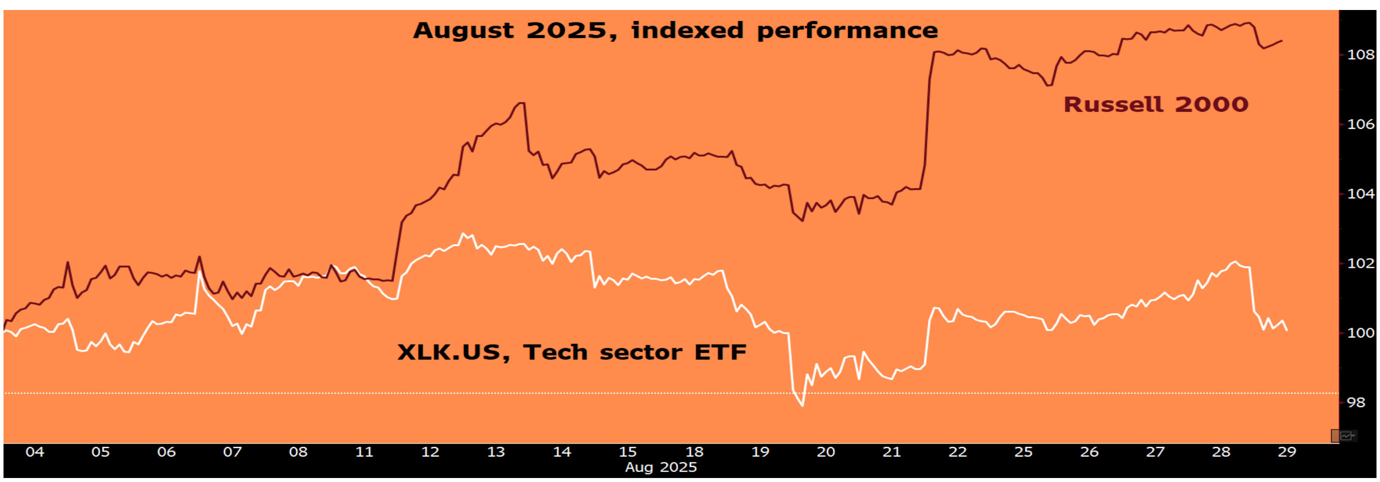
September 8, 2025

August 2025 Commentary

In August, equities once again followed the rule of 'don't fight the Fed'. Ahead of Chair Powell's Jackson Hole speech on August 22nd, markets, not the Fed, were pricing in multiple rate cuts. That optimism for easier policy, despite a still resilient economy, drove cyclical stocks to outperform defensives (white line) relative to the expected December 2026 Fed Funds rate (red line).

