Fortem Capital Progressive Growth Fund

Quarterly Commentary – 28th March 2024

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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 2.2% over Q1 2024.

The two main pricing inputs which dictate the defined returns on offer for the given level of risk we assume are volatility and rates. When both of those parameters were floored in the aftermath of the pandemic, the returns for that given level of risk were not commensurate with the target return of the Fund. We did what we could to extract the most out of those conditions without reducing protection levels in the Fund in the belief that, over the long term, our assumptions regarding the returns available for the risk the Fund takes would be commensurate.

The current environment is providing the returns required to return the Fund to target; since the beginning of 2023, over half the book has matured, and the replacements are yielding on average 2% more than those rolling off. As a result, the Fund has closed the gap, has above average levels of protection and an attractive contractually-stipulated return profile to continue the catch-up:

Immediate spot moves	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Return (%)	27.1%	20.8%	12.8%	7.9%	5.0%	4.0%	4.0%	4.0%	4.0%
Time to Maturity (Av. yrs)	3.4	2.6	1.6	1.0	0.6	0.4	0.4	0.4	0.4
GRY to Maturity (Av. %)	**7.4%**	**7.5%**	**7.7%**	**7.9%**	**8.3%**	**9.2%**	**9.2%**	**9.2%**	**9.2%**

In spite of the return to 'higher for longer' and increased treasury issuance, most risk assets remain buoyant. It could be the case that the landing is indeed set to be soft, but the market remains 'all-in' on that prospect. In reality, this is far from certain if not improbable and in any event rates 'normalisation' is set to be a far cry from a return to ZIRP given the shift in overall economic regime. Having allocations to investments that can provide significant positive returns in multiple scenarios for equity remains eminently sensible.

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Fortem Capital Alternative Growth Fund

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