April 8, 2024

March 2024 Commentary

Led by the 'price momentum' factor which had its best quarterly performance in 20 years, the S&P 500 exited March posting its 50th consecutive day at least one standard deviation above its 50-day moving average for only the 12th time during the past 100 years. For all the talk of tightened monetary policy, liquidity remains abundant and appears to be a key driver for stocks. The +10.16% YTD price return for the S&P500 can be split between the M7 (37% or 3.76% of the gain from this 29% share of the market) and the S&P 493 (63% or +6.4% from the remaining 71% of the S&P's total market cap). This more recently balanced return profile is evident from the far right side of the relative strength graph below of the equal weighted SPX to the market weighted SPX. After reviewing the performance of our funds, this note will touch on inflation and the upcoming Presidential election.

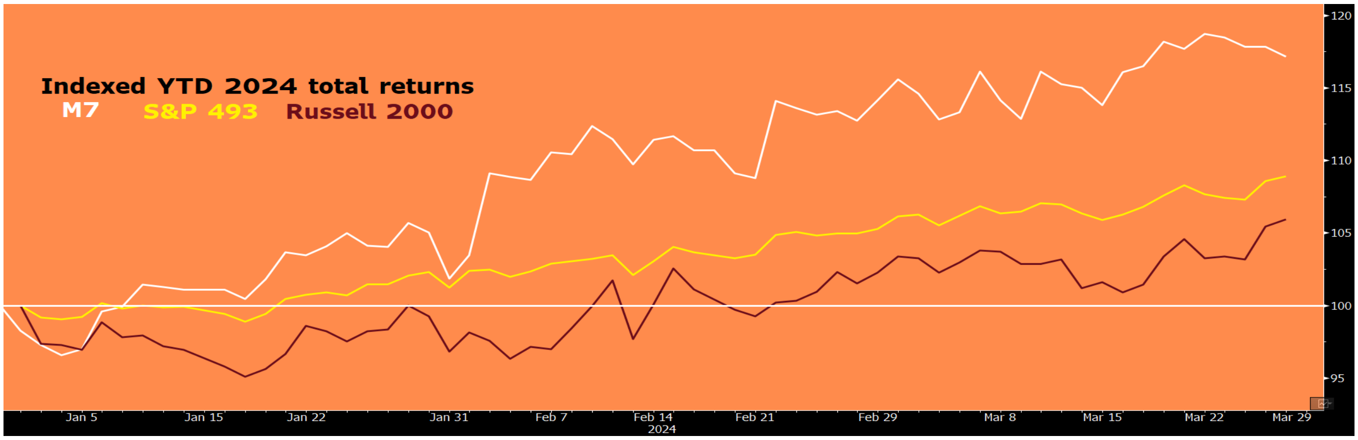
Source: Bloomberg

The Series F of our low volatility, capital preservation focused Conservative Alternative Fund posted a solid March, gaining +1.34% net of fees and boosting its year-to-date net return to +4.00%. Positions in the Industrials sector played a key role for the fund with solid, supporting contributions from Financials, Consumer Cyclical, Materials and Energy. Portfolio hedges were the largest source of losses. Two industrial stocks, SNC-Lavalin Group Inc. (ATRL.CA) and Aecon Group Inc. (ARE.CA) were the largest winners, as each company reported solid quarterly results, financial guidance, and contract wins. TopBuild Corp. (BLD.US), Alphabet Inc. (GOOG.US), and Franco-Nevada Corp. (FNV.CA) also delivered solid performances during the month. The fund exited March with delta-adjusted gross and net exposure of 137% and 37% respectively, with the net exposure split between common equities (18.25%) and multi-assets (18.34%), the majority of which is publicly traded credit. Within the fund's equity sleeve, Industrials was the only sector with net exposure in excess of 10% at +11.3%.