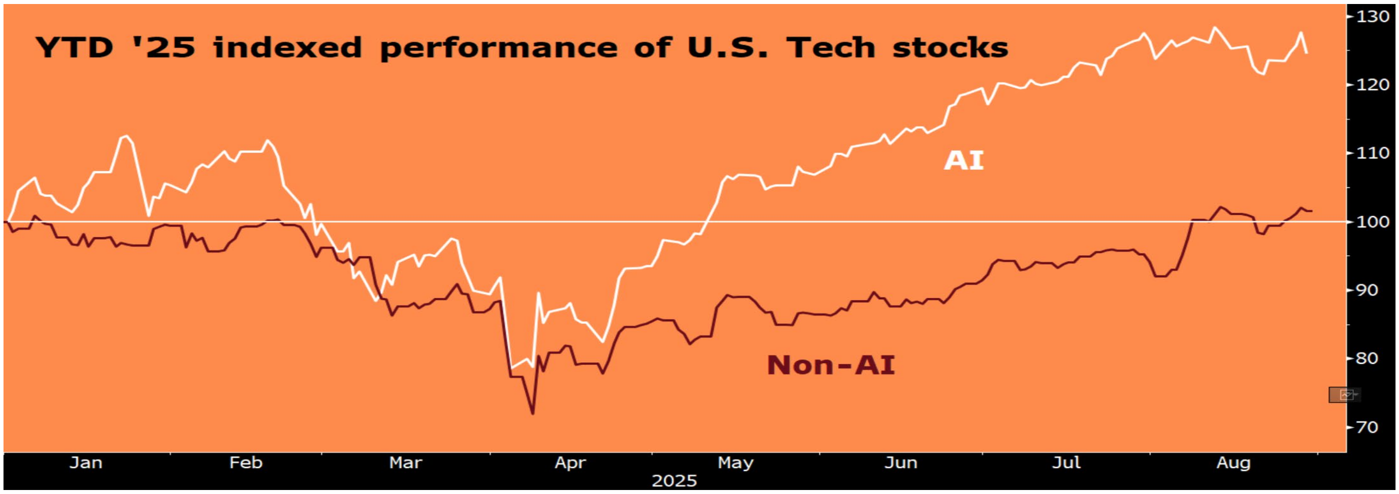
Source: Bloomberg

Powell's more-dovish-than-expected pivot on the 22nd then served as a catalyst for equities, driving a sharp rally in the small-cap oriented Russell 2000 (red line), visible in the vertical move on the right-hand side of August's intraday chart. In contrast, defensive and technology stocks (white line) lagged. Our funds, positioned conservatively as outlined in prior commentaries, were more exposed to these underperforming segments. As a result, performance last month was weaker than we would have liked, a topic we will expand on shortly.



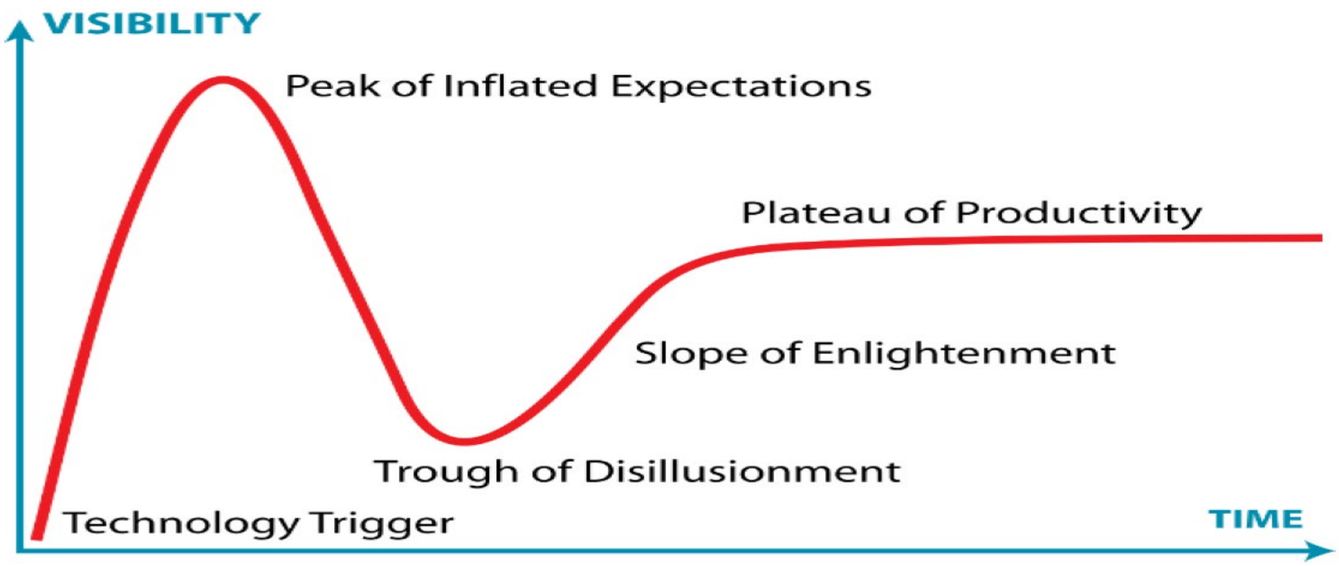
Source: Bloomberg

Beyond stretched valuations, several factors weighed on the Tech sector. OpenAI CEO, Sam Altman, suggested that an 'AI bubble' is inevitable, while MIT's review of 300 corporate AI projects found a 95% failure rate. Also, although Meta Platforms Inc. (META.US) showed progress in monetizing its capex, results from peers were far less convincing.



Source: Bloomberg

This quarter brought setbacks across the AI landscape, whether from enablers, adopters, or adapters, which narrowed the year-to-date performance gap between AI stocks (white line) and non-AI stocks (red line). Our holding in Marvell Technology Inc. (MRVL.US) illustrates the theme: the company delivered Q2 results in line with expectations, but growth slowed—58% year-over-year yet only 6% sequentially—and guidance suggested AI momentum may flatten. At the same time, NVIDIA Corp's CEO, Jensen Huang, underscored the scale of investment, noting that hyperscaler capex has doubled to US$600B in just two years. While the long-term infrastructure build-out remains significant, concerned we could be at the near-term peak of "inflated expectations" as shown in the graph from Gartner below, we have tactically reduced exposure to the AI theme while maintaining selective positions.



