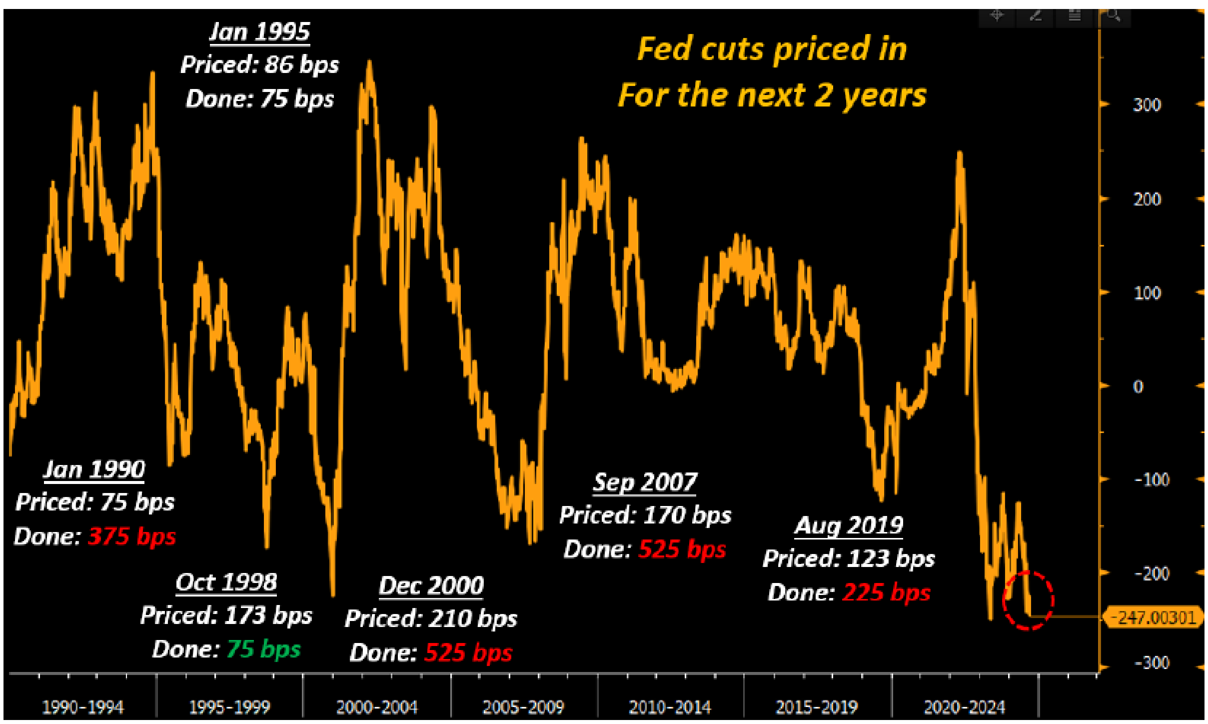
NorthStream Credit Strategies Fund LP

Monthly Commentary: August 2024

The NorthStream Credit Strategies Fund returned +0.63% for the month of August, and +3.28% for the last twelve months.

Over the past month there has been ample debate about whether the Fed will lower interest rates by 25 or 50 basis points at the September 18th FOMC meeting. The August US non-farm payrolls rose 142k, below expectations for an advance of 165k. A downward revision of 86k jobs for the prior two months highlighted weakness in the labour market beginning to appear. US CPI rose 0.2% as expected following a 0.2% increase in July. Excluding food and energy costs, core CPI rose 0.3% in August, a tenth of a percentage point more than expected and following a 0.2% gain in July. In response to the modestly weaker employment data and the slightly higher inflation report, the futures market is expecting a 25 basis point rate decrease from the Fed on September 18th. Expectations are for 100 basis point of rate decreases in 2024.

While the debate about the magnitude of the first rate cut was occurring, investors may not have noticed how the futures market has priced reductions further out in the rate curve. Since 1990, the bond market has never priced more cuts over the next 2 years than today. The chart below was produced by *The Macro Compass*, it shows the expectations for rate decreases versus actual rate cuts in previous easing periods in the US, from 1990 to today.



The chart shows expectations of a reduction in the Fed funds rate of 247 basis points, which is greater than expectations in any easing cycle since January of 1990. Excluding 1998, if you went long 2-year US rates every time the market went to peak max dovish pricing you would have broken-even in 1995 (soft landing) or made a lot of money in the four other periods. If we look at the movement of the US 2-Year over the past three months, the yield has declined from 4.89% to 3.67%. If the expectations for rate cuts are in the right ball park there is still upside in buying the US 2-year. The magnitude of the rate decreases would imply a recession rather than a soft landing. Forecasts for the US equity market is for the S&P 500 earnings to increase 13-14% over the next year. Clearly the bond and equity markets have a different opinion on the probability of a recession or a soft landing.

The fund had three realizations in August. We sold our position in Cineplex bonds as it reached our target yield of 6.25% and our position in the BMO preferred shares (series T) was called. We added two series of bank reset preferred shares to fill out our ladder of bank preferred shares with rate reset dates over the next five months. The return profile on the bank reset preferred shares including dividends is 10% or more on an annualized basis. As the risk of a recession grows, we have a defensive portfolio duration of one year. The portfolio has 72% gross exposure, short exposure of 19% and net exposure of 54%. The portfolio has a 27% weighting in short maturities or bonds where a call date has been announced. We are carefully adding market risk in shorter duration bonds as the impact of higher rates has not been reflected in credit spreads yet.

NorthStream Credit Strategies Fund LP - Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.55%	0.14%	0.21%	0.51%	0.38%	-0.36%	0.07%	0.63%	-	-	-	-	2.14%
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 August 31, 2024. 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: 168.77%

Performance & Risk Metrics

Return Since Inception	168.77%
YTD	2.14%
1-YR Return	3.28%
Annualized Since Inception	12.60%
% of Positive Months	80.00%
Maximum Drawdown	-14.81%
Annualized Standard Deviation	8.61%
Sharpe Ratio [1]	1.21

Correlation

Index	XGB [2]	TSX	S&P 500
Correlation	-19.38%	35.68%	21.50%
Upside Capture	60.99%	44.04%	29.37%
Downside Capture [3]	-106.80%	-16.60%	-18.23%

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.