As of March 31, 2024	YTD	1-mo	3-mo	6-mo	1-year	2-year*	3-year*	Since Inception*
Forge First Long Short Alternative Fund Series A	3.54%	1.64%	3.54%	8.45%	11.13%	0.21%	3.69%	6.78%
Forge First Long Short Alternative Fund Series F	3.77%	1.71%	3.77%	8.52%	11.80%	1.04%	4.56%	7.69%
Forge First Conservative Alternative Fund Series A	3.76%	1.27%	3.76%	6.53%	9.28%	4.54%	4.35%	7.12%
Forge First Conservative Alternative Fund Series F	4.00%	1.34%	4.00%	7.03%	10.29%	5.50%	5.30%	8.08%
S&P/TSX Composite Total Return Index	6.62%	4.14%	6.62%	15.26%	13.96%	3.95%	9.11%	9.17%
S&P 500 Total Return Index (C$)	13.32%	2.91%	13.32%	23.41%	30.02%	14.01%	14.27%	14.42%

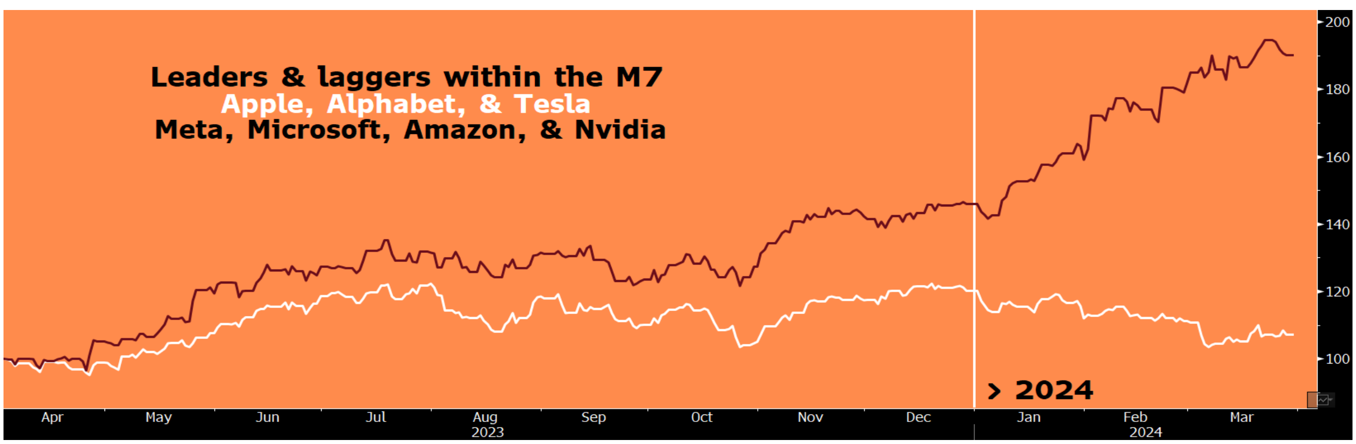
*Annualized | Inception date: April 24, 2019

The Series F of our Long Short Alternative Fund gained +1.71% net during March, enabling its year-to-date net performance to exit the month at +3.77%. Gains were well balanced across multiple sectors including Financials, Materials, Consumer Cyclical, Industrials and Energy. Single positions that helped the fund included Primo Water Corp (PRMW.CA), Nuvei Corporation (NVEI.CA) and two energy service positions, specifically, Helix Energy Solutions Group Inc. (HLX.US) and Pason Systems Inc. (PSI.CA). Similar to the Conservative Fund, hedges were the largest detractor from performance. The fund exited the month with delta-adjusted gross exposure of 173% and net exposure of +33%. Financials was the only sector with net exposure in excess of 10% at +10.6% at month end.



