# Fortem Capital Alternative Growth Fund

## Monthly Commentary – 31st May 2022

UK & EU – For professional and institutional investors only
Switzerland – this is an advertising document for professional and institutional clients as defined by the Swiss Financial Services Act only

| Total Return | 2022 | May |
|---|---|---|
| UK 100 | 4.8% | 1.1% |
| US 500 | -12.9% | 0.1% |
| Europe 50 | -10.1% | 0.9% |
| Japan 225 | -4.4% | 1.0% |
| Hong Kong 50 | -7.6% | 2.1% |
| US 2000 | -16.6% | 0.2% |
| Swiss 30 | -7.4% | -4.1% |
| BCOM | 32.4% | 1.4% |
| US Treasury | -8.9% | 0.6% |
| Euro Property | -14.0% | -4.0% |
| **PGF** | **-4.9%** | **0.6%** |
| **AGF** | **0.0%** | **-1.6%** |
| **Real Estate** | **-13.5%** | **-6.6%** |
| **US Equity Income** | **-12.9%** | **0.1%** |

Investors in traditional asset classes had suffered a torrid start to the year before May, when they were granted some respite. Heading into the month, investors' attention remained on the key risks that had thus far dominated headlines; inflation and its effect on the future direction of central bank policy, the continuing war in Ukraine, and Covid policy rather than Covid itself. After a 1.2% rise in March, consumer prices in the US rose 0.3%, fuelling hope that the pace of rising prices was slowing. Bond and equity markets reacted well to the data and recovered strongly to both post positive returns overall.

European markets remain affected by the continuing war, amongst the other prevailing risks, and May saw the first European embargos on Russian energy. In the US, the Fed raised rates by 50bps, and signalled another 50bp hike in June, although the messaging became muddled as the month wore on, much to the delight of bond and equity markets alike. Rates volatility in particular fell heavily. In China, Shanghai, much of which has been in lockdown due to the relatively mild Omicron variant, finally began to reopen as cases dropped, to the relief of Chinese equities.

The Fund posted a return of -1.6%.

Unsurprisingly, it was the Fund's rates volatility strategies which were the biggest detractors, given the heavy falls in rates volatility towards month end. Combined they took off 0.8%.

The Fund's US equity volatility arbitrage strategy was also a detractor, -0.5% at Fund level. Historically, the strategy can drawdown on more measured volatility stresses; in spite of the pain felt by investors, volatility has not returned to levels seen in '98 '01 '08 '11 & '20. However, it tends to be long 'the wings', meaning that it should provide convexity in severe market stresses such as those mentioned above.

The Fund's long CDS positions also suffered as credit spreads narrowed on the 'good news' of an inflation rate of 8.3%.

The Fund's commodity strategies were muted as curves remain in the 99th percentile of backwardation. Indeed, long commodity positions continued to be a good place to be for investors. The entry point for commodity curve strategies remains as attractive as it has ever been, and the Fund is set to increase weighting here.

Despite the brief respite after hopes were raised of a peak in inflation having passed, it would seem, as has been argued here for some time, that central banks have grossly miscalculated inflation. The money supply was vastly increased post-2008, causing none, but money supply alone is not enough; velocity matters. As a response to Covid, more stimulus was provided in three months than in the six years after the Financial Crisis, but this time in monetary and fiscal union, including direct injections of cash into bank accounts. The money found its way to Main St rather than being trapped on Wall St. it has left a $6trn overhang of excess money in the system.

The probability that the inflation being seen is in fact more of a secular phenomenon has increased hugely. May's print, published in June, showed a reacceleration, causing equities and bonds to once more come under pressure.

The Fund has recovered all of May's performance and more since month end. As much as the narrative of the Fed being hesitant to heap more pressure on markets is something investors are hoping holds true, there is perhaps an argument that they should be looking to DC rather than JP; non-asset owners, who control a huge block of votes, are feeling the pinch. Gas prices tend to equal votes, and they have passed $5 for the first time ever. With mid-terms on the horizon, the Fed may now have no choice.

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