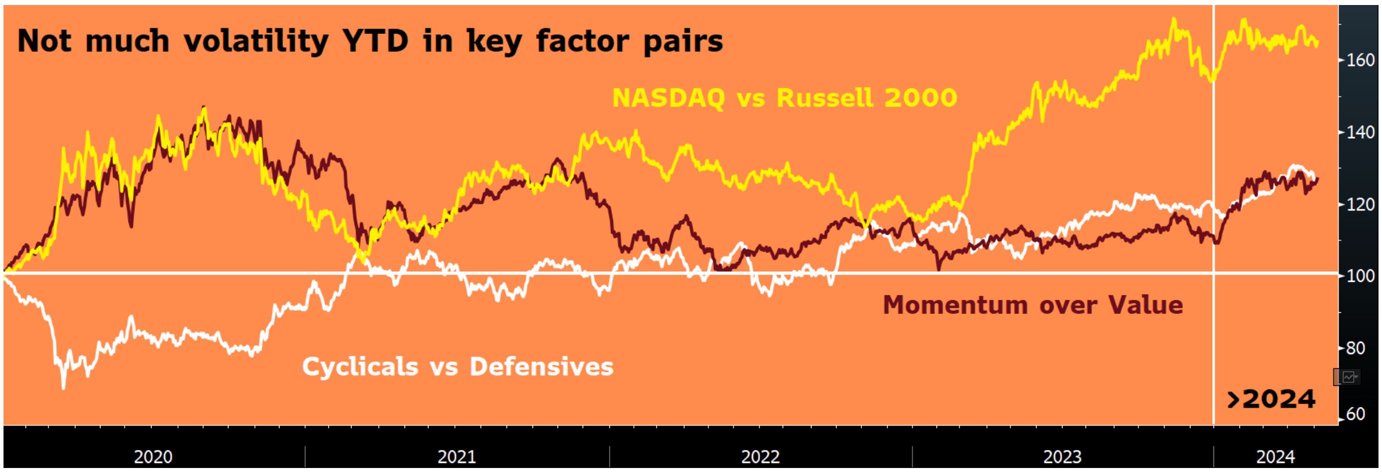
May 9, 2024

April 2024 Commentary

Equity markets experienced some payback during April post their strong Q1 performance, as the third consecutive month of higher-than-expected inflation pushed bond yields high enough to damage the price of stocks. Beyond mid-month, stocks fluctuated on a mixed set of economic releases until the one-two punch of a clear enunciation by the Fed that their market "put" remains in place, and April's softer than expected jobs reports enabled investors to recoup some losses on both stocks and bonds at the start of May.



Source: Bloomberg

Aside from the YTD strength in the M7 (or M4 if you will), the far right side of the graph above illustrates that, other than the Q1 relative outperformances of Resources and Momentum stocks, key factor pairs have exhibited little opportunity for outperformance during 2024. Supportive of this trendless performance, through the first four months of the year, price gains for the S&P 493 total a decent but far from trail-blazing +3.79%.

Meanwhile, the Series F of our Conservative Alternative Fund continues to exhibit consistency and stability gaining +0.56% net of fees during April. Consequently, year-to-date, this low volatility fund is up +4.58%. Hedges, Financials, and Technology were the principal winning sectors during the month, while Consumer Non-Cyclical and Industrials were the sectors responsible for the largest losses during April.

Our net housing exposure was profitable as high conviction ideas TopBuild Corp. (BLD.US), Builders FirstSource Inc. (BLDR.US), ADENTRA Inc. (ADEN.CA), Tri Pointe Homes Inc. (TPH.US), and Skyline Champion Corp. (SKY.US) outperformed our short positions including DR Horton Inc. (DHI.US), iShares U.S. Home Construction ETF (ITB.US), Pool Corp. (POOL.US) and Masco Corp. (MAS.US) despite holding a ~3-4% beta-adjusted average net long position during a tough month for stocks. Recently, given our belief builders will increase units in the high single digits during 2024 but at lower gross margins (%), we have adjusted the positioning within this basket, continuing to own building products companies versus the builders. In addition, we have initiated short positions in companies exposed to the construction of multi-family housing.

