June 10, 2025

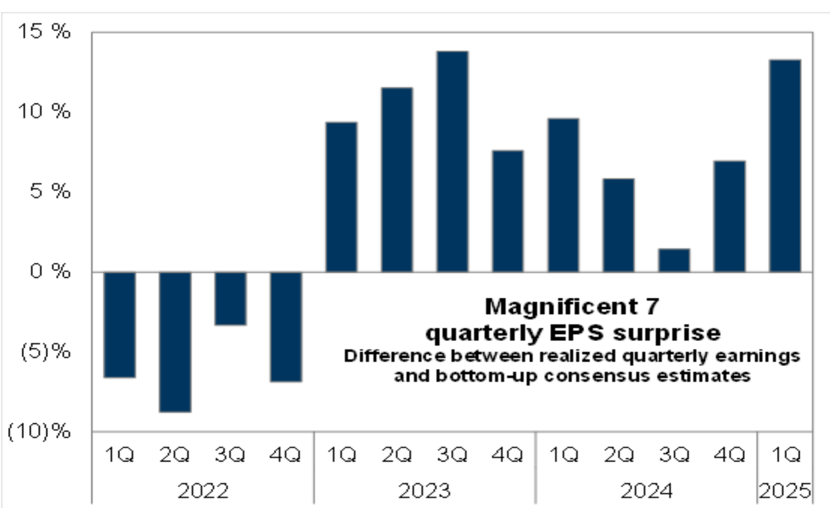
May 2025 Commentary

President Trump's backpedalling on China in early May enabled investors to adopt the view that a general 10% tariff (and possibly some regionals) could be as bad as it gets. In fact, markets have become so sanguine to Trump's tweets that we're now all familiar with the latest acronym, the "TACO" trade, which presumably is something that bugs the U.S. President and emboldens traders to boost risk exposure any time another "text bomb" catalyzes a dip in markets.

While non-economic factors caused bond prices to fall during the past few weeks, this psychological shift on both trade and 'Trump tweets' enabled stocks to have a great month. However, the year-to-date graph below indicates that since the April 8th bottom of the S&P 500 (white vertical line), M7 stocks have fueled equity gains, including 57% of the SPX's return during May. The white line displays the relative strength of the S&P 493 divided into the M7 stocks (falling line indicates outperformance of M7), the red line is the S&P 500 and the yellow trend line highlights the outperformance by the M7.

Source: Bloomberg

While investors wait to see whether the much-discussed weak "soft data" will translate into weakening hard data as of mid-June, the safety of megacap tech as the best vehicle for defensive growth for uncertain times has undoubtedly been a key driver of their superior gains (with Tesla Inc. and Apple Inc. being the laggards of the group). The most recent quarterly results were solid, as the group posted its best quarterly positive EPS surprise since Q3 of 2023 as shown on the right side of the bar graph below, courtesy of Goldman Sachs. The funds own shares in Alphabet Inc. (GOOG.US) and Meta Platforms Inc. (META.US).



Source: Goldman Sachs

Our funds also rebounded strongly during May, recouping April's drawdowns. The majority of this improvement was fueled by improved alpha, plus discipline in our hedge books. Industrials, Technology and Financials were the key sector drivers of the gains. Within Industrials, the sector with the highest net long equity exposure in the funds, E&C companies continued to deliver gains, specifically Stantec Inc. (STN.CA) and AtkinsRéalis Group Inc. (ATRL.CA). In contrast, trade uncertainty continued to hold back share prices of our preferred railway names, Canadian Pacific Kansas City Ltd. (CP.CA) and Canadian National Railway Co. (CNR.CA), despite what we forecast to be well above and visible earnings growth during the next 12 months, and available at attractive valuations.

Within Technology, despite Lumine Group Inc. (LMN.CA) remaining our favourite stock in the sector, we took some profits so as to maintain this top five holding in the funds to a roughly 3% weight. Similarly, within the Financials, Fairfax Financial Holdings Ltd. (FFH.CA) continues to be a top holding in the funds but post the most recent move higher in the share price, we have booked some gains. Given our continued view of 'higher for longer' long-term yields in the U.S., we have added to our positions in JP Morgan Chase & Co. (JPM.US) and Bank of America Corp. (BAC.US). We foresee 7%+ EPS growth for Bank of America during the next two to three years, merely from rolling their maturing book of fixed income securities to higher interest rates.

Looking at the numbers, the Class F Lead Series of our Multi Strategy LP earned +5.02% net of fees for the month. The Class F Lead Series of our Long Short LP advanced +3.73% net of fees during May, cutting its year-to-date loss to -0.63% after fees.