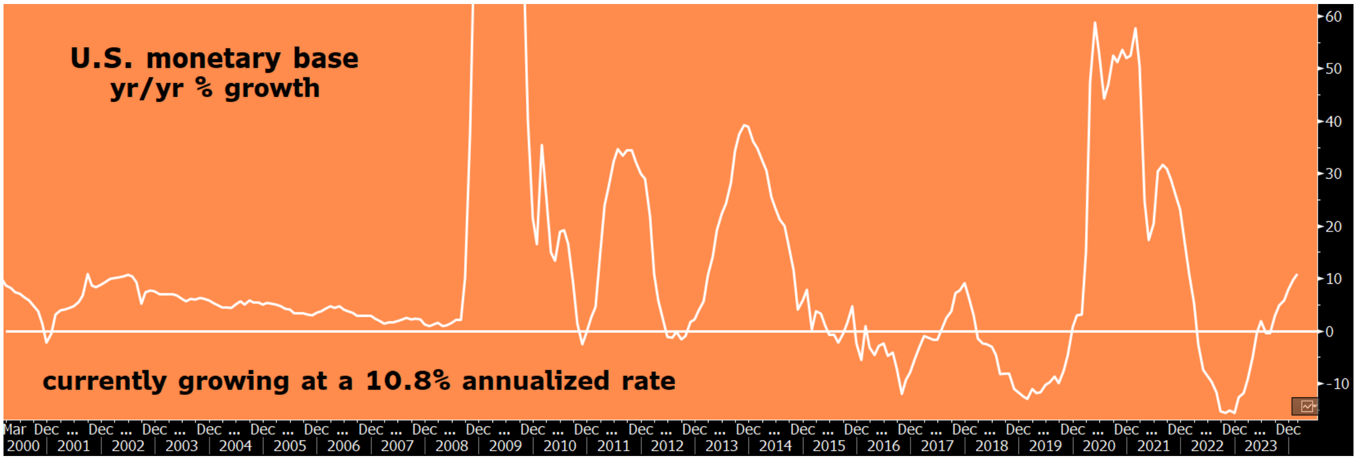
Source: Bloomberg

While the YTD indexed graph above confirms that the M7 stocks maintained their market dominance during the first quarter, there were signs that market leadership may have begun to change near the end of March. Specifically, the modest fading of M7 (white line) versus the inclining lines marking the S&P 493 (yellow line) and small cap stocks (red line). Of course, with the poor YTD performance of Tesla Inc. (TSLA.US), down 29% and Apple Inc. (AAPL.US), down 11% plus the relatively modest +8% gains made by Alphabet Inc. (GOOG.US), some pundits have shifted the moniker of market leadership from the M7 to the 'gang of four' (G4), being Amazon.com Inc. (AMZN.US), Meta Platforms Inc. (META.US), Nvidia Corp (NVDA.US), and Microsoft Corp (MSFT.US), as gains by this group (18% of S&P 500 index) accounted for 47% of the S&P's total YTD price gain. The point here is that the graph below suggests the gentle rolling over of the M7 in the above graph could merely be the impact of the laggards (white line in below graph).



