Fortem Capital Alternative Growth Fund

Monthly Commentary – 31st January 2023

UK & EU – For professional and institutional investors only
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Total Return	2023	Jan
UK 100	4.4%	4.4%
US 500	6.3%	6.3%
Europe 50	9.9%	9.9%
Japan 225	4.7%	4.7%
Hong Kong 50	10.4%	10.4%
US 2000	9.8%	9.8%
Swiss 30	5.2%	5.2%
BCOM	-0.9%	-0.9%
US Treasury	3.1%	3.1%
Euro Property	8.8%	8.8%
PGF	**5.1%**	**5.1%**
AGF	**-0.6%**	**-0.6%**
Real Estate	**8.3%**	**8.3%**
US Equity Income	**6.2%**	**6.2%**

Recession, what recession?!

Risk assets have enjoyed a stellar start to the year as price increases continued to slow in December whereas data in January turned more positive.

There are only three possible outcomes from here:

1. The Federal Reserve have tightened the perfect amount and orchestrated a soft landing
2. They have tightened too much already and a hard landing lies ahead
3. They have not tightened enough and rates will be 'higher for longer'

Price action over the past months can be attributed to investors' views as too which of these scenarios is most likely. It is clear that the overwhelming consensus is that, for the first time in their history, the Federal Reserve have managed to orchestrate a soft landing, to the extent that opinion has begun to even shift from shallow recession to no recession at all.

Equity and bond markets have enjoyed significant rallies this year as a result, whilst implied volatilities have collapsed.

The Fund decreased by 0.6% in January.

Unsurprisingly, given the collapse in implied rates volatility, the rates volatility strategies were the biggest detractors. The market now not only prices a pause, but a pivot in the second half of the year. Levels of implied volatility have fallen back to where they were before the invasion of Ukraine, and given the backdrop of strong demand, a Chinese reopening that is beginning in earnest, robust employment, and continued deglobalisation, rates volatility looks mispriced once more. Added to this, the premia itself has increased due to the steeper term structure after the falls at the back end of the curve.

The other significant detractor were the CDS positions. The Fund, in its protection bucket, holds significant exposure to CDS. The buoyancy in markets and heavy falls in volatility have also been accompanied by a significant tightening of credit spreads to the extent that they also are back to the levels they were at the beginning of last year.

The Fund's commodity and FX strategies provided some positive performance over the month. In particular, the commodity strategies are set to benefit from any demand weakness brought on if conditions worsen throughout the year.

The market is increasingly confident that the Federal reserve have managed to orchestrate a soft landing. Whilst this might be the case, purely on the balance of probabilities it is less likely than the other outcomes of a hard landing or the need for higher rates for longer. Investors should note that in all previous rate rise cycles, soft landing type conditions have been experienced at some point, after all, you need to at least pass through those types of conditions before heading elsewhere. Let us hope we have reached our final destination.

Phone: 0208 050 2905 Email: sales@fortemcapital.com

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