						-----------------Annualized-----------------			
As of May 31, 2025	**YTD**	**1-mo**	**3-mo**	**6-mo**	**1-year**	**3-year**	**5-year**	**10-year**	**Inception**
Forge First Long Short LP (Class F Lead Series)	-0.63%	3.73%	-0.84%	0.49%	9.65%	4.27%	10.25%	7.74%	12.74%
Forge First Multi Strategy LP (Class F Lead Series)	-0.21%	5.02%	1.61%	1.89%	14.00%	8.37%	11.41%	7.22%	10.76%
S&P/TSX Composite Total Return Index	7.05%	5.56%	3.87%	3.54%	21.05%	11.55%	14.92%	8.99%	9.78%
S&P 500 Total Return Index (C$)	-3.38%	5.89%	-5.09%	-3.05%	14.47%	17.71%	15.86%	13.98%	16.97%

Note: Returns for the Forge First funds are based on the August 2012 Class F Lead Series and are net of all fees and expenses. In a year, up to 12 series can be created within a Class of units. Unitholders are advised to refer to their monthly statement for the net return of their respective Class and Series. All returns are in local currencies.

Net equity exposure in the funds was roughly flat month-to-month with beta net equity exposure of +2% to 3% exiting May on an approximate 15% increase in delta-adjusted gross exposures. These shifts reflect higher weights in conviction long and short positions. At the end of May, the Multi Strategy LP held delta-adjusted gross and net exposure of 208% and 70% respectively, with the net exposure split between multi-assets (40%) and common equities (30%). As for the Long Short LP, its month-end delta-adjusted gross and net exposure were 129% and 26%, respectively.

We will continue to add exposure on our highest conviction long positions on pullbacks via purchases of the underlying security or option strategies including the use of call options, put underwrites, or risk reversals (long a call, short a put). At the same time, concerns towards short and especially long-term interest rates and general economic uncertainty means the funds will maintain a high level of protection.

For example, on the trade front, China has signaled it will not accept any deal similar to the "Phase One" trade agreement of January 2020, in which it made numerous pledges to buy more U.S. products and alter its rules on technology transfer and intellectual property protection, while the U.S. conceded nothing.

Source: Bloomberg

The right side of the above graph of ISM Services order book (red line, left axis) against prices (white line, right axis) suggests weaker growth yet stubborn inflation, while last Friday's jobs report should ensure the Fed remains on the sidelines. Also, we maintain rising deficits, the need to restock the Treasury General Account ("TGA") (red line, left axis) that's shown in the below graph, perhaps largely with bank reserves held at the Fed (white line right axis) imply tougher liquidity conditions beginning in the back half of 2025.

The TGA began the year at $885B, fell to $330B by Tax Day (April 15) then, thanks to tax receipts, jumped back to $678B on May 1 and is now back down to $436B as of the end of May. Roughly speaking, say ~$100B of working capital must always be maintained in the account, the U.S. government could (once again) potentially run out of funding within a couple of months. At that point, the debt ceiling would have to be lifted (likely to $40T) to be followed by a sharp increase in treasury auctions to pay for the $2T of annual deficits and refilling of the TGA. As the Statutory Liquidity Ratio (SLR) won't be the panacea for new demand it previously was thought to be, unless international sovereigns (foreign investors currently hold U$8.8T or 28% of issuance) step up and buy, this stream of events could easily ensure that long yields stay higher for longer.

Source: Bloomberg

Last, President Trump has long been a protectionist. Having clearly taken a few hits to his pride of late, if he wants to maintain his negotiating leverage, it's conceivable Trump takes an action that markets may not like. Hence, with the S&P 493 trading at >21X forward EPS growth approximating 5%, unlike many investors, we're not sanguine towards stocks.

Consequently, besides individual short positions, the funds hold June month-end S&P 500 index protection with the SPY ETF as the proxy of a $580/$540 put spread with 25% notional exposure at the top strike and a modest 1.1 ratio on the spread. In addition, we have sold 5% out-of-the-money calls on the Russell 2000, using the IWM ETF as the proxy. While our net exposures are conservative, we are confident in our ability to deliver alpha from our stock-picking while protecting client capital with our hedging strategies.

In closing, we would like to announce that for family reasons, Richard Roth has moved to the West Coast and he is no longer with the firm. We are very appreciative of the contributions Richard has made to the firm and our clients.

Please let us know if you have any questions and thank you for your business!

Andrew McCreath	Keenan Murray
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