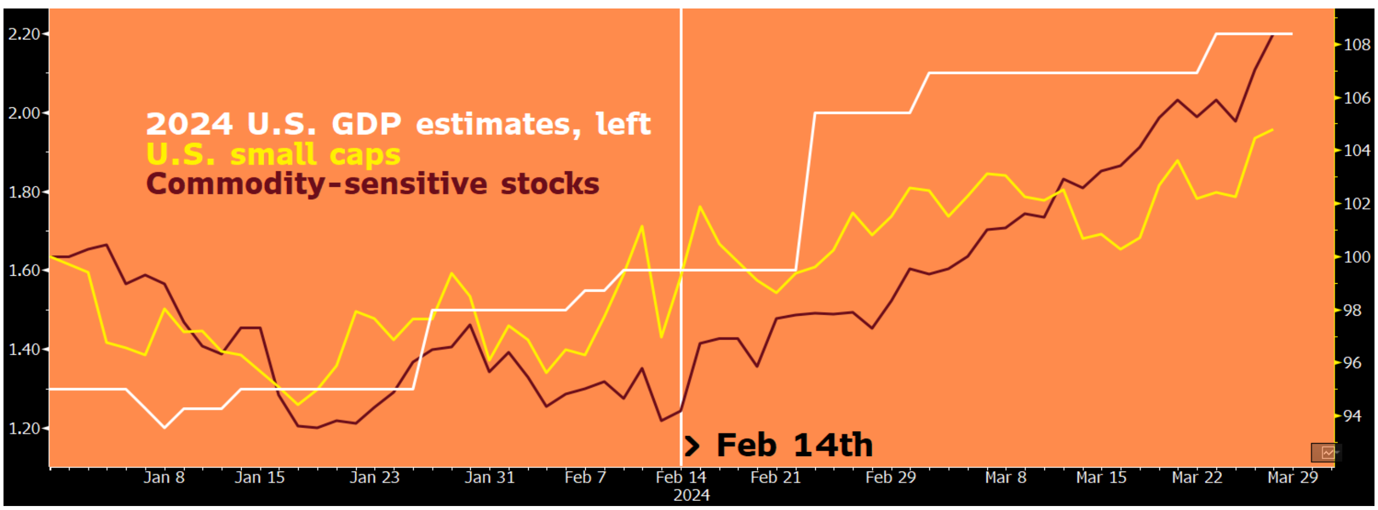
Source: Bloomberg

There's little question ample liquidity has played a big role in boosting stocks. Despite all the talk of tight monetary policy, the graph below shows the U.S. monetary base growing at the annualized rate of +10.8%, as the Fed's money market operations are pumping enough liquidity into the system (via reduced reverse repos) to more than offset the impact of QT. Then at his recent press conference, Chair Powell threw more kindling on to the financial conditions fire, signaling the Fed would reduce the pace of QT "fairly soon". Such verbiage likely implies the Fed will slow the pace of balance sheet run-off from the current $90B monthly cap at the May or June FOMC meeting. Tapering the pace of balance sheet run-off would reduce the future potential for liquidity and TGA funding stress as the RRP declines towards zero.



