JEMEKK LONG/SHORT FUND L.P.

Inception date: July 2004
Q1 2025 Commentary

	Q1/25	YTD	Since Inception
Jemekk Long/Short Fund	-0.24%	-0.24%	285.27%
S&P TSX Composite	1.51%	1.51%	428.42%
S&P/TSX Small Cap Index	0.88%	0.88%	146.51%

** Benchmarks quoted in Total Returns*

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The format of this commentary will be a departure from our typical quarterly updates. We will briefly highlight the main events of Q1, but the focus will be on what is currently developing with respect to the heightened tariff escalation.

In our last communication we said 2025 will have more volatility than 2024 - this was a massive understatement. In the US, Q1 had a positive start but this quickly came to an end with a series of market moving events. Canadian markets in the quarter were less choppy and fared much better than all major US indices. For the quarter, the Dow, S&P 500, and the Nasdaq had returns of -0.90%, -4.3%, and -10.3% whereas the TSX was up 1.5%. The reason why US markets came under far more pressure was the significant underperformance of the 'Mag 7' with Nasdaq being especially hit hard by the DeepSeek event which shaved over $1t of market capitalization off tech stocks in one day. The AI buzz has cooled off as investors are gauging where we are in the demand cycle. We did well with this theme last year buying and selling Celestica but this year we remain sidelined on the AI hype and chose not to chase.

The Materials sector took center stage in Canada during Q1. It was the best performing sector (+20%) largely due to gold being up 19% in Q1. Utilities also fared well in Q1 whereas Health Care and Technology were the worst performing sectors. The TSX Small-Cap Index mirrored this relationship as well. There were a handful of gold stocks in the top performers for the TSX, and the Long/Short Fund benefitted from having good exposure to some of these names given our overweight position on gold and in fact the Fund owned the index's best performing name, G Mining Venture (GMIN). Never pleased with reporting a negative quarter for the Fund, but given the volatility witnessed in the quarter, and on the heels of a strong 2024, we are ok with how the Fund performed relative to its respective benchmarks.

There were several reasons for the US market sell off in Q1 - from the waning deregulation euphoria (post-election), to investors questioning the sustainability of the AI cycle - but this was all overshadowed by the growing realization of the introduction of tariffs and what is now a full blown trade war. Tariffs are not new news and part of the Trump campaign even during Trump 1.0 but before we get into that let's start with the core plan as Trump sees it. The US has $36t in debt and approximately a $2t deficit that Trump wants to eliminate and his way of doing so is by: Cutting costs and removing reckless spending by the government (i.e. DOGE); Deregulation in an effort to stimulate business activity; and Tariffs, which Trump has aptly named 'External Revenue System.' Trump has tasked Elon and his DOGE members to find $1t in cost cuts and Howard Lutnick (Secretary of Commerce) to source the other $1t. Securing $2t in one year is no easy feat but so far, we have seen these teams feverishly attempting to do so and time will reveal they will break things along the way. In other words, nothing about this seems surgical to us. For now, we will focus on the tariffs.

Tariffs, a self-described "beautiful word" by Trump, is the biggest issue moving markets as the quarter ended and deserves the focus of this commentary. For decades Trump has argued the US is being treated unfairly with respect to tariff agreements and trade deficits – specifically, the tariffs the US have are significantly lower than corresponding countries charge the US. During the quarter Trump began to roll out his master plan, starting with Canada and Mexico, and floated the idea of reciprocal tariffs. On April 2nd Trump introduced reciprocal tariffs on each country based on a questionable formula to derive the tariff rate. This date was referred to as 'Liberation Day' but felt more like *Obliteration Day*. The excessively high tariff rates threw global markets into turmoil with all major indices around the world selling off (the US more than others) as fear of a global recession heightened in the face of an all-out global trade war.

The rate on China (54%) was extreme, and China immediately followed with their own retaliatory tariffs, and this has escalated further. The two largest economies in the world both tariffing each other excessively is a lose/lose situation. A tariff is a tax on the consumer of the home country. From our seat, Trump has surrounded himself with individuals who are extremists and do not fully understand the results of their actions – with Peter Navarro at the center of this.