As of April 30, 2024	YTD	1-mo	3-mo	6-mo	1-year	2-year*	3-year*	5-year*	Since Inception*
Forge First Long Short Alternative Fund Series A	3.34%	-0.20%	2.06%	8.99%	9.06%	0.43%	2.74%	6.83%	6.62%
Forge First Long Short Alternative Fund Series F	3.64%	-0.12%	2.28%	9.05%	9.72%	1.27%	3.61%	7.76%	7.54%
Forge First Conservative Alternative Fund Series A	4.25%	0.47%	3.27%	8.18%	9.70%	4.28%	3.95%	7.22%	7.09%
Forge First Conservative Alternative Fund Series F	4.58%	0.56%	3.51%	8.69%	10.73%	5.23%	4.90%	8.20%	8.06%
S&P/TSX Composite Total Return Index	4.68%	-1.82%	4.10%	16.91%	8.73%	5.66%	7.59%	8.86%	8.62%
S&P 500 Total Return Index (C$)	10.44%	-2.54%	7.11%	19.90%	24.50%	16.25%	12.21%	13.77%	13.59%

*Annualized | Inception date: April 24, 2019

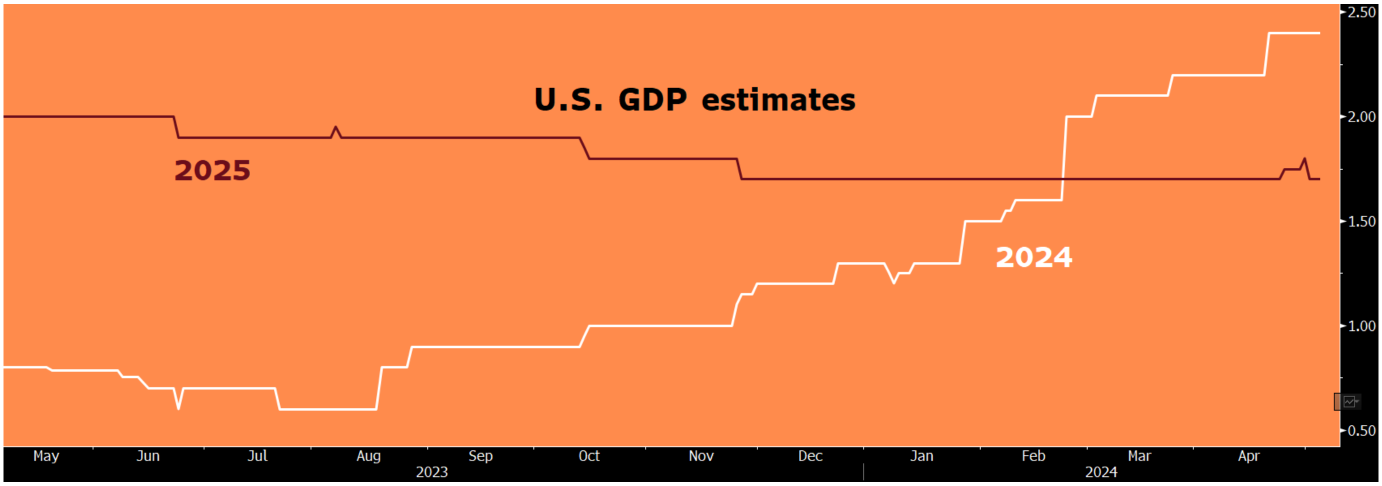
The Conservative Fund is continuing to maintain higher gross exposure levels (141% at month end) reflective of two dynamics in the marketplace. First, while we don't find equity index levels to be particularly attractive, we see many attractive GARP-type equities in sectors that include Industrials, Technology, and Financials, plus in credit, at the short end of the curve. At the same time, the low implied volatility environment (VIX Index near YTD lows at 13.5, SPX Skew of 7.3) has enabled us to inexpensively double our typical level of asset protection strategies, staggered out one and two months. The net exposure of the fund at month end was +38% net long split between equities (19%) and fixed income (19%) securities.

