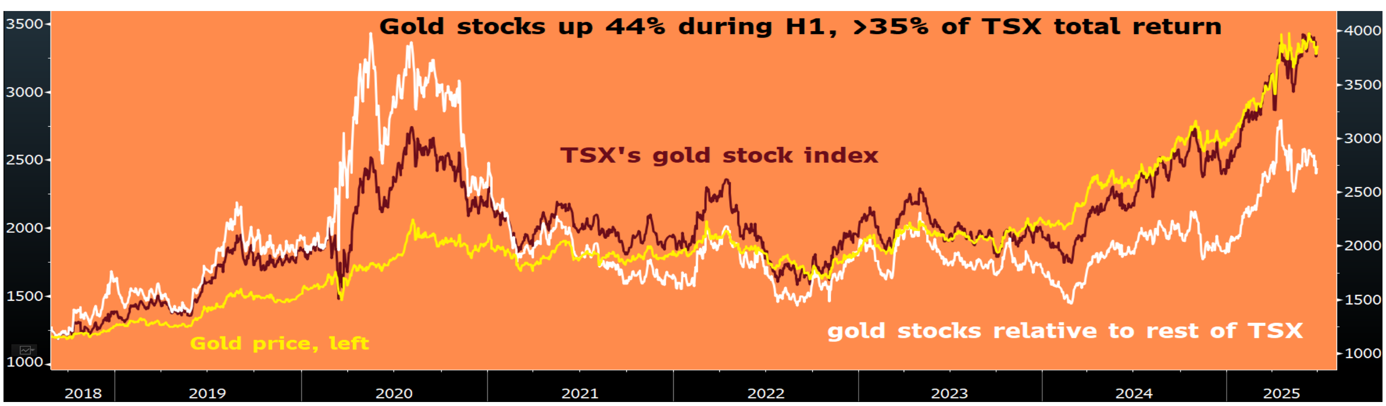
July 9, 2025

June 2025 Commentary

By the last trading day of Q2, the S&P 500 had clawed back the almost $10T it lost between its pre-tariff high on February 19th and its April 8th tariff-inspired low, plus $500B on top of this recouped loss, closing the first six months of 2025 with its fifth new closing high of the year (and 15th since the U.S. election). The M7 accounted for 44% of this bottom-to-top recovery and as the M7 group is the 'poster child' for both large cap and growth factors, the graph below explains their outperformance during the Q2 recovery in equities. Starting on the left, from January 2024, the right side of this 18-month indexed graph makes it pretty clear that large cap growth was the only place to be of late, prior to the 'junk rally' that joined the party in early June, with the 'high beta' and 'most shorted' factors outperforming the M7 during that time.

