Fortem Capital Commodity Absolute Return

Quarterly Commentary – 30th June 2026

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Total Return	2026	Q2
UK 100	7.6%	4.0%
US 500	10.0%	15.1%
Europe 50	11.1%	15.2%
Japan 225	40.1%	37.3%
Hong Kong 50	-9.3%	-6.5%
US 2000	22.6%	21.5%
Swiss 30	10.1%	12.9%
Global Equity	9.7%	13.8%
Global Bond	0.6%	0.7%
Commodities	12.3%	-8.9%
PGF	**2.1%**	**4.7%**
AGF	**-5.3%**	**-1.9%**
DGF	**-8.9%**	**-0.7%**
USI	**9.7%**	**15.0%**
ARF	**15.7%**	**10.3%**
CARF	**-12.0%**	**7.0%**
LAF	**16.0%**	**8.1%**

The second quarter was characterised by a marked recovery in risk appetite. Concerns surrounding the conflict in the Middle East gradually eased and energy markets normalised, as crude in particular retraced much of its earlier spike and fears of a sustained supply shock faded. At the same time, investor attention returned decisively to AI as another wave of investment announcements from the major US technology platforms reinforced confidence that the current capital expenditure cycle remains intact.

The result was a broad recovery in risk assets. Developed market equities delivered strong returns, led once again by technology, while emerging markets significantly outperformed. Unlike more traditional periods of EM strength, performance was driven overwhelmingly by Asian technology exporters, particularly Taiwan and Korea, as investors continued to favour semiconductor, memory and electrical equipment companies central to the AI infrastructure build-out, whilst more commodity-oriented emerging markets lagged as energy prices retreated.

However, beneath the strength in headline markets, an important shift has begun to emerge. The market narrative has evolved from rewarding AI investment almost indiscriminately towards questioning where the long-term economic returns from that investment will ultimately accrue. During the earlier stages of the cycle, simply participating in the build-out of AI infrastructure was sufficient to attract capital. Increasingly, investors are becoming more selective, distinguishing between those enabling AI investment and those ultimately capable of monetising it through sustainable earnings growth and productivity improvements.

This distinction is likely to become increasingly important. AI undoubtedly represents one of the most significant technological developments of our lifetime, but history suggests that transformative technologies often experience periods where investment materially outpaces realised economic returns. As capability continues to improve rapidly and the cost of intelligence declines, the debate is gradually shifting from the scale of investment towards the sustainability of future cash flows.

Elsewhere, the macroeconomic backdrop remains broadly balanced, but increasingly reliant on the AI investment cycle to remain so. Inflation has moderated from the highs experienced earlier in the year as energy markets stabilised, whilst labour markets continue to cool gradually. At the same time, AI-related capital expenditure is doing much of the heavy lifting for both economic activity and corporate earnings, offsetting signs of moderation elsewhere in the economy. As a result, the key macro debate is no longer whether AI is supporting growth, it clearly is, but how durable that support proves to be once the current investment cycle begins to mature and markets increasingly demand evidence of sustainable returns.

The Commodity Absolute Return Fund returned 7.0% over the period.

Income

The income portfolio returned 0.6% over the second quarter of 2026.

Diversifier

The Diversifier portfolio bounced back from the Q1 drawdown, returning 6.4% in Q2.

The continuation of the Iran war conflict into the second quarter has supported the high volatility in energy markets we have experienced throughout 2026.

As US-Iran tensions settled down in April with peace talks moving forward, the energy complex sold off. Ships were allowed to pass through the Strait of Hormuz, and Brent Oil dropped below $72, a level last seen pre-conflict. However, this armistice was short-lived as both parties reneged upon the deal and hostilities continued. We witnessed another two attempts at a ceasefire agreement in May and June, but these were quickly ignored as the United States continued bombing Iranian military targets and the Iranians blocked the Strait of Hormuz once again.

We also witnessed some dramatic falls in precious metals after their stellar returns the past year, with gold down around 16% from its peak above $5,000 per ounce.

Base metals reacted in the opposite direction to precious metals, with Copper surging to all-time highs. Aluminium and Nickel also spiked during April and May only to retrace significantly during June.

Overall, those commodity curves that had steepened aggressively into contango during the first quarter flattened somewhat, helping our curve strategies recover much of the drawdown we experienced during Q1.

Outlook

Commodity markets seem to have shrugged off the immediate effects of the Iran invasion as energy markets, in particular crude oil, retraced significantly during the quarter. This was initially driven by notice of a ceasefire in the region, but we still have not seen any sign that either party is recognising or adhering to this ceasefire. As a consequence, whilst some shipping has been restored through the Straits of Hormuz, this area still remains the central focus of potential Iranian military threats and we worry that the longer-term effects of this reduction in commodity supply are likely to have a significant impact on global GDP growth as we progress through the year, particularly in Europe, which is extremely vulnerable to potential energy shocks.

Whilst base energy commodities such as crude oil and Natural Gas have retraced from their first quarter peaks, the underlying products such as Gasoline and Diesel remain firmly bid, and it is in the finished products, not just energy-related, that we feel most concerned about going forward if there is no end to the war.

Currently, this elevated pricing of finished products is not having an outsized influence on economies, as the summer months tend to have the least demand. However, as we approach the winter months, we could see some serious adverse impacts to gas and electricity prices (as well as grain related products due to the lack of fertilizer available) and this could manifest itself in another pop higher in inflation and the commensurate response from central banks such as the ECB and Band of England could see interest rates rise further; and at the same time have a negative effect on economic growth.

Given the continued uncertainty surrounding the conflict, the strategy remains defensively positioned following the actions taken in the first week of the escalation. Exposure has subsequently reduced further as the index has itself derisked somewhat, through reduced short position at the front of the curve. As a result, the portfolio is now materially better insulated than a neutral allocation should volatility re-escalate, while retaining exposure to the attractive return potential associated with an eventual normalisation in commodity curve shape. We continue to monitor developments closely and will reassess positioning as visibility improves.

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