FORGE FIRST
ASSET MANAGEMENT INC

May 9, 2025

April 2025 Commentary

A frustrating month for our funds, as once the first few days of April made us rudely aware of the potential for President Trump to drop 'information bombs' at any time, combined with our belief that China holds the 'Trump cards' in any trade war, we opted to maintain low net exposures. Sure, we tactically adjusted exposure up and down during the month, but we did not opt to aggressively trade equities based on technical ranges in an attempt to win back our drawdown. Instead, we stuck to our accepted and successful disciplined methodology for managing client capital in an attempt to minimize volatility while striving to generate a competitive net return. The year is far from over.

The Class F Lead Series of our Multi Strategy LP experienced a loss of -3.55%, such that its YTD loss sits at -4.98% net of fees. While our positions in Technology, Utilities and Consumer Non-Cyclicals generated profits, these gains were more than offset by losses in our hedge book, Energy and other sectors. No single equity or fixed income position contributed inordinately to the negative performance. At the end of April, the fund held delta-adjusted gross and net exposure of 190% and 62%, respectively, with the net exposure split between multi-assets (35%) and common equities (27%).

						-----------------Annualized----------------			
As of April 30, 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)	-4.20%	-3.48%	-3.97%	-1.84%	5.72%	2.88%	10.27%	7.64%	12.50%
Forge First Multi Strategy LP (Class F Lead Series)	-4.98%	-3.55%	-4.95%	1.55%	7.85%	6.43%	10.91%	6.95%	10.41%
S&P/TSX Composite Total Return Index	1.41%	-0.10%	-2.00%	4.34%	17.85%	9.57%	14.37%	8.27%	9.38%
S&P 500 Total Return Index (C$)	-8.75%	-4.59%	-11.29%	-2.54%	12.54%	15.00%	15.41%	13.82%	16.56%

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.

The Class F Lead Series of our Long Short LP fell -3.48% during the month, such that its YTD net loss sits at -4.20%. The higher net exposure of this fund at the start of April triggered the larger loss. While a portion of the drawdown was earned back, the relatively low net exposure of the fund during the back half of the month held back its performance when equities bounced. Positions in Financials and Consumer Non-Cyclicals were gainers for the fund, while hedges, Energy and Real Estate were the largest losers. As at the end of April, the fund held delta-adjusted gross and net exposure of 116% and 27%, respectively.

During the month, the funds increased the allocation to the Industrials sector, expressed through engineering & construction ("E&C") companies such as Stantec Inc. (STN.CA), GFL Environmental Inc. (GFL.CA), AtkinsRéalis Group Inc. (ATRL.CA) and included the out-of-consensus call to buy the rails, specifically, Canadian Pacific Kansas City Ltd. (CP.CA) and Canadian National Railway Co. (CNR.CA). CNR has particularly easy H2 2025 comparisons. We see many positive drivers for the E&C companies and notwithstanding current trade issues, foresee robust earnings growth for the rails.

In contrast, we're less constructive on the Canadian banks, as we expect estimates for loan growth will come down, believe PCLs need to be raised, and foresee capital market revenues (beyond the about-to-be-reported quarter) to be less robust on a go-forward basis. As of last week, consensus estimates for F2026 included an incredibly rosy 11% rate of EPS growth for F2025. We've expressed this view via shorting one Canadian bank and holding put options on the group.