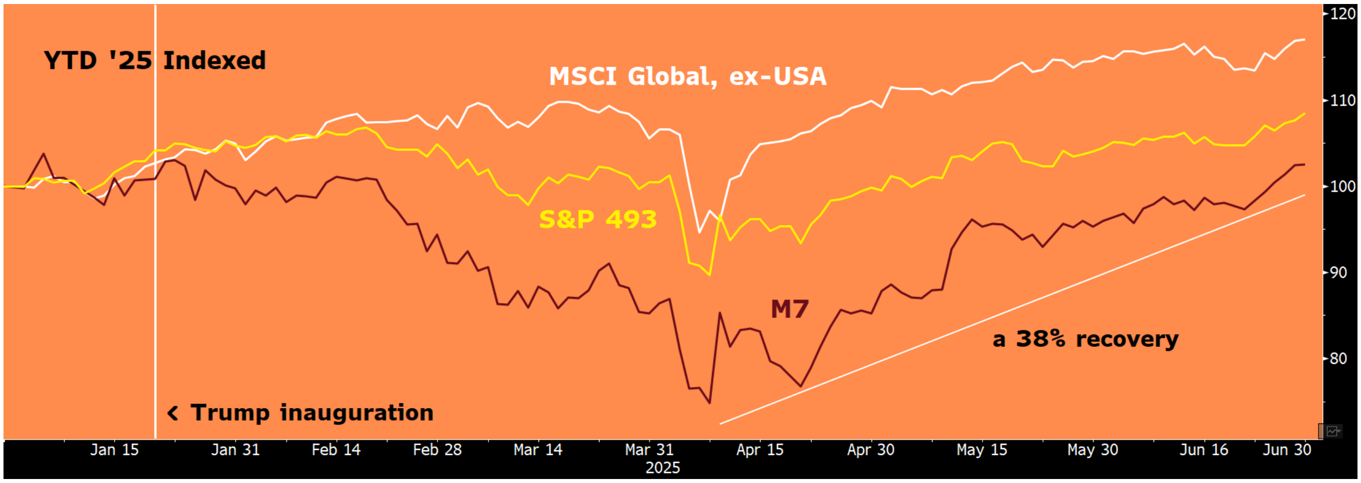
Source: Bloomberg

While that action marked the first signs of frothiness this cycle, gold sparkled during the first half of 2025, climbing 26%, enabling gold stocks to be North America's equity stars of the first six months. Up 43.8% as a group and closing the front half, representing 9.1% of Canada's TSX, shiny metal stocks accounted for more than 35% of the total return of the TSX. This outperformance is implied by the rising white line on the right side of the graph below. Starting in August 2018, the red line displays the gold stock index with bullion appropriately displayed by the yellow line. Our funds continue to own gold stocks, including Alamos Gold Inc. (AGI.CA).



Source: Bloomberg

Aided by this boost from gold stocks, the TSX outperformed the S&P 500 for the front half of the year, markedly so when the SPX is priced in Canadian dollars. Yet, the MSCI Global Ex-USA Equity index (white line) outperformed all North American equity indices including the M7 (red line) and the S&P 493 (yellow line) in the YTD, indexed graph below. European equities have been a key driver of this outperformance, waking up from years of underperformance, as their equities are much less expensive than U.S. stocks, the ECB has continued to cut rates (-235 bps from year-ago levels), Germany has announced large fiscal stimulus, and bank lending is 'up off the mat' and growing.



Source: Bloomberg

Each of our two funds generated solid returns in their respective equity books, as was the case with the fixed income sleeve that resides in our multi-asset, sophisticated balanced fund, the Multi Strategy LP. Of course, given the strength in equities, it is little surprise that our disciplined use of market hedges cost the funds money last month. Positions in Technology (Taiwan Semiconductor Manufacturing Co. Ltd. (TSM.US), NVIDIA Corp. (NVDA.US)) and Financials (Trisura Group Ltd. (TSU.CA), JPMorgan Chase & Co. (JPM.US)), led the profit parade for the funds, with honourable mention to securities within the Energy, Consumer Cyclical, Consumer Non-cyclical and Materials sectors.

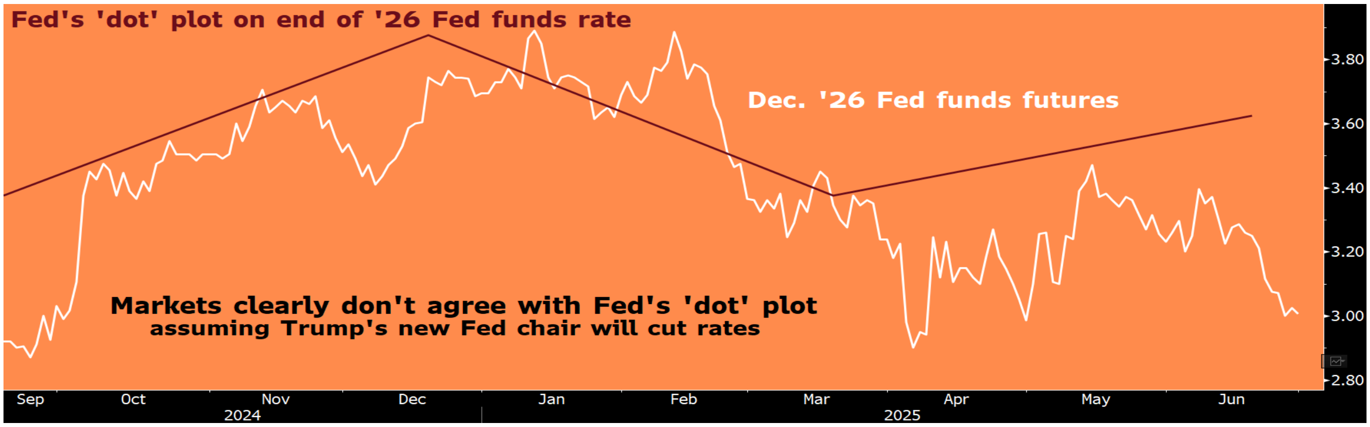
As a result, the Class F Lead Series of our Multi Strategy LP earned +3.16% net of fees last month, enabling the fund to conclude the front half of 2025 up +2.95% net year-to-date. The Class F Lead Series of our Long Short LP advanced +2.41% net of fees during June, pushing its YTD net return to +1.76%.

