# NorthStream Credit Strategies Fund LP

*Monthly Commentary: January 2024*

**The NorthStream Credit Strategies Fund returned +0.55% for the month of January, and +8.74% for the last twelve months.**

The soft-landing narrative has hit a bump in the road in the first two weeks of February due to stronger than expected economic data. US Non-farm payrolls added 353K positions in January, well above the 185K expected by economists. Moreover, revisions to prior months increased the December reading by 117K and pushed up employment by an average of 27K per month in the second half of 2023.

The strong employment numbers came alongside a spike in wage growth. Average hourly earnings rose 0.6% in January, taking the annual rate up to 4.5%. Revisions also now show more momentum in the pace of wage growth late last year. The US unemployment rate remained steady at 3.7%, not far off the lows for this cycle. US inflation surprised markets with a stronger-than-expected print. Consumer prices rose 0.3% in January, leaving the annual rate of headline inflation running at 3.1%. While that was lower than the 3.4% seen in December, the decline was largely due to base effects. The print came in contrast to forecasts for a deceleration in inflation to 2.9%. Core services ex-shelter inflation which represents the stickiest components of the inflation basket has taken the wrong turn here. This has caused the US 10-year yield to increase approximately 50 bps since December to ~4.29%.

Given strong employment, wage growth and higher ISM data, we have seen the odds of a March rate cut fall from **85%** coming into 2024 to **14%** currently. The lag effects have been longer than many economists expected due to the private sector locking in cheap funding from 2019 to 2021, in contrast to the US government which will have to refinance about a third of its $42 trillion of debt in 2024.

In a *higher for a little longer* environment, sectors like commercial real estate will experience higher funding costs. The shakeout in the $20 trillion US commercial real estate market has been delayed due to the drought of transactions, leaving everyone figuring out how much the properties were worth. As deals are starting to occur, it is revealing how far real estate prices have fallen.

More than $1 trillion in commercial real estate loans are set to mature by the end of next year, according to data firm Trepp. Regional lenders account for 70% of the commercial real estate debt maturing through 2025 that’s on banks’ balance sheets, with the top 25 banks making up the rest, according to a recent Morgan Stanley report.

Barry Sternlicht sees more than $1 trillion of losses for office real estate, calling the properties “one asset class that never recovered” from the pandemic. *Once a $3 trillion asset class, offices now are “probably worth $1.8 trillion,” said Sternlicht, chief executive officer of Starwood Capital Group. “There’s $1.2 trillion of losses spread somewhere, and nobody knows exactly where it all is.”*

That’s spurring widespread concern about losses that can ripple across the global financial system — as underscored by the recent turmoil unleashed by New York Community Bancorp, Japan’s Aozora Bank Ltd. and Germany’s Deutsche Pfandbriefbank AG as they took steps to brace for bad loans.

Our short unsecured bond positions in REITS and homebuilders have remained steady despite the higher cost of financing commercial mortgage-backed debt. We believe these low-cost hedges provide very cost-effective protection for our long corporate bond positions.

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A recent podcast - *All-in with Chamath, Jason, Sacks & Freidberg* has an interesting discussion on the challenges facing the commercial real estate market and the impact on credit markets. Please see the link below.

https://open.spotify.com/episode/6p7fHhmSL5wb5U8uU6XNOS?si=YCYUBInXRvavjalx0edqzQ&context=spotify%3Ashow%3A2IqXAVFR4e0Bmyjsdc8QzF

| NorthStream Credit Strategies Fund LP - Performance | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year** | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | **YTD** |
| **2024** | 0.55% | - | - | - | - | - | - | - | - | - | - | - | **0.55%** |
| **2023** | 0.69% | 2.65% | 0.50% | 0.49% | 0.75% | 1.10% | 0.46% | 0.81% | 0.68% | 0.43% | 0.03% | -0.02% | **8.89%** |
| **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: 164.59%

| Performance & Risk Metrics | |
|---|---|
| Return Since Inception | 164.59% |
| YTD | 0.55% |
| 1-YR Return | 8.74% |
| Annualized Since Inception | 13.38% |
| % of Positive Months | 79.57% |
| Maximum Drawdown | -14.81% |
| Annualized Standard Deviation | 8.89% |
| Sharpe Ratio[1] | 1.28 |

| Correlation | | | |
|---|---|---|---|
| **Index** | **XGB[2]** | **TSX** | **S&P500** |
| Correlation | -19.11% | 37.13% | 22.80% |
| Upside Capture | 65.96% | 47.71% | 31.79% |
| Downside Capture[3] | -110.95% | -17.10% | -18.32% |

[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.