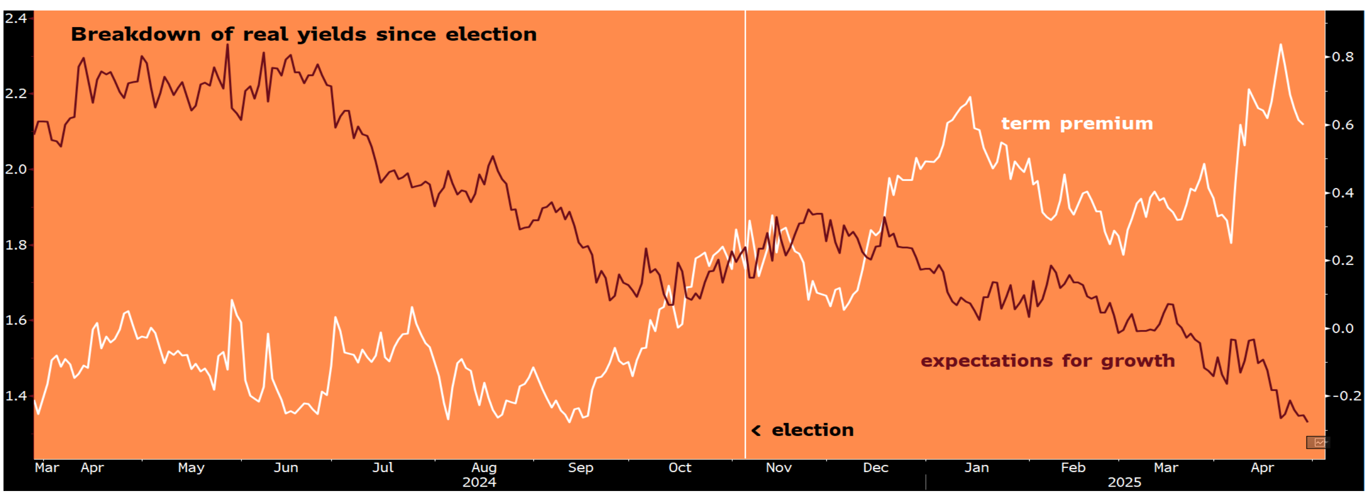
In Technology, our ongoing constructive outlooks towards Lumine Group Inc. (LMN.CA) and Taiwan Semiconductor Manufacturing Co. Ltd. (TSM.US) caused us to hold these stalwarts through this period of volatility. In contrast, we used the recent downdraft to re-initiate positions in NVIDIA Corp. (NVDA.US) and Alphabet Inc. (GOOG.US). We also own shares in Take-Two Interactive Software Inc. (TTWO.US) and Grindr Inc. (GRND.US).

As for markets, notwithstanding the incredibly strong end-of-month performance for stocks, the fact remains that neither fiscal nor monetary policy is supportive for stocks, and the S&P 500 is trading at 21.4X forward EPS based on Bloomberg estimates of 8% growth during the next 12 months. Sure, the Fed will ultimately cut rates again, if Trump walks away from tariffs or crushes the U.S. (and potentially global) economy, but unless there's a seismic turnaround in CEO and consumer sentiment and they boost spending, will two or three rate cuts fuel stocks to new highs?

Source: Bloomberg

While there's been much talk about a Trump 'put', we believe it wasn't so much the price of the S&P 500 that drove his 180-degree turn (the day after he reiterated he wouldn't back down) as much as the education he received from his lieutenants as to how his actions were needlessly pushing credit markets towards a cliff. That moment enabled us (and clearly the market, based on the severity of the reversal in stocks) to gain a degree of faith there were 'adults' in the White House. Yet, concerns remain we could be just a social media post away from another hard reversal to the downside. Otherwise, we suspect Trump's Achilles' heel will be his approval rating shown in the above YTD graph, a variable that is likely to keep falling if product scarcity and higher prices hit the consumer this summer.

Yet, prior to the consumer beginning to feel the brunt of tariffs, there will be two key items of interest in the U.S. to monitor next week. On May 12th-13th, the U.S. House Ways and Means Committee is expected to mark up the tax portion of the reconciliation bill, meaning markets should be able to begin to digest new policies and the potential fiscal impulse (both good and bad). Also on the 13th, the U.S. Court of International Trade has a scheduled hearing to consider whether to grant a preliminary injunction against Trump's tariffs. This latter item definitely could rattle or boost markets.