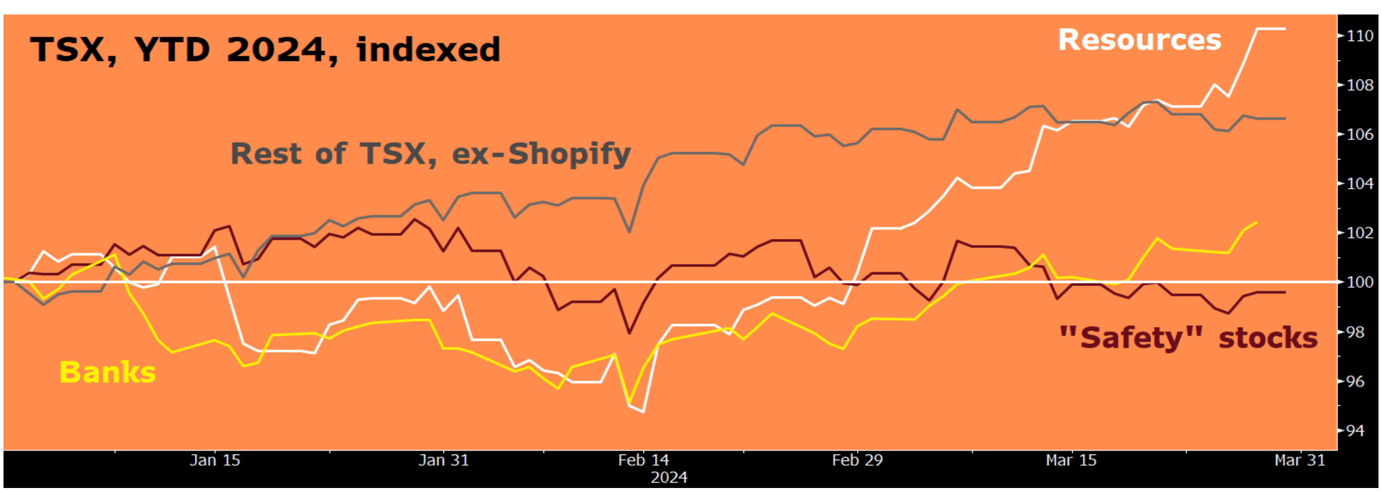
Source: Bloomberg

Amidst this increasingly dovish talk from the Fed, the Bureau of Economic Analysis released its third quarterly release for GDP and GDI (Gross Domestic Income). The average of these two showed the fastest growth since Q4 of 2021 and topped 4%. Aside from the wealth benefits arising from easy money aiding the economy, fiscal stimulus continues to play a huge role. The U.S. Federal deficit is tracking to come in near US$2T for F2024, over 7% of GDP. In addition, state and local governments have ramped up spending, and still have nearly US$399B in spending firepower thanks to COVID-era federal grants. Consequently, the graph below highlights how small cap stocks (yellow line) and commodity-sensitive securities (red line) have moved higher in lockstep with the rising estimates for U.S. 2024 GDP.



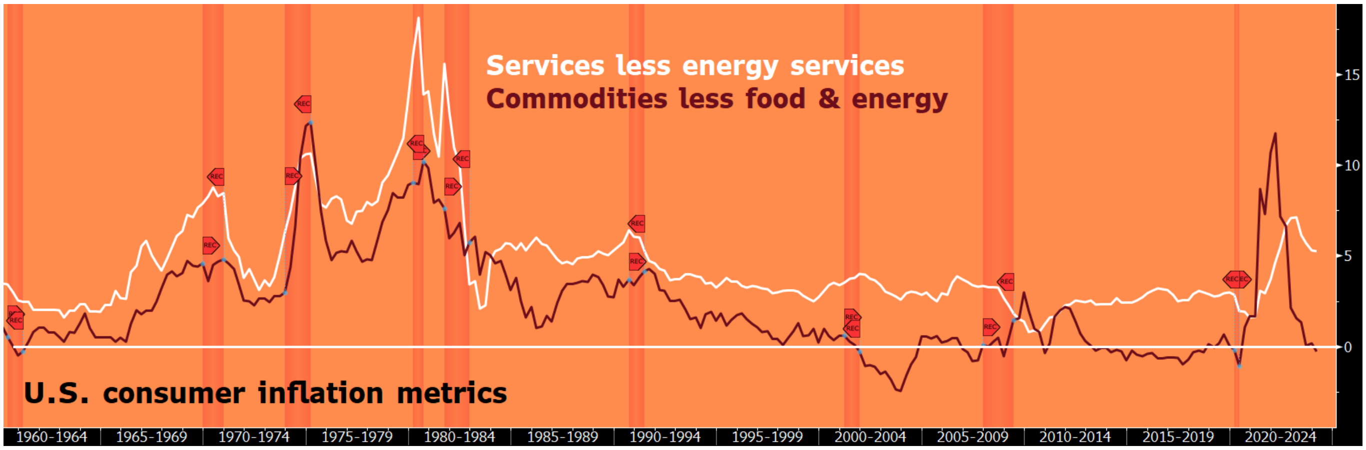
Source: Bloomberg

This surprisingly strong growth outlook also explains why resource stocks (white line) have been YTD winners in the Canadian market as shown in the indexed graph below. Note how "safety" stocks, defined as grocers, utilities, telecom, and REITs are down YTD, including modestly so during March while banks (yellow line) are now positive YTD.