The Series F of our Long Short Alternative Fund fell -0.12% net during April cutting its YTD net performance +3.64%. Gains were captured with our various hedge positions, especially the SPDR S&P 500 ETF Trust (SPY.US) $520 by $505 put spread, and both long and short (Intel Corp. (INTC.US) and International Business Machines Corp. (IBM.US)) positions in the Technology sector. Losses were seen in both the Cyclical and Non-Cyclical Consumer sectors, in addition to Utilities (Brookfield Infrastructure Partners LP Units (BIP-U.CA)), Real Estate, and Industrials.

The fund exited the month with delta-adjusted gross exposure of 168% and net exposure of +45%. Net Technology exposure now sits at +6.6% while Financials remains the only sector with net exposure in excess of 10% at +14.5% at month end. During April the fund purchased a put spread on Toronto-Dominion Bank (TD.CA). More recently the shares have declined due to the Anti-Money Laundering (AML) issue in the U.S. We believe the tail risk of the regulator severely reducing the banks' U.S. business activity is 50% priced into the market. On the positive side of the ledger, shares in Charles Schwab Inc. (SCHW.US) have been on a tear of late, embedding attractive optionality in the shares of TD.

Shifting to markets, the Fed continues to demonstrate its willingness to juice asset prices regardless of three consecutive months of hot inflation data. On May 1st despite admitting they were too early in calling the top in inflation, the Fed reassured investors the "Fed put" was alive and well as the Federal Open Market Committee (FOMC) tapered its QT program by more than expected, effectively increasing run-rate liquidity by US$35B per month or US$105B per quarter versus the prior run-rate. This action serves to push potential liquidity issues for markets out to the right. Combined with Powell's exceedingly dovish press conference, equities and bonds rallied at the start of May.

Up until the Fed calmed markets on the trajectory of rates, equities had exhibited resiliency to the potential return of 5% 2 and 10-year Treasuries because U.S. growth was considered ample enough to offset the theoretical valuation drag of higher rates. As seen in the one-year graph below, 2024 GDP estimates now sit at +2.40% (white line) while the trajectory for 2025 has been slowly falling, currently sitting at +1.70%. We all know forecasts are bound to change, but it strikes us hard to fathom that a fiscal deficit of 7% will be repeated next year, equating to a sizeable fiscal drag on the economy.