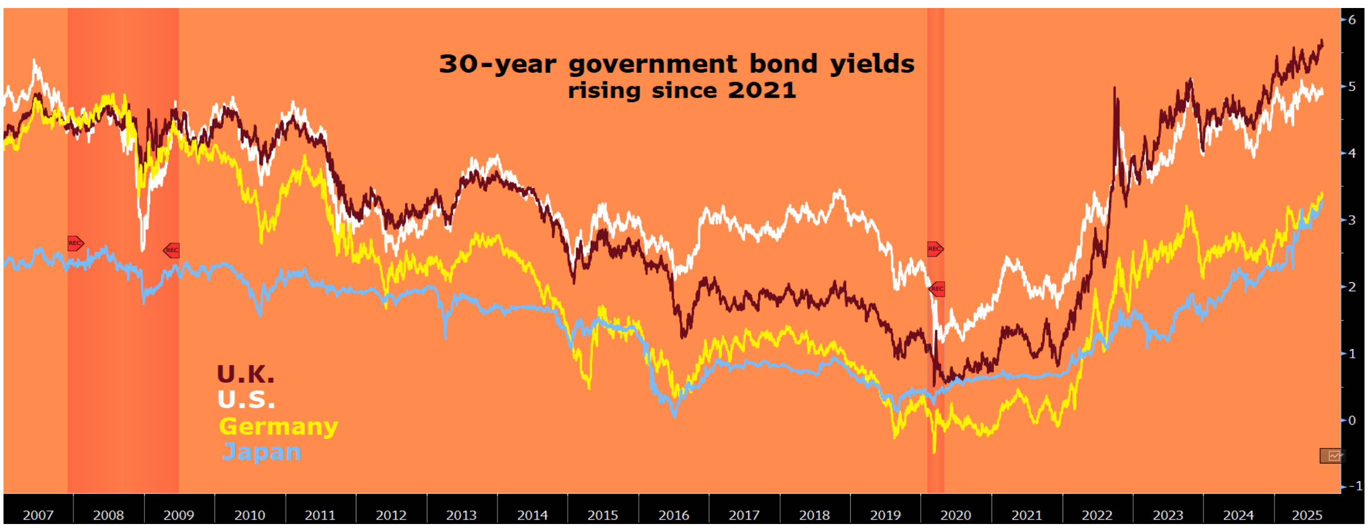
Source: Gartner

The Class F Lead Series of our Multi Strategy LP declined -2.01% during the month of August such that its year-to-date net return sits at +3.14%; whereas, the same class of our Long Short LP fell -1.45% after fees, cutting its year-to-date net gain to +1.73%. As mentioned earlier, losses in the funds were realized from their hedge exposure, especially to the Russell 2000 and positions in semiconductors, including Advanced Micro Devices Inc. (AMD.US). In addition, our pivot from owning financials to being short financials during August was ill-timed. Delta-adjusted gross and net exposure at month-end sat at 200% and 86% net long for the Multi Strategy LP and 118% and 33% net long for the Long Short LP. For our Multi Strategy LP, 50% of the +86% net long position was in fixed income, with the remaining portion in equities.

						-----------------Annualized----------------			
As of August 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)	1.73%	-1.45%	2.37%	1.51%	5.74%	7.09%	8.91%	8.13%	12.68%
Forge First Multi Strategy LP (Class F Lead Series)	3.14%	-2.01%	3.35%	5.01%	13.45%	10.31%	10.74%	7.71%	10.82%
S&P/TSX Composite Total Return Index	17.59%	4.96%	9.85%	14.09%	25.85%	17.49%	14.98%	10.82%	10.37%
S&P 500 Total Return Index (C$)	5.72%	1.17%	9.42%	3.86%	17.85%	21.44%	15.93%	15.04%	17.42%

