Fortem Capital Alternative Growth Fund

Monthly Commentary – 30th December 2022

UK & EU – For professional and institutional investors only
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As was largely the case for 2022 as a whole, investors looked to inflation and its potential impact on central bank policy to guide sentiment.

Pleasingly, inflation numbers did moderate once more, with US headline falling to 7.1%. However, central bank rhetoric remained hawkish meaning there was some tempering of the buoyant mood that had characterised the fourth quarter to December.

There was idiosyncratic optimism in China as the continuation of the relaxation of 'zero-Covid' policy allowed for some further recovery in their ailing equity markets, including in Hong Kong.

Elsewhere, even Japan finally jumped onto the tightening bandwagon as they adjusted Yield Curve Control (YCC) by widening the target band to 50bps on the 10 year yield target of 0%.

The Fund increased by 0.3% to end the year up 1.0%.

As one might expect, given the softer inflation print, the Fund's rates volatility strategies were relatively muted.

However, as central banks doubled down on hawkish rhetoric, credit spreads did widen, to the benefit of the Fund's credit volatility strategies.

Elsewhere, the Fund's FX value strategies, which had suffered at the hands of the dollar for most of the year, continued their recovery. Gold intraday again struggled on non-normal gold price action.

As we head into 2023, there are three scenarios that could play out for investors to consider:

1. The Fed have tightened the perfect amount; soft landing.

2. The Fed have tightened too much; hard landing.

3. The Fed have not tightened enough; higher for longer.

In Q4 markets priced in an increasing likelihood of outcome 1. Whilst this is possible, and clearly is what we all hope for, on the balance of probabilities it is unlikely, particularly when one considers that they have never managed it in any previous rate rise cycle.

In scenario 2, fixed income is likely to have its time once more, and provide some diversification to the equity content in portfolios that is likely to struggle in all three of these scenarios.

However, given that the stickier core components of inflation remain stubborn, the world is de-globalising at an alarming rate, the world's second biggest and most commodity hungry economy is reopening, and unemployment remains floored with labour markets tight, a significant probability must be assigned to the chance that inflation has not yet been defeated. Scenario 3 would likely see the same dynamics as in 2022 of bonds and equities selling off together once more.

Liquid alternatives should perform relatively well in all three scenarios, the same cannot be said for much else.

Total Return	2022	Dec
UK 100	4.6%	-1.5%
US 500	-18.5%	-5.8%
Europe 50	-9.5%	-4.3%
Japan 225	-7.8%	-6.8%
Hong Kong 50	-12.7%	6.4%
US 2000	-20.4%	-6.5%
Swiss 30	-14.3%	-3.6%
BCOM	13.8%	-2.8%
US Treasury	-13.0%	-0.5%
Euro Property	-38.9%	-1.7%
PGF	**-6.5%**	**-1.3%**
AGF	**1.0%**	**0.3%**
Real Estate	**-33.9%**	**-1.2%**
US Equity Income	**-18.4%**	**-5.9%**

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