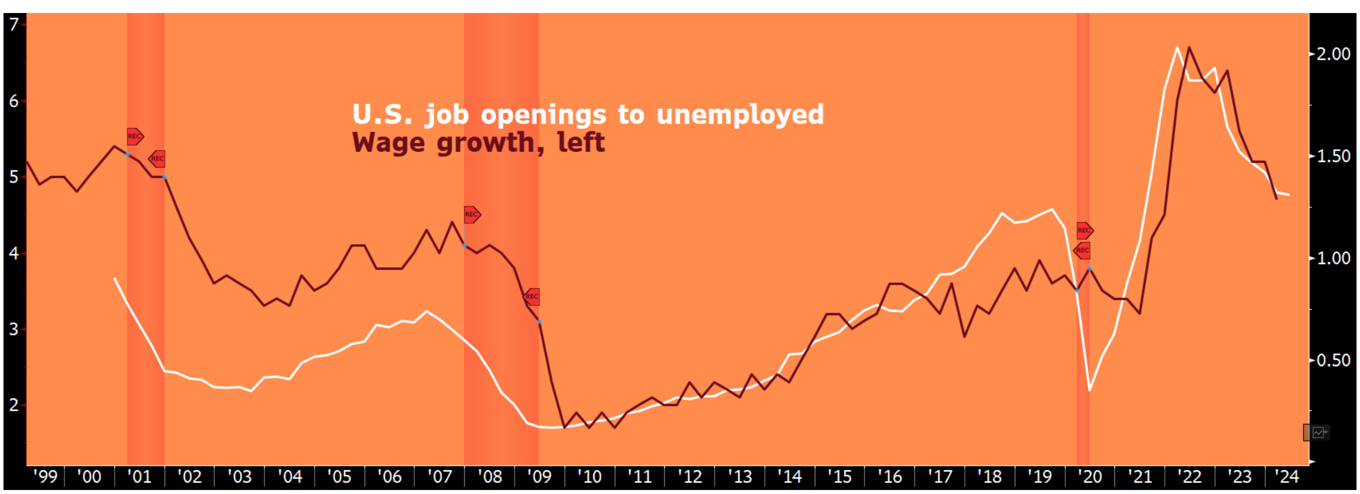


Source: Bloomberg

Yet, recent growth-oriented prints have begun to disappoint. The graph below compares the Citigroup Economic Surprise index for Canada (white line) to the U.S. (red line). Inside the yellow oval on the far right side of the page you can see the U.S. has poked below zero while Canada has been printing more negative than positive surprises for a few months.

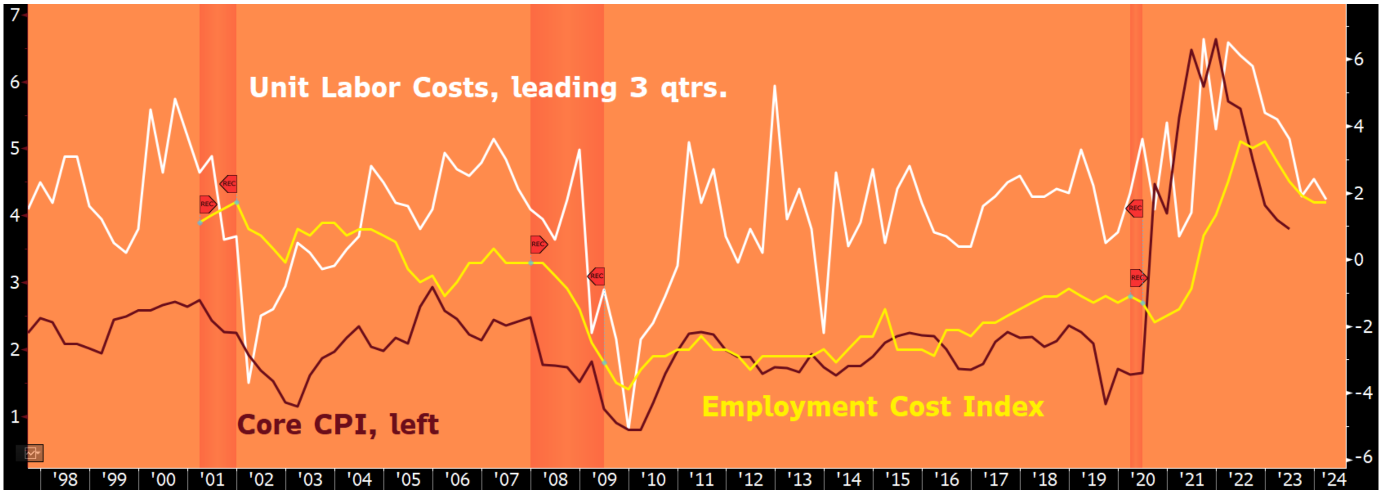
Source: Bloomberg

The most recent U.S. data point that missed expectations was last week's jobs report. While it was definitely on the softer side, the 25-year graph below displays that wage growth remains well in excess of what's considered required to push the Fed's preferred inflation metrics back towards 2%.



