

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 Dynamic Growth Fund returned -8.3% 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 0.8% over the first quarter of 2026 and the current yield of the book is 4.1%.

Beta

The current approach to the Beta portfolio; maintaining exposure at the low end of tolerances while favouring max loss implementation served the portfolio well in an environment in which both European and US markets suffered drawdowns as the portfolio returned -0.3% over the period.

Diversifier

Diversifier attribution for the period was mixed. Rates volatility contributed +2.4%, FX value and equity quality were broadly flat, while commodity curve detracted 9.6%.

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 in commodities and the sell-off in bonds, equity markets remained relatively contained over the period. As a result, protection detracted, as implied volatility consistently realised below implied levels, resulting in expected carry bleed.

This reflects the strategy's deliberate focus on very out-of-the-money tail protection, which is designed to respond only to material equity stress rather than more contained market moves such as those seen during the quarter.

Outlook

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

The starting point is unchanged: elevated valuations, compressed risk premia and positioning anchored to a benign baseline. What has shifted is the introduction of a genuine supply-side shock into a late-cycle system. Unlike a typical demand slowdown, this is inherently stagflationary, tightening financial conditions while weakening growth, and therefore more difficult for both markets and policymakers to absorb.

The paths to resolution are relatively clear, but none are straightforward. 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 comes via a repricing of growth expectations and a normalisation of curve structure.

From a market perspective, this creates a clear asymmetry. The growth currently embedded in asset prices remains conditional on outcomes that are uncertain and likely back-end loaded, while the impact of higher energy costs is immediate and mechanical. As a result, the balance of risks remains skewed to the downside in the near term.

Fortem Capital Dynamic Growth Fund



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Within the portfolio, the primary impact in Q1 has been through a single, core diversifier position, where an unprecedented front-end dislocation in commodity curves drove short-term drawdown. Importantly, this reflects a generational event rather than a structural impairment of the premia, and the forward opportunity set from current levels remains highly compelling.

Elsewhere, the portfolio is positioned conservatively. Equity beta sits at the lower end of its historical range, and protection is focused on very out-of-the-money convexity designed to cover true stress scenarios rather than day-to-day volatility. This results in limited carry drag, while preserving the ability to respond dynamically to changing conditions.

Crucially, the strategy retains significant optionality; should the macro backdrop stabilise and the house view shift even to neutral, there is ample capacity to add equity beta from current depressed levels. As such, the portfolio is not reliant on a single outcome but instead positioned to scale risk into improving conditions while remaining resilient if volatility persists.

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.

In that context, the strategy remains deliberately positioned; defensively set in the near term, but with meaningful embedded optionality to increase beta and participate in any normalisation or recovery as it emerges.

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