						----------------Annualized----------------			
As of June 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)	1.76%	2.41%	2.52%	1.76%	7.86%	6.57%	10.41%	7.71%	12.86%
Forge First Multi Strategy LP (Class F Lead Series)	2.95%	3.16%	4.49%	2.95%	12.85%	9.90%	11.92%	7.34%	10.95%
S&P/TSX Composite Total Return Index	10.17%	2.91%	8.53%	10.17%	26.36%	16.09%	15.02%	9.61%	9.96%
S&P 500 Total Return Index (C$)	0.56%	4.08%	5.15%	0.56%	14.75%	22.00%	16.66%	14.65%	17.21%

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.

Delta-adjusted net equity exposures in our Multi Strategy LP and Long Short LP were up 10% and 7% respectively from the end of May, with increases in gross exposure of +39% and 30%, respectively. These higher exposure levels are largely reflective of heightened exposure in conviction ideas and lower levels of implied volatility, which in turn allow for increased option positioning. At the end of June, the Multi Strategy LP held delta-adjusted gross and net exposures of 247% and 80%, with the net exposure split between multi-assets (42%) and common equities (38%). The Long Short LP exited June with delta-adjusted gross and net exposure of 159% and 33%, respectively.

Lean positioning, dovish Fed speak, a low Q2 EPS bar (reporting begins July 15th), stimulative fiscal policy, and resilient economic data are bullish forces likely to be supportive of positive equity performance and our increased exposure levels in the near term. Starting from September 2024, the following graph compares the expected Fed Funds rate at December 2026 according to market pricing (white line) to the Fed's "dot plot" for the same variable. Note the divergence on the far-right side, partially attributable to post-FOMC speakers, including Powell who noted during his congressional testimony that if it wasn't for tariffs, existing data supports neutral policy rates (~3% according to the SEP). Second, White House jawboning regarding the appointment of a 'shadow' chair clearly has markets discounting rate cuts in '26.



Source: Bloomberg

To that end, the one-year graph below compares the one-year, one year from now secured, overnight USD interest rate (white line, right axis) against the relative performance of cyclical stocks, excluding commodity stocks, to equities considered to be defensive. As stated in the graph's subject line, stocks have clearly started to discount a restart of Fed rate cuts prior to a significant deterioration in the economy. Our team is aware such action could trigger meaningful rotation in the equity market, partially due to material curve steepening. Hence, inflation-sensitive equities would likely outperform while defensives endure heightened underperformance. If this scenario played out, it's likely the funds would boost their exposure to commodities (energy, copper, gold) and cover housing shorts. We're on alert!

Source: Bloomberg

While on the topic of interest rates, let's spend a moment on what Treasury Secretary, Scott Bessent, is up to. As it appears, the U.S. fiscal deficit is going to increase from its already equity-juicing levels, so will net issuance. Despite being critical of Yellen for funding at the short end of the curve, Bessent has stuck to that strategy, supposedly holding out until yields on UST 10s and longer fall into the low 3s. Granted, the U.S. private sector is running a surplus which helps fund the public sector, yet we're of the view that low 3s on 10s through 30s can only happen if the U.S. endures a full-on recession which history suggests would not be good for stocks.

Consequently, Bessent has begun to enlist a few tactics to try and 'game the system'. Conventional tactics include funding maturing coupon securities with T-bills ("stealth QE"). Arguably, this heightens the sensitivity of the treasuries' book to inflation if prices were to rise but so be it. Then there's the Fed's plan to ease the leverage requirements (SLR) of banks. Less conventionally, there are 'stablecoins'.

Stablecoins are a type of cryptocurrency designed to minimize price volatility by pegging their value to a stable asset such as a hard currency or U.S. Treasury bond. Recently, U.S. Senate approved the Guiding and Establishing National Innovation for U.S. Stablecoins Act ("GENIUS Act"), which creates a federal regulatory framework for use of stablecoins (digital assets that are typically pegged to a hard currency). The House of Representatives approved the STABLE (Stablecoin Transparency and Accountability for a Better Ledger Economy) Act in April, which is similar in nature to the GENIUS Act, though it still awaits full House approval (the two bills need to be identical to pass into law). Bessent believes managers of stablecoins, such as Tether, could be big buyers of bonds. Time will tell!

