Fortem Capital Alternative Growth Fund

Monthly Commentary – 29th July 2022

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July was broadly similar to May as investors in risk assets were granted some respite in what has been a difficult year thus far.

The debate around the future direction of Fed policy evolved on the back of some weaker economic data; investors are now positioning for the Fed neither hiking as high nor for as long as the global economy looks to be slowing. In fact, the market is pricing in cuts in 2023. The two flies in that theoretical ointment remain inflation, which accelerated to new highs, as well as the continued strength of the jobs market.

The MSCI World returned 8.0% whilst global aggregate bonds were up 2.1%.

The Fund was down 1.7% over the month.

The Fund's long CDS positions were detractors as credit spreads narrowed on the back of the market pricing in easier credit conditions for companies in the coming years. The European iTraxx Main spread fell by 15%, whilst in the US the CDX IG spread fell by 20%. Whilst it would naturally follow news of any Fed pivot that credit markets would be buoyed, if that pivot is being brought about by concerns over a deep recession, celebrations here are likely premature.

The other exposure in the Fund that suffered as a result of the shift in sentiment were the rates volatility strategies. Rates volatility has fallen both as a result of the market's updated perception of the hiking cycle, but also as a result of pension funds de-risking and moving into longer dated fixed income. The strategy is long vol at the longer end whilst harvesting some premia at the front and should be well suited to some eventual steepening from the yield curve's current inversion. The long vega profile also remains an effective hedge on the market underestimating the Fed's determination to bring prices under control.

Commodities returned to their upward trend in July, having shown some weakness in June. As investors will be aware, the Fund is positioned to take advantage of the eventual mean reversion of the commodity term structure back to its natural shape. Over the past 18m, this has been a headwind as the term structure has continued to move to unprecedented levels of backwardation. Those levels are the best entry point that has been seen, and the Fund continues to edge up its exposure.

The Fed have, for the time being at least, abandoned forward guidance, instead suggesting that they will be guided by 'the data'. The market has taken that to mean that the Fed will be looking at weaker economic data as a sign that they need to pivot. In the minutes, it is crystal clear that the only data point of note is inflation. They are looking for a sustained period of inflation coming down significantly before they will even consider it. Inflation accelerated in June, and any moderation in July was exclusively brought about by gasoline prices. As the stickier components such as shelter and wages take up the baton, by far the biggest risk to the Fed's credibility is pivoting too early, having accepted inflation's non-transitory nature too late. History is forgiving of those policymakers that preside over recessions; most do. It will not look kindly on those that allow inflation expectations, which are what matter to the Fed rather than the headline rate, to become unanchored.

Total Return	2022	Jul
UK 100	2.6%	3.7%
US 500	-12.8%	9.2%
Europe 50	-11.8%	7.4%
Japan 225	-2.6%	5.3%
Hong Kong 50	-11.9%	-7.4%
US 2000	-15.4%	10.4%
Swiss 30	-11.1%	3.8%
BCOM	22.9%	4.1%
US Treasury	-8.2%	2.4%
Euro Property	-18.6%	12.5%
PGF	**-5.1%**	**2.6%**
AGF	**-0.5%**	**-1.7%**
Real Estate	**-16.3%**	**8.6%**
US Equity Income	**-12.8%**	**9.3%**

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