Fortem Capital Alternative Growth Fund

Monthly Commentary – 30th June 2022

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Total Return	2022	Jun
UK 100	-1.0%	-5.5%
US 500	-20.2%	-8.3%
Europe 50	-18.0%	-8.8%
Japan 225	-7.5%	-3.1%
Hong Kong 50	-4.9%	2.9%
US 2000	-23.4%	-8.2%
Swiss 30	-14.3%	-7.5%
BCOM	18.0%	-10.9%
US Treasury	-10.4%	-1.6%
Euro Property	-29.4%	-15.9%
PGF	-7.4%	-2.7%
AGF	1.2%	1.3%
Real Estate	-22.9%	-11.9%
US Equity Income	-20.2%	-8.4%

As the curtain comes down on the first half of 2022, investors will not look back on it fondly.

It has been labelled an extraordinary year thus far; equities have suffered their worst start to a year in the last half century, whilst bond markets have also suffered one of their worst starts since records began. Extraordinary stuff. But, possibly not when one considers that the very policy that has given both major asset classes such an enormous tailwind for so long is not only stopping, but reversing altogether. That tailwind became a hurricane with the disastrous monetary and fiscal response to the pandemic, bringing about rampant inflation, leaving both asset classes now facing directly into that same storm.

Investors' fears about the future direction of policy returned in June, after May's brief respite, as inflation surprised to the upside once more. Later in the month attention turned to weakening growth numbers, putting further pressure on equities, but affording bonds some relief due to investors' assumption that the Fed are unlikely to continue to hike rates into a possible recession. Anyone who cares to read any of the Fed minutes or listen to testimony to Congress will be aware that this is a very big assumption indeed.

It leaves global equities down over 20% for the year and bonds down over 10%.

Against this backdrop the Fund increased by 1.3% in June.

As global growth concerns took hold, there was some weakness in commodity prices, particularly cyclical industrial metals. The Bloomberg Commodity Index fell 10% from its stratospheric highs, to the benefit of the Fund's commodity strategies. In spite of some fairly significant weakness, the falls were fairly parallel across the term structure, meaning both that the curves remain incredibly backwardated, and that the fall did not benefit the Fund as much as it might have. Still, the commodity strategies added 0.6%, and the Fund remains positioned to truly benefit from the shifting of the term structure back to contango. The commodity curve positions were upsized during the month.

The Fund again benefitted from the turbulent US bond market through its rates volatility strategies, particularly at the start of the month. As noted, rates and their associated volatility came off markedly towards month end as growth deteriorated, much to the relief of bond allocations in multi-asset portfolios (rates and bond prices move in opposite directions). But, investors should beware looking to previous episodes of slowing growth for clues on any Fed pivot; most have been deflationary, and whilst the current slowdown could also prove the peak of inflation, if it is more secular, and indeed if the sheer enormity of the policy response to the pandemic does mean that the die have been cast on that front, policymakers are being incredibly clear that a return to price stability is the priority.

Elsewhere, the Fund's exposure to Credit Default Swaps also benefitted from a widening of credit spreads, adding 0.3%. Given the focus on central bank policy, credit has rather flown under the radar thus far this year, but spreads have steadily widened. If the outlook for growth is as dire as some are predicting, the focus could very quickly shift here, and we may be about to find out who lacks trunks if and when the tide truly does go out.

It would seem that markets may have once more returned to a 'bad news is good news' mindset, given the belief that the Fed will tap the brakes on policy if data continues to worsen. Unfortunately, bad news is bad news, and there is a fair amount of it currently..

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