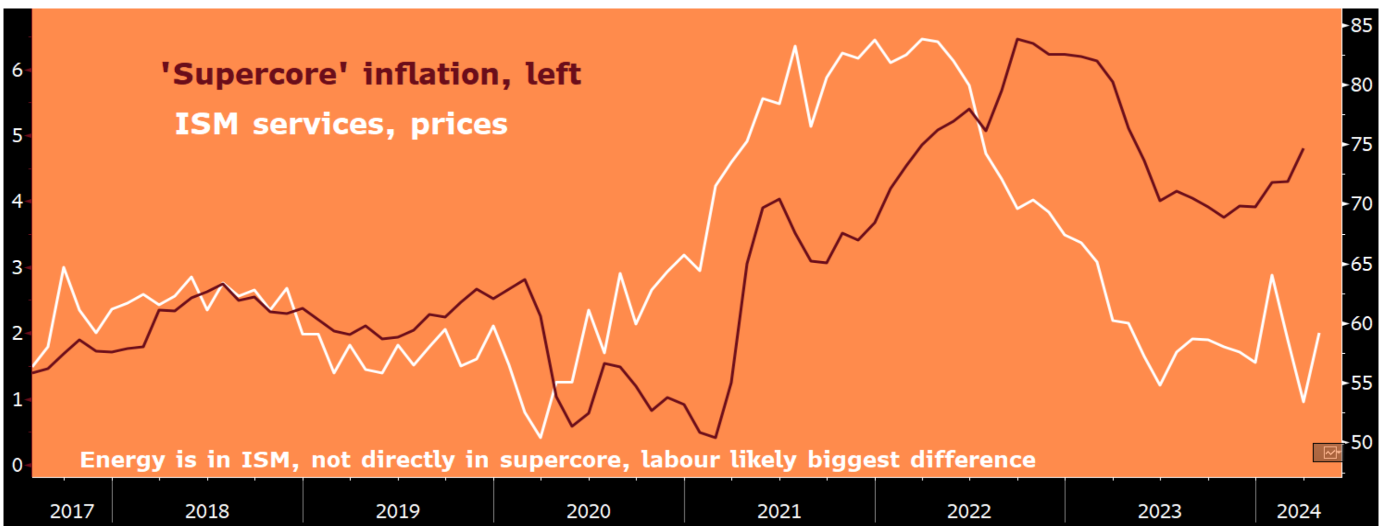
Source: Bloomberg

Further, the graph below indicates the employment cost index in the U.S. (yellow line, right axis) and unit labour costs (white line, right axis, leading by 3 months) also suggest a larger slowdown will be required in the jobs market for inflation to continue on its downward trend. A key reason this transition is taking longer than hoped is that prices have yet to be tamed.



Source: Bloomberg

ISM prices paid during April increased from 55.8 in March to 60.9 for the Manufacturing sector while Services pricing paid increased from 53.4 during March to 59.2 during April. Consequently, the eyes of investors will be glued to the next PCE Deflator print on the last morning of this month, as the uptick in service pricing may not bode well for the Fed's 'supercore' inflation statistic.



Source: Bloomberg

The graph above compares that ISM pricing statistic (white line, right axis) against the Fed's 'supercore' (red line, left axis). On the right side, notice how the red line has begun to turn up again, and that's prior to the recent upturn in prices paid by service companies.

For now, growth has been decent enough that to our surprise, investors haven't worried about interest rates. Granted our team has assumed the 'rate of change' in Fed policy would be generally constructive for equities this year, and so far, it has been so. On the far right side of the graph below, note how quickly investors repriced the probability of rate cuts post the Fed and April's jobs reports. Meanwhile, the Fed has added more punch to the punch bowl by shrinking its QT program. So, for now, our team remains constructive towards equities. Having said that, our team never strays from our first principles of including a diversified short book and significant equity and fixed income hedges in our portfolios. As Warren Buffett said, "you don't find out who's been swimming naked until the tide goes out!" With Forge First, you can be assured we'll always have a bathing suit on!

Source: Bloomberg

Thank you for your business and interest in our funds. For more information, please visit our website at www.forgefirst.com, or call us at 416-687-6771 should you have any questions.

Andrew McCreath
CEO, CIO

Keenan Murray
Portfolio Manager

Richard Roth
Associate Portfolio Manager