Fortem Capital Alternative Growth Fund

FORTEM CAPITAL

Monthly Commentary – 31st March 2023

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Total Return	2023	Mar
UK 100	3.5%	-2.5%
US 500	7.4%	3.6%
Europe 50	14.2%	2.0%
Japan 225	8.3%	2.9%
Hong Kong 50	3.5%	3.5%
US 2000	2.7%	-4.8%
Swiss 30	5.1%	1.6%
BCOM	-6.5%	-0.6%
US Treasury	3.0%	2.5%
Euro Property	-4.5%	-11.4%
PGF	**5.0%**	**0.3%**
AGF	**0.3%**	**-0.3%**
DGF	**2.0%**	**-0.5%**
US Equity Income	**7.1%**	**3.4%**

The first quarter of 2023 will in time be remembered as an extraordinary one.

When one looks at the end result, it has been a welcome respite for risk assets as well as the 60/40 portfolio after a difficult 2022. Global equities have annualised at 35% and global bonds 14%.

However, the journey of travel has been, as is the norm now with the amount of leverage in the system, anything but smooth to get there.

As we entered the year, headline inflation had been falling and data improving, causing markets to begin to price in a 'no landing' scenario and a return to loose monetary conditions much sooner than was previously forecast, to the benefit of risk assets across the board.

February saw some reversal as the 'headwind' of strong data surprises as well as a reacceleration in core inflation numbers forced investors to once more reassess both the terminal rate and more importantly how long rates may remain elevated for; the market was back to the 2022 scenario of bonds and equities struggling simultaneously.

The prospect of rates staying higher for longer caused some cracks to appear in the banking sector in March, albeit consigned to smaller banks that had a duration mismanagement / no management issue coupled with a concentration of potentially flighty VC fund deposits. In mid-March the market had a significant wobble followed by the extremely unusual scenario in which the bond market was pricing in a banking crisis whilst equity and credit were unmoved and latterly buoyant; the Fed put is back it would seem.

The Fund returned -0.3% for the month and 0.3% for the quarter.

Once more the Fund, in the eye of the storm in March, showed its defensive qualities as it began on its usual upward convex trajectory as the mini-banking crisis unfolded.

The strategies that performed particularly well during that period were the Fund's protection strategies, namely the long CDS positions and put spreads. As the month wore on, and the market embarked on a swift recovery and credit spreads collapsed, those gains were given back.

The main detractors, as one might imagine, given that the bond market has priced in a crisis and the associated cuts to rates starting as soon as June, were the rates volatility strategies.

We are now in the extraordinary position in which, in spite of rising geopolitical tensions, core inflation that remains stubbornly elevated, worsening data, and cracks appearing in the fabric of the financial system, global equities are running at an annualised 35% whilst the bond market is pricing in a recession; one of them must be wrong.

The market, so used to intervention at the first sign of trouble, blindly assumes that liquidity will be added as and when required in order to keep asset prices buoyant; animal spirits are the only explanation for the current rally we are seeing. The Fed may abandon their inflation mandate. It would be a policy error, but would not be the first. However, they themselves are adamant they will not, and the market once more may be forced to grapple with this reality. Either way, equities and bonds remain correlated, predicated on central bank policy, and investors absolutely must maintain some form of diversification in case the liquidity deluge that is priced in is not in fact set to continue, never mind if there is a hard landing that awaits.

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