Fortem Capital Commodity Absolute Return

Quarterly Commentary – 30th September 2026

UK & EU – For professional and institutional investors only
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The third quarter was characterised by an unusual divergence between equity and government bond markets. Despite renewed geopolitical uncertainty, higher energy prices and a marked increase in global borrowing costs, equity markets remained relatively resilient. Strong corporate earnings and continued investment in artificial intelligence supported risk appetite, while government bonds experienced significant selling pressure as investors reassessed the outlook for inflation and monetary policy.
Having eased towards the end of the second quarter, tensions in the Middle East returned to the forefront of investor attention as negotiations between the US and Iran lost momentum. Oil prices recovered sharply, with Brent crude returning above $100 per barrel, while further disruption to energy supply and refining capacity placed renewed pressure on inflation expectations. Higher energy costs once again highlighted the vulnerability of economies to a prolonged supply shock, particularly in Europe, where dependence on imported energy remains significant.
The recovery in inflation expectations prompted a further reassessment of monetary policy. Both the Federal Reserve and the European Central Bank increased interest rates by 25 basis points in September, while the Bank of England maintained rates at 3.75%, acknowledging the growing risk of more persistent inflation. Government bond yields rose sharply across developed markets, with the US 10-year Treasury yield moving above 5% and longer-dated yields reaching levels not experienced for many years. The sell-off was exacerbated by fiscal concerns and increased borrowing requirements, including substantial debt issuance associated with the expansion of AI infrastructure.
Nevertheless, equity markets continued to demonstrate resilience. Corporate earnings remained strong, particularly in the US, where continued investment in data centres, semiconductors and related infrastructure supported economic activity. However, performance became increasingly differentiated. Rising bond yields favoured Value over Growth, while smaller companies and other interest-rate-sensitive assets faced greater headwinds. European equities lagged, reflecting a more challenging combination of earnings growth, energy costs and borrowing conditions, while Japanese equities remained relatively well supported.
An important development is the changing nature of the AI investment cycle. While investment commitments remain substantial, the growing reliance on external financing and a higher cost of capital are making the distinction between companies benefiting directly from this expenditure and those ultimately capable of generating sustainable economic returns increasingly important. The scale of investment continues to support growth, but this increasingly needs to be assessed alongside the prospective returns on that capital.
Looking forward, the principal risk is that the combination of persistent inflation, elevated interest rates and geopolitical uncertainty begins to weigh more materially on economic activity and corporate profitability. Equally, resilient earnings and continued investment may allow equity markets to absorb a more restrictive monetary environment for longer than anticipated. This creates a more complex backdrop for investors, in which diversification across different sources of return, rather than reliance on any single macroeconomic outcome, is likely to become increasingly important.

Total Return	2026	Q3
UK 100	9.5%	1.8%
US 500	12.5%	2.2%
Europe 50	10.3%	-0.7%
Japan 225	34.2%	-4.2%
Hong Kong 50	-1.5%	8.6%
US 2000	13.7%	-7.2%
Swiss 30	7.5%	-2.4%
Global Equity	11.8%	1.9%
Global Bond	-2.9%	-3.5%
Commodities	29.3%	15.1%
PGF	**3.6%**	**1.5%**
AGF	**-1.9%**	**3.6%**
DGF	**-0.8%**	**8.8%**
USI	**11.5%**	**1.7%**
ARF	**12.0%**	**-3.2%**
CARF	**-12.9%**	**-1.0%**
LAF	**14.0%**	**-1.8%**

The Commodity Absolute Return Fund returned -1.0% over the period.

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Income

The Income portfolio contributed 44bps over the quarter.

Diversifier

The Diversifier portfolio contributed -154bps over the period.

Commodity markets experienced another period of significant volatility as renewed tensions in the Middle East reversed much of the weakness observed towards the end of the second quarter. The recovery in oil prices was particularly pronounced, with renewed concerns around the security of supply supporting crude oil and refined product prices. Broad commodities gained approximately 15% during the quarter, although performance varied substantially across individual markets.

The return of supply concerns created a more challenging environment for certain commodity curve strategies. Having previously benefited from a partial normalisation of the extreme curve dislocations experienced earlier in the year, renewed strength in prompt energy contracts placed pressure on positions seeking further convergence between front and deferred prices.

Importantly, movements across commodity curves were far from uniform. Brent and refined products remained sensitive to supply disruption and shipping constraints, while WTI was also influenced by domestic inventory developments and refinery demand. Natural gas and agricultural commodities exhibited their own seasonal and supply-related dynamics. As a result, the performance of systematic curve strategies cannot be explained by changes in headline commodity prices alone.

The portfolio returned to a neutral position following the defensive adjustments introduced earlier in the year. These adjustments were intended to limit exposure to further extreme movements in front-month contracts while preserving the opportunity to benefit from an eventual normalisation in curve structure.

Outlook

The outlook for commodity markets remains heavily influenced by the duration of the conflict in the Middle East and its implications for global energy supply. A sustained period of elevated energy prices would increase the risk of further inflationary pressure and weaker global growth, while a more durable improvement in supply conditions could allow commodity term structures to normalise.

The Fund continues to focus on the opportunities created by dislocations between contracts across the commodity futures curve, rather than relying on a directional forecast for commodity prices. Current positioning is **neutral,** retaining the ability to participate in a normalisation of commodity curves while seeking to limit the impact of renewed supply-driven volatility.

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