Source: Bloomberg

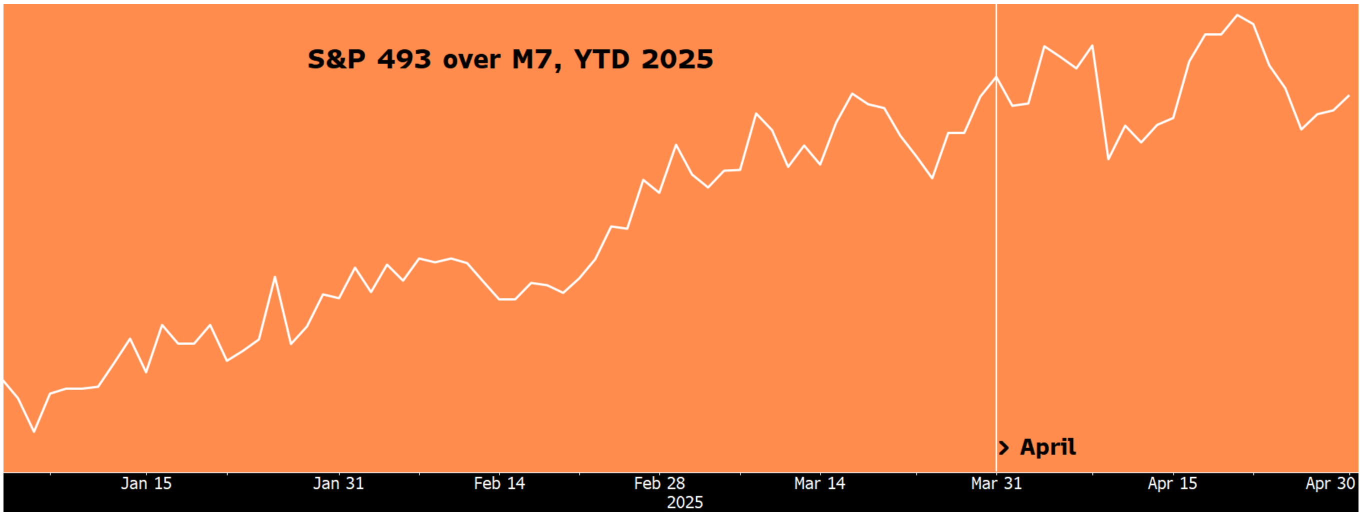
In the meantime, the disaggregation of real yields (nominal less breakevens) in the one-year graph above suggests that the current soft data will be confirmed by hard data over the coming months and that the outlook for U.S. growth (red line being a proxy for 'growth') is worsening. In contrast, the credit risk (white line being the 'term premium') accorded U.S. debt is grinding higher. These moves are all about tariffs; without a doubt the biggest story driving markets at this time. Yet, interestingly, while the graph below indicates 'uncertainty' is at a 'fresh high' (white line, right axis), the correlated VIX Index (red line, left axis) has fallen right back into the higher end of its typical trading band. Just as many of the highest profile investors are nervous about markets (look at Berkshire Hathaway Inc.'s net cash position), let alone after the recent nine-day rip, the uncertainty vs. VIX graph suggests an eerie dichotomy. This spread is likely attributable to the fact that the eventual outcome cannot be predicted. Unlike the COVID-19 experience, for example, when it was very clear the economy was tanking, now whether the economy is going to tank or not tank appears to be at the whim of the totally theatrical and unpredictable Trump.

Source: Bloomberg

That's half the reason Fed Chair Powell is 'sticking to his guns', as he just doesn't know what's going to happen. The other half of the reason is implied by the graph below which compares the job openings to number of unemployed ratio aka JOLTs (white line, right axis) against year-over-year wage growth (red line, left axis).

Source: Bloomberg

The message is clear; Powell need not be in a great rush to cut rates until the Trump-induced uncertainty pushes the jobs market below par. Most market forecasters believe that will happen in June, hence the current 67% odds of a rate cut in July. Consequently, in the near term, the tug of war between rising fundamental risks and lean positioning is likely to continue. True, Trump has directionally begun softening his trade rhetoric, has backed away from firing Powell, and earnings from 'macro-cap' Tech companies were better than feared. Yet, as you can see from the right side of the below YTD 2025 relative strength graph of the S&P 493 to the M7, while this index was volatile during April, point-to-point it has been flat.



Source: Bloomberg

Arguably, a big key to breaking this gridlock will be what China opts to do. Arthur Kroeber of Gavekal Research believes China has more than enough tools at its disposal to wait to enter any trade negotiations until Trump does what they've asked for in substantially cutting or even eliminating the tariffs. Kroeber believes the current stalemate could go on for weeks, even months. Of course, it's always possible that China adjusts its posturing.

Yet, as an autocracy, nor beholden to foreign investors (30% of USTs are held by foreigners), China can table stimulus with ease. Second, Trump's latest demand for trade deals is for the other side to isolate China, yet 70% of countries now trade more with China than with the U.S., with China representing more than 2X U.S. volumes for half of them. Hence, these countries may not wish to risk their economic relations with China to appease Trump.

The bottom line is that it's a waiting game and given the key player is unpredictable, it's 'rolling the dice' to presume a favourable outcome. Consequently, we will tactically adjust exposure, prudently increase net exposure on dips by adding to our conviction long positions and boost protection when we believe markets are extended. Overall, we will maintain conservative exposure levels until there is greater clarity on potential outcomes. It's our intent to earn our drawdown back through sound investment management (portfolio construction and stock-picking) vs. getting long the market and hoping!

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

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