Fortem Capital Alternative Growth Fund

Monthly Commentary – 31st March 2022

UK & EU – For professional and institutional investors only
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Total Return	2022	Mar
UK 100	2.9%	1.4%
US 500	-4.7%	3.7%
Europe 50	-9.0%	-0.5%
Japan 225	-2.7%	5.6%
Hong Kong 50	-5.7%	-2.8%
US 2000	-7.5%	1.2%
Swiss 30	-4.3%	2.8%
BCOM	25.5%	8.6%
US Treasury	-5.9%	-2.8%
Euro Property	-5.5%	0.9%
PGF	**-4.0%**	**-1.0%**
AGF	**0.6%**	**0.7%**
Real Estate	**-3.9%**	**4.7%**
US Equity Income	**-5.9%**	**3.7%**

March was an extraordinary month in global markets. At the beginning of the month, as attention was firmly focussed on the Russian invasion of Ukraine, equities, particularly in Europe, suffered heavy losses. Remarkably, even with no resolution to the conflict, those losses were made back throughout the month to leave most major indices sitting above where they started it. The notable exception was Hong Kong, where the absurd 'zero-covid' policy has prompted a swathe of lockdowns.

Despite the volatility in equity markets, it was bond and commodity markets that continued to grab headlines. There were truly unprecedented moves in commodities; energy and grains were particularly affected by the fallout from the invasion as a somewhat rare, by modern standards at least, coordinated response from the West put Russian energy exports in the spotlight. But the biggest surprise came in Nickel, where a Chinese billionaire, who also happened to own one of the world's largest Nickel exporters, got short squeezed on his own reckless speculation. Ordinarily this would be a problem for any individual, unless the exchange, LME in this case, cancels all trades for that day and effectively turns back the clock, to the detriment of those who were on the other side of those contractually agreed trades.

Bond markets provided no refuge for investors as US Treasuries closed March to record their worst quarter since records began. It is well documented that the bond market has come under pressure as inflation has risen, threatening the goldilocks environment of the past decade. The first major ground invasion in Europe since the Second World War has put further pressure on prices and therefore policymakers, albeit whilst seemingly throwing them a bone in that it now seems the 'Putin Price Hike' is being blamed for the world's inflationary troubles, which were already set in motion long before.

The Fund posted a return of 0.7% for the month.

The best performing strategies were the Fund's rates strategies. These strategies are net long rates volatility and benefit from turbulence in US rates. The Fund also owns a swaption on US 10 year rates, with a strike of 3%; this provides the Fund with some convexity in the event of further increases in the US 10 year Treasury yield .

In spite of the unprecedented moves seen in commodity markets, the Fund was unscathed testament to the dynamic nature of the strategies' implementations as well as some weakening of timespreads towards month end. Levels of backwardation entered previously unseen territory on the back of the invasion, and still sits in the 99.5th percentile historically. As a reminder, the strategies are set to benefit from the move back towards contango when it occurs.

The Fund's FX Value strategies were the detractors; the strategies go long and short G10 currencies based on their under/overvaluation relative to their PPP. The Yen was the main driver as the Bank of Japan boosted its bond buying programme to control its yield curve.

As the dust has settled on the first quarter of 2022, the financial press is awash with the death knell for the 60/40 portfolio, something that has been written about here for some time. As always, most commentators are too binary in their aspersions; it is true that currently the 60/40 portfolio is not fit for purpose, but it may well have its time again if bond and equity markets are ever allowed to function without obscene central bank intervention; this is not a given. What is more relevant for investors is that, in the current environment, one needs more than two asset classes in order to achieve diversification in a multi-asset portfolio. Policymakers said, incorrectly, that there would be no inflation. They said, incorrectly, that it was transitory. They now say it has peaked. Given their track record in predicting these things, it would be foolhardy to take them at their word; they hope it has peaked, as does everybody else.

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