So, is this all an elaborate negotiation tactic with Trump pushing other countries to dial back their existing tariffs (we acknowledge some of the counter rates do seem unfair from a US perspective)? Or is Trump orchestrating a destruction by design plan to bring interest rates down by throwing the US economy into a recession (the odds of a recession are now 50%)? Of the $36t of US debt, $9t of it matures this year and if interest rates are lower the savings could go a long way to helping Trump balance the budget. Could this really be Trump using tariff threats to push yields lower? Would the president of the United States purposely cause a stock market crash wiping out trillions of dollars to help fund his agenda? During the second day of the selloff Jerome Powell had a scheduled conference (non-FOMC) related and took some Q&A and was asked about potential Fed reaction to the selloff. During this speech, Trump posted on Truth Social that this would be a 'perfect time' for the Fed to cut. The problem with this is that tariffs are inflationary, and this in itself would cause the Fed to pause or raise, which Powell confirmed.

We have seen several major stock market drawdowns in our careers, but this is the first one that was entirely self-inflicted. This was the sixth fastest market correction since 1920. We are still debating whether the reciprocal tariffs implemented are a negotiating tool and can be pared down and Trump can take that as a win and drive on, or does he believe the US needs to re-shore major manufacturing in which case this will take several years, if not decades, to implement. From a market perspective the issue the equity bears had was the elevated valuation – S&P trading at the high end of the range (22x) - and that the Mag 7 was a crowded trade. Today, as we write, the market has corrected, now at 19x, and the Mag 7 has de-grossed materially. Given the fluidity of the situation, we are unsure how long this selloff (which had entered "Bear" territory) will continue and acknowledge everything can change with a couple of 'X' posts. The market is wrestling whether a 'Trump Put' or 'Fed Put' is alive but remain undecided. We can say with confidence that if these extreme reciprocal tariffs, as outlined, are implemented it will increase inflation and lower growth – not a great backdrop for long equities.

On the positive side, we are seeing a growing list of opportunities emerge, as many stocks have sold off, in excess of the magnitude of pain that tariffs could provide.

Of the two outcomes described above, we will err towards the ongoing discussion to be a negotiating ploy. We have not read Trump's "Art of the Deal", nor Navarro's "Death by China", but clearly the market, and the vast majority of pundits would ascribe that tariffs will slow growth and result in inflationary pressures not welcomed by the current – 1 term – administration. The market has voted, and although Trump's inner circle claims to not "look" at the market, we know this is false. In fact, the day of this writing, the administration has begun to back pedal with a 90 day "pause" (ex-China). Although not a "green" light, the situation has begun to head towards a better resolution. However, there has been damage done, and there are still tariffs (albeit significantly less than threatened) that will slow global growth. The result of this appears to have led global money to look for alternatives, a welcome response from our perspective, as Canada is rich in alternatives and real assets, and perhaps we are beginning to see fund flows to markets other than the US. Currency moves would suggest this.

From a Fund perspective we are close to our neutral weighting of 70% Net Long (down from +80%), with ample cash and defensive hedges in place. The liquidity of the Fund remains towards the higher end, with no name representing more than 6% of the Fund, and no sector with a higher than 25% weighting. The second quarter of the year, which has just begun, will give us significantly more indications of Trump's intentions. If tariffs go ahead as described, we will ratchet back exposures, favoring those least impacted by tariffs – groups such as Precious Metals that have boded us well in Q1 and would continue to perform in the face of a stag-flatting global economy. However, if these threats of a new global order, underpinned by a tariff war, are nothing but a negotiating ploy, we would expect markets to recover and would look to get longer as the original premise of Trump 2.0 gets implemented. Time will tell, and with ample liquidity, and available cash, we would expect to pivot quickly, either way.

We thank you for your continued support and look forward to communicating with you at the end of Q2. As always, please feel free to reach out to any of us below.

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