Those tactics may all be helpful but what really matters for Bessent's plan to work is for foreign investors to continue to want to own the USD. Yes, we're aware there are few liquid alternatives to USTs but last month, the U.S. net investment income (income less payments) from its net stock of international investments turned negative after running positive for the past 36 years, despite running a negative net international investment position (now at US$26.2T or 89% of GDP at end of 2024). In addition, the U.S. current account deficit sits at 6% of GDP, and of course the fiscal deficit approximates 6% perhaps moving towards 7%. Interest expense was 13% of Washington's budget in 2024. Yes, bond yields have rallied, but we have little interest in extending duration in the fixed income sleeve in our Multi Strategy LP.

Source: Bloomberg

Combining these realities with the policy (including trade) uncertainty of the Trump administration, it is understandable why the U.S. dollar suffered its largest first half decline since 1973. The five-year graph above compares the number of euros needed to buy a USD (red line, left axis) against the spread between U.S. and German two-year rates. Note the marked decoupling on the far-right side of the graph. Secretary Bessent has his work cut out for him. While the trade-weighted dollar is not as weak as the euro-heavy DXY, watching what goes on here could have huge implications for markets.

Then there is today's reciprocal tariff deadline of July 9th. Running up to today, comments from Trump's team imply the 'bark may be bigger than the bite' in this latest round of tariff games. However, we are well aware that our job is to both generate a competitive net return and to protect capital when markets get rough. Hence, it would have been imprudent for us not to have remained concerned towards a rise in risk premiums into today (same with the August 12th 90-day deadline for the trade pause with the Chinese). Of course, if President Trump acquiesces on trade deals or kicks this deadline further down the road, from a trading perspective, risk could once again become game-on. So, here's what we've done.

As stated earlier, lower levels of implied volatility have enabled the funds to raise gross exposure (long positions and hedges) in accordance with the funds' investment objectives. For example, our month-end July SPY hedges have an absolute cost of 19 bps for -6.6% delta-adjusted exposure and -28% notional short exposure with a profit window (price levels for the SPY ETF) of 610/570, which at the time of writing represented -1% to -7.75%. We have an additional July 11th SPY hedge for any material rise in risk premiums around July 9th, which has an absolute cost of 3bps for -2.2% delta-adjusted short exposure and -23% notional short exposure with a profit window of 600/575. VIX-driven cost-effective systematic hedges allow us to responsibly increase exposure levels with heightened protection if the environment changes rapidly. This protection enables us to offer our clients upside participation in a responsible manner with disciplined portfolio construction that will assist us if there is a meaningful rise in risk-premiums.

We have also added an August 1st expiry IWM 225/235 1x2 ratio call spread, while shorting a July 11th IWM 225 call. This structure has provided the funds with a low-cost, "high right tail exposure" position for the month of July. With beta-factor performance improving notably in June and increased Fed cuts being priced in, we see marked upside optionality for IWM in the near term if July 9th passes without fireworks. The position is structured delta-short 1% initially, which will move delta long post-July 11th or sooner. The total cost in the Multi Strategy LP for this trade is only 3 bps, while offering illustrative profit potential of 25-100bps on a 6-9% right-tail move in IWM. We have used a ratio trade as we are comfortable re-shorting IWM at greater than 235.

Last but not least, on the last day of July, the U.S. Court of Appeals for the Federal Circuit will hear arguments on whether the Trump tariffs are permitted, with the loser expected to appeal to the U.S. Supreme Court.

There seems to be little talk about what can go wrong at this juncture, especially given that the S&P 500 is trading at 24.3X 2025 Operating EPS (26.3X on reported EPS) and 21.0X 2026 EPS (22.6X reported EPS). Yet, for the reasons discussed in this note, we believe markets can grind higher in the near term. Having said that, notwithstanding the efforts of Bessent, we believe that liquidity conditions will begin to deteriorate later in 2025. Consequently, we will remain disciplined at maintaining a robust selection of insurance and let our stock-picking (vs. the beta of the markets) make money for our clients.

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

Andrew McCreath	Keenan Murray
CEO	CIO, Portfolio Manager