Fortem Capital Alternative Growth Fund

Monthly Commentary – 28th October 2022

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News flow continues to be dominated by inflation, its knock on effect on the future direction of monetary policy, and escalating geopolitical tensions, much as it has been over the course of the year thus far.

Inflation prints continue to be troublesome, particularly accelerating core inflation in the US, where shelter and services more than offset falling energy and finished goods prices.

Central banks continued on their hawkish trajectory for the most part; the ECB raised by another 75bps, whilst at the time of writing the Federal reserve have also raised by another 75bps as well as indicating a higher terminal rate, and rates staying there for longer than previously anticipated.

In spite of this, risk assets posted strong returns over the month following September's volatility. The exception was China, where hopes that the Party Conference would possibly signal an end to the country's insane zero-covid policy were premature as Xi Jinping instead used the occasion to consolidate power, notably with the Game of Thrones-style removal of former President Hu Jintao from the chamber.

The Fund posted a return of -0.9% for the month.

The major detractors to Fund performance were the Fund's credit volatility positions, in the form of long credit default swap (CDS) positions. As one might expect, in an environment in which risk assets rally hard, credit spreads tend to narrow. The positions have done well this year, in spite of credit markets remaining reasonably sanguine; spreads have widened, but in a fairly orderly fashion thus far. It is in the event of a market panic that the positions would really come into their own.

The Fund's rates volatility strategies posted another month of net positive returns. They have been the Fund's biggest contributor this year as the US Treasury market has begun to creak. As the two biggest buyers in the swollen market, Japan and the Fed, begin to step away, it leaves Treasuries facing a growing liquidity issue in the form of a dearth of demand.

Elsewhere the Fund's US equity vol arb strategy continued to struggle, as most US equity vol strategies have this year as equity volatility has remained rangebound. The strategy was reduced and a new equity vol term strategy was added. The new strategy is net long volatility, and should provide some convexity in a crisis, but has a more defined premia during flat to rising markets.

All eyes continue to be on inflation and monetary policy. The market in general seems to assume that inflation is linear and rises to a peak before falling to a trough with no noise in between. In reality this is unlikely. There are likely to be prints which raise hopes of the world returning to its previous low or no inflation environment. However, when one looks back through time, it is clear inflation itself can be volatile. We are likely to see a period of asset price normalisation with an unwinding of globalisation, a continuation of populist politics, resource scarcity and geopolitical tension. All of this is inflationary, and given there is still the prospect of the world's second largest economy finally reopening, investors must not only retain, but continue to increase their diversification. A sizeable rally such as the current one provides the perfect opportunity.

Total Return	2022	Oct
UK 100	-1.5%	2.3%
US 500	-17.4%	8.9%
Europe 50	-14.0%	8.9%
Japan 225	-4.3%	4.5%
Hong Kong 50	-34.5%	-13.7%
US 2000	-16.9%	11.0%
Swiss 30	-13.9%	4.9%
BCOM	12.7%	0.2%
US Treasury	-15.4%	-0.9%
Euro Property	-37.6%	3.0%
PGF	**-9.6%**	**3.8%**
AGF	**0.8%**	**-0.9%**
Real Estate	**-34.5%**	**4.4%**
US Equity Income	**-17.4%**	**8.9%**

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