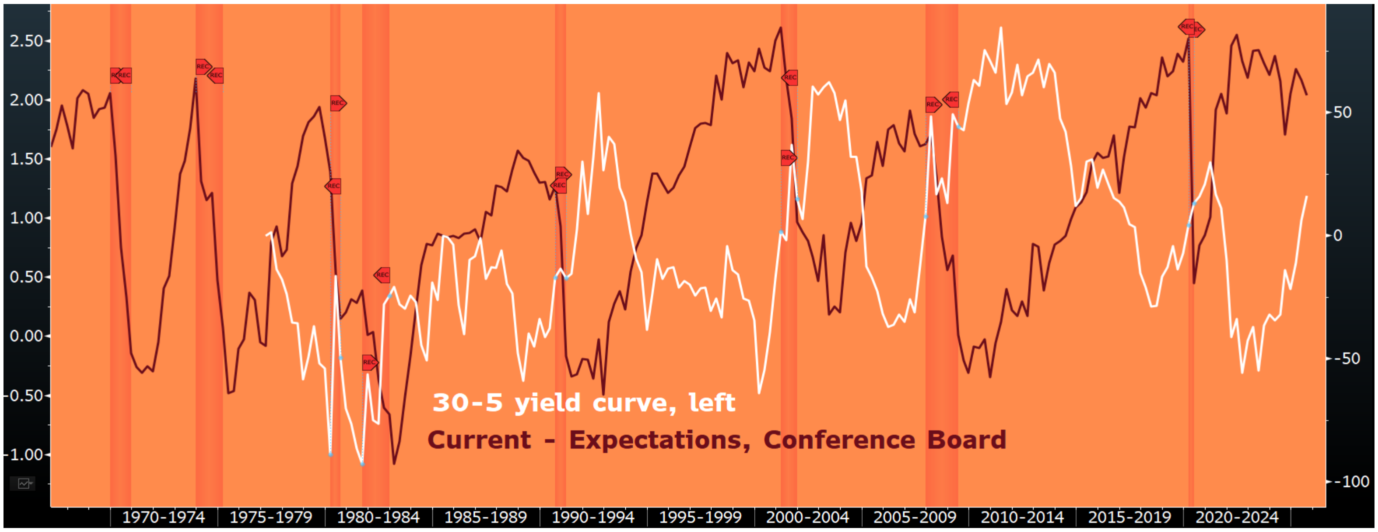
Note: Returns for the Forge First funds are based on the August 2012 Class F Lead Series and are net of all fees and expenses. In a year, up to 12 series can be created within a Class of units. Unitholders are advised to refer to their monthly statement for the net return of their respective Class and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

Looking ahead, we have entered what has historically been the worst part of the calendar year for stocks at a time when the derivatives-based, algorithmic trading community (CTAs or Commodity Trading Advisors) are positioned with maximum exposure to equities. While we are surprised at the ambivalence of investors to world events, including the theatre in Washington, it is the indifference to the steady climb higher in 30-year yields (see graph below) that has particularly caught our eye. As regular readers will remember from our year-ahead commentary, we thought we'd see 5% yields before we saw 4%, a view that gave us pause. For now, this relentless climb higher, which is being driven by real yields not breakevens, has not mattered to investors.



Source: Bloomberg

Perhaps this lackadaisical attitude (at least for now) is explained by this next graph. This 60-year graph below compares the 30–5 yield curve (white line, left axis) against the spread between the Conference Board's Consumer Confidence Survey, specifically current view minus future expectations (red line, right axis) with the shaded vertical bars denoting recessions. Notice that how into recessions, the red line falls and the white line rises, indicating the combination of consumers getting pessimistic about their current situation while central bankers begin to cut short-term interest rates. However, on the far-right side of this graph, the white line is rising but the red line is not following. Consumers still feeling okay about their situation (yes, it's quintile-dependent within the socioeconomic strata) is substantiated by continued strength in consumer spending.



Source: Bloomberg

Of course, the Fed has started to cut rates; more so, it appears investors now presume full FOMC compliance with the interest rate desires of President Trump. To that end, despite rich valuations, we acknowledge equities could grind higher. Hence, we will add to conviction ideas on pullbacks yet stick to the portfolio discipline implied by our investment mandate. For example, the funds increased beta exposure to gold-producing and exploring equities at the end of August. Our preferred position remains Skeena Resources Ltd. (SKE.CA), a well-financed, catalyst-rich company. After several months of consolidation, we expect that gold should continue to benefit from easier fiscal and monetary policy, with additional upside from a stagflation scenario with weaker jobs and higher inflation readings.

While there is the continued expectation of a shrinkage in the earnings growth gap between the M7 and the S&P 493, YTD revisions to 2026 estimates continue to favour the M7 (+1%) over the S&P 493 (-4%). Meta Platforms Inc. (META.US) and Amazon.com Inc. (AMZN.US) continue to be two of our preferred names within the M7. We have also maintained our delta short exposure to the Russell 2000 via options strategies, despite the index outperformance in August. This position is not a short-term view on the direction of the Russell 2000, but a structural longer-term view on our ability to identify securities with more attractive growth, quality, EPS revisions and valuation characteristics than the index, thus driving alpha and hedging beta. For reference, although stabilizing recently, Russell 2000 headline EPS estimates for 2025 and 2026 have declined by approximately 13% and 8%, respectively, year-to-date. The Russell 2000 Index trades at approximately 24x headline NTM EPS estimates, which is near the 75-percentile on a 20-year lookback.

While we're disappointed at the recent performance of the funds, our years of experience and track record of generating alpha and managing volatility enable us to realize that thorough homework and sticking to our mandate bode well for us delivering on our twin goals for our clients.

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

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