

Quarterly Commentary – 31st March 2026

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Markets entered 2026 in a position of strength, but also of complacency. The dominant narrative; fiscal expansion, resilient growth and eventual monetary easing, had already been fully priced in. Valuations were elevated, risk premia compressed, and positioning increasingly one-sided.

This starting point matters. Beneath the surface, the cycle was already maturing; growth momentum was softening, policy transmission remained somewhat muted by higher long-end yields, and much of the anticipated support was already priced rather than prospective. Markets were not early-cycle; they were priced as if the cycle had no end.

Into this, we have introduced a genuine exogenous shock.

The escalation involving Iran is not another transient geopolitical flare-up. It is a disruption to the global energy system, and in the current regime, oil is the transmission mechanism through which everything else flows. What we are observing is not a standard repricing of demand, but a break in market structure. The extreme dislocation in energy time spreads is the clearest signal of that; this is a front-end supply shock, not a growth story.

However, it does create a fundamental tension at the heart of the growth outlook.

The pre-existing narrative assumes growth will be sustained by fiscal impulse, with a meaningful contribution from AI-driven capex and its eventual return profile. The reality is that a supply-driven energy shock acts as a tax on that growth. The transmission is mechanical: higher energy costs tighten financial conditions, compress real incomes and weaken demand, even as they push inflation higher.

This matters because, as we have written previously, the growth that is priced is doing more work than it should. It is not just fiscal, it is increasingly reliant on the successful monetisation of a large and still unproven AI investment cycle. Those returns are uncertain and likely back-end loaded. In other words, the growth embedded in markets is not a given; it is conditional.

For policymakers, this is the mirror image of the 2021 “transitory” error. Then, inflation was dismissed as supply-driven and temporary, when in reality it was being fuelled by excess demand. Today, inflation is genuinely supply-driven, yet the risk is that it is treated as something to be countered through tighter policy. Tightening into it would simply accelerate the slowdown.

Positioning and valuations remain anchored to a benign baseline in which growth persists and inflation normalises. What is not priced is the cost of sustaining that growth in a world where energy supply is uncertain, policy flexibility is constrained, and second-order effects are still to come.

The key dynamic for Q1 is therefore not the conflict in isolation, but its interaction with an already fully priced macro environment. Markets are being forced to reconcile two incompatible realities: a late-cycle economy priced for continuation, and a supply shock that historically marks the opposite.

The Alternative Growth Fund returned -3.4% over the period.

Total Return	2026	Q1
UK 100	3.4%	3.4%
US 500	-4.4%	-4.4%
Europe 50	-3.6%	-3.6%
Japan 225	2.0%	2.0%
Hong Kong 50	-3.0%	-3.0%
US 2000	0.9%	0.9%
Swiss 30	-2.4%	-2.4%
Global Equity	-3.6%	-3.6%
Global Bond	-0.1%	-0.1%
Commodities	23.3%	23.3%
PGF	-2.5%	-2.5%
AGF	-3.4%	-3.4%
DGF	-8.3%	-8.3%
USI	-4.6%	-4.6%
ARF	4.9%	4.9%
CARF	-17.8%	-17.8%
LAF	7.3%	7.3%

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Income

The income portfolio returned 0.7% over the first quarter of 2026 and the current yield of the book is 3.8%.

Diversifier

Diversifier attribution for the period was mixed. Rates volatility contributed +1.2%, FX value and equity quality were broadly flat, while commodity curve detracted 4%.

The drawdown in commodity curve was almost entirely driven by a generational exogenous event. Following an initial, contained weather-driven dislocation in US natural gas, the escalation in Iran triggered a $\sim 9\sigma$ move in energy time spreads and the most extreme backwardation on record.

Importantly, the strategy behaved as designed. The construct, specifically the underweighting of front-end shorts and narrower aggregate timespreads, materially dampened losses relative to traditional carry implementations despite the scale of the move.

As we move into Q2, positioning has been adjusted to reduce directional risk, and the scheduled roll out of front-month exposure in early April will further reduce front-end concentration. While near-term volatility may persist, current curve dislocations represent a highly attractive opportunity set over the medium term.

Protection

Despite the significant dislocations seen across commodities and the sell-off in bonds, equity markets remained relatively subdued over the period. As a result, convex protection detracted, with implied volatility consistently realising below where it was priced, leading to expected carry bleed in the absence of a meaningful equity drawdown.

Outlook

The key question for markets is how the current energy shock resolves within an already fully priced macro environment.

The starting point remains one of tight valuations, compressed risk premia and positioning anchored to a benign baseline. What has changed is the introduction of a genuine supply-side shock into a late-cycle system. Unlike a demand-driven slowdown, this is stagflationary in nature: it tightens financial conditions while simultaneously weakening growth. That is a difficult combination for both markets and policymakers to absorb.

The paths to resolution are relatively clear, but none are benign. Either front-end energy prices normalise as supply constraints ease, deferred contracts reprice higher to reflect a more persistent shock, or elevated prices ultimately induce demand destruction. In all cases, the adjustment occurs through a repricing of growth expectations and a normalisation of curve structure.

From a market perspective, this creates an asymmetry. The growth that is currently priced remains conditional on a set of outcomes that are still uncertain and likely back-end loaded, while the impact of higher energy costs is immediate and mechanical. As a result, the balance of risks is skewed toward disappointment rather than upside surprise.

For the Fund, this environment reinforces the importance of true diversification. The events of Q1 have demonstrated that not all diversifiers behave equally under stress. Commodity curve exposures, while painful in the short term due to an unprecedented front-end dislocation, now offer one of the most attractive forward opportunity sets seen in many years. At the same time, protection strategies have continued to provide convexity by design, albeit with expected carry costs in the absence of equity stress.

Positioning reflects this balance. Directional risk has been reduced, convexity has been added selectively, and the strategy will continue to benefit from mechanical de-risking as front-month exposures roll. This allows the Fund to maintain exposure to the opportunity set while managing the path-dependent risks inherent in the current environment.

More broadly, markets are being forced to reconcile two incompatible realities: a late-cycle economy priced for continuation, and a supply shock that historically marks the opposite. The resolution of that tension is unlikely to be smooth.

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