

# Fortem Capital Dynamic Growth Fund



## Quarterly Commentary – 28th March 2024

UK & EU – For professional and institutional investors only

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At the end of the previous quarter, we suggested that the declaration of victory over inflation had come too early to be priced in with any certainty.

That declaration turbo-charged an easing in financial conditions that began last Halloween and has led to data across the globe picking up. As a result, policymakers have been forced to row back on that dovishness and we have seen the Fed 'dots' shift to a higher inflation rate, higher long term interest rates and even hints at a higher neutral rate.

Jerome Powell did an expert job in tempering any reaction to the longer-term dots moving higher with a dovish statement, but since then messaging has become muddled as Fed Governors have been talking about no cuts in 2024 and the neutral rate of interest or  $r^*$  (the rate which is neither expansionary or contractionary to economic conditions) having moved higher.

February also saw heavy coupon issuance (vs Bills in October that kick-started risk assets' run), and term premium has been rising in bonds steadily since but has yet to find its way into other asset classes possibly due to robust growth expectations or the market still not believing the Fed in their commitment to returning inflation to target.

Against this backdrop, other asset classes including equity saw another quarter of significant gains with the broad basket of global equity up 8.9%.

	Total Return	2024	Q1
UK 100	4.0%	4.0%	
US 500	10.4%	10.4%	
Europe 50	12.8%	12.8%	
Japan 225	21.4%	21.4%	
Hong Kong 50	-2.5%	-2.5%	
US 2000	5.2%	5.2%	
Swiss 30	6.8%	6.8%	
Global Equity	8.9%	8.9%	
Global Bond	-2.1%	-2.1%	
Commodities	0.9%	0.9%	
PGF	2.2%	2.2%	
AGF	0.8%	0.8%	
DGF	3.0%	3.0%	
USI	10.2%	10.2%	
ARF	4.6%	4.6%	

The Fund returned 3.0% over Q1 2024.

### Income

The Fund is fully backed by short-dated high-grade debt. As rates have risen, so has the return available from the Fund's collateral, with the collateral yielding 5.7% as at quarter end.

### Beta

The Beta portfolio has benefitted significantly from the continued buoyancy in risk assets. The portfolio currently employs a simple delta1 diversified equity position.

### Diversifier

The Fund's rates volatility positions have been the main beneficiary of the move back to 'higher for longer' with some help from the equity premia.

The commodity strategies, the Fund's biggest risk weight and highest conviction, remain muted as commodity markets continue to be stubborn in their moves back to contango, their long-term home.

The FX value premia has been the most disappointing over the past 18 months, largely down to the weakness in an already weak Yen, which the Fund has a net long position in. However, as Japan wakes from its monetary slumber and the rest of the world eventually starts to move the other way, the outlook here is highly constructive.

Rates curve has been the worst performer, again as yield curves have re-flattened, but one suspects that they must structurally steepen once more either through the back end if indeed the landing is soft, growth expectations rise and term premiums alongside them. Or, possibly more likely, through the front end if a hard landing lies ahead and rate cuts come faster than the market expects when they eventually do.

The Diversifier portfolio continues to be positioned defensively.

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### Protection

The Fund currently makes no allocation to protection.

The Fund continues to provide significant positive returns in an uncorrelated manner, as it has since Fortem took over the management of the vehicle.

The Diversifier portfolio remains heavily biased to long volatility strategies across rates, commodities and equities and should continue to provide a buffer against the Beta portfolio as they have to date.

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