%

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.