Fortem Capital Alternative Growth Fund

Monthly Commentary – 31st August 2022

UK & EU – For professional and institutional investors only
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In August investors were finally left in no doubt as to where the priorities of the Federal Reserve lie; in reducing inflation, even at the expense of the economy over the short term. Jerome Powell's Jackson Hole speech was clear, there will not be a pivot unless inflation moves meaningfully towards the 2% target. As a result, equities and bonds suffered in tandem once more, as they are likely to in an environment in which inflation proves more structural and persistent than is being priced in, even now. From here, bond and equity markets are likely to experience more turbulence unless inflation does indeed move down in a meaningful manner.

The MSCI World Index returned -4.1%, whilst global aggregate bonds returned -3.9%.

The Fund returned 0.7%.

Whereas the previous month, which saw investors buoyed by a truly paltry inflation reading of 8.5%, saw the Fund's rates and credit volatility strategies suffer, August saw a return of volatility in bond markets after Powell's Jackson Hole speech.

Some calm also returned to natural gas prices in the US after a turbulent summer in which inventories were depleted as demand for cooling was high by historic standards. Something to note for investors is the disconnect between what is going on in European gas prices, which have surged on the back of the Russia situation, and US gas prices which are an inventory and weather phenomena. The US are already at their export limit for liquefied natural gas (LNG) and prices therefore are relatively insulated from the troubles across the Atlantic. US natural gas prices have though increased incredibly early this year, to the detriment of the Fund, but it does mean that there is a sizeable premium available to investors heading into winter. But, given the scale of the rise so far this year (+125%) it is a risk that needs to be sized diligently; any portfolio that was left alone would have double the exposure that it started the year with.

The Fund's FX strategies once again suffered from the dollar's strength vs the rest of the G10 currencies, particularly the yen as the Bank of Japan remain incredibly dovish given the backdrop. That has undoubtedly been to the advantage of Japanese equities this year, but as import price rises start to bite there are whispers of intervention coming.

It has been something of a theme this year that the Fund has dovetailed bonds and equities; benefitted as they have suffered and given back on their relief rallies (as one might hope an alternative might). It was reported here last month that the narrative around the potential Fed pivot was far overblown, and so it has turned out. Worryingly for the Fed, it is again the stickier components of inflation that are increasing. It is looking increasingly likely that they will be forced into hiking higher and for longer than the market anticipates. Add to this Quantitative Tightening starting in earnest and there is the potential for things to get worse before they get better. The net short position in commodities has clearly been a detractor this year but, in spite of this, the Fund remains in positive territory and that commodity positioning remains the biggest risk weight. If the Fed are indeed forced into hiking to the point of killing off demand, that may be the time that all of the strategies begin to work together.

Total Return	2022	Aug
UK 100	1.6%	-1.1%
US 500	-16.4%	-4.1%
Europe 50	-16.3%	-5.1%
Japan 225	-1.5%	1.1%
Hong Kong 50	-12.6%	-0.8%
US 2000	-17.2%	-2.1%
Swiss 30	-13.4%	-2.6%
BCOM	22.7%	-0.2%
US Treasury	-10.8%	-2.8%
Euro Property	-27.4%	-10.8%
PGF	-7.2%	-2.3%
AGF	0.2%	0.7%
Real Estate	-24.2%	-9.4%
US Equity Income	-18.8%	-4.1%

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