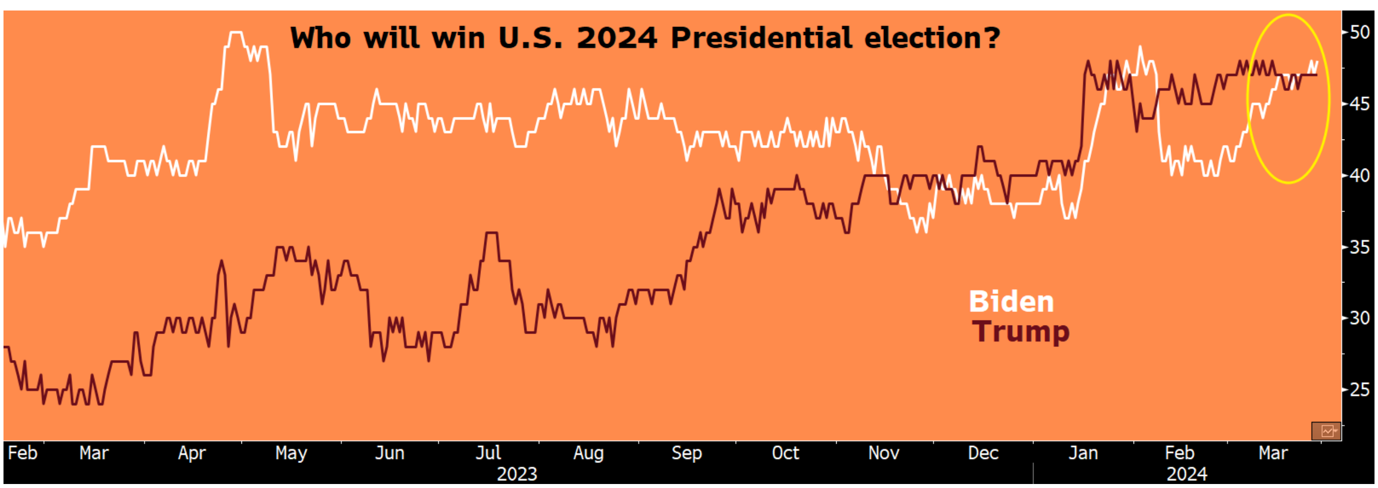
Source: Bloomberg

Economic growth and now the Fed have definitely been boosting stock prices of late. When this almost six-month old bull market began, the presumption was inflation would hit the Fed's 2% target during 2024, facilitating multiple rate cuts. Goods-based inflation is no one's worry anymore, yet we may be witnessing a re-acceleration in service-based inflation. However, similar to how stocks have shrugged off the reduction in expected 2024 rate cuts (from 6.5% to less than 3% during the just completed first quarter), perhaps Powell has now decided that service inflation greater than 3% (hence overall inflation at 2.5% or higher) is just fine (see graph below). Equities appear to have definitely bought that story; hence we remain cautiously constructive towards stocks.



Source: Bloomberg

By this summertime, eyes and ears are likely to increasingly shift to the U.S. election. Notwithstanding President Biden's low approval rating, the graph below of recent polls suggest the race to be President is very close. Swing state polls (Georgia, Michigan, Nevada, Pennsylvania, Wisconsin and Arizona) show a tight race, with hypothetical margins of victory within the 1-3% range, indicating volatile voter sentiments that could swing the electoral college outcome. Which person would be better for markets? Well, we've learned Biden, a trade hawk, loves his stimulus and so do markets. With Trump, while he talks tough on trade, given his zeal to have lower interest rates, the potential inflationary impact of tariffs and more tariffs could cause Trump to back down; only time will tell. As for the Fed, they have hiked rates in an election year during the months of May through November just 16% of the time compared to 21% for all other years, and they've only cut rates 3% of the time compared to 14% of the time in other years.



Source: Bloomberg

Our funds have yet to adjust positioning from views formed about the upcoming U.S. election, as it's just too early. In the meantime, the funds continue to have net long exposure to equities in the disciplined and pragmatic fashion that investors have come to expect from the team at Forge First, including no 'big bets', diversified short books, and 'risk budgets' to hedge market risk.

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.

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