## PERFORMANCE REVIEW

The Evolution Fund benefitted from strong returns driven primarily by energy and currency markets and rose 7.7 percent in the first quarter of 2024. Equities and bonds also produced important gains while agricultural commodities and metals detracted. Carry bounced back after losses in the previous quarter and delivered stellar returns; Trend and Relative Value also contributed positively, while Seasonality lagged.

**Table 1. Q1 2024 Return Attribution**

| Sector | Q1 |
|---|---|
| **Bonds** | 1.7% |
| **Currencies** | 3.4% |
| **Energies** | 5.1% |
| **Grains** | -2.0% |
| **Indices** | 2.4% |
| **Metals** | -1.6% |
| **Rates** | 1.0% |
| **Softs** | -2.2% |
| **Volatility** | -0.2% |
| **Total** | **7.7%** |

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.

Source: ReSolve Asset Management Inc. Results may differ due to rounding. Performance is expressed in CAD. Strategy attribution is a best-efforts approximation, net of all applicable borrowing costs, fees and fund accruals for the period. Indicated returns of one year or more are annualized.

**Energies** generated the lion's share of gains from long Brent (Relative Value) and WTI (Carry) crude, RBOB (Carry), and short carbon emissions (Carry, Seasonality and Trend).

**Currencies** also drove a large portion of returns, primarily from shorts in the Swiss Franc (Carry) and Japanese Yen (Carry and Trend), followed by long Mexican Peso (Carry and Seasonality).

**Equity indices** also contributed significantly, led by long Japanese Topix (Carry, Relative Value and Trend), French CAC40 (Carry and Relative Value), Swedish OMX (all features), Italian MIB and Spanish IBEX (both informed primarily by Carry and Trend).

**Bonds** drew profits from short German Schatz (Carry and Trend) and Buxl (Relative Value, Seasonality and Trend), and 30-year Treasuries (Carry and Seasonality), as well as active trading in U.K. Gilts (Relative Value, Seasonality and Trend).

**Rates** were driven primarily by short Euribor (Carry).

**Softs** were the worst performers, with losses concentrated in short cocoa (Carry and Relative Value) and sugar (Relative Value and Seasonality), with important offsetting gains from long U.K. cocoa (Carry, Relative Value and Trend), cotton (all features) and Robusta coffee (Carry and Trend).

**Grains** also detracted, driven by long corn (Seasonality), soybeans (Carry and Seasonality) and wheat (Trend), and actively trading palm oil (Seasonality). Short soy meal (Relative Value) and milling wheat (Seasonality, Carry and Trend) contributed positively.

**Metals** suffered from long platinum (Carry and Seasonality) and palladium (Seasonality), and short gold (Carry). Active trading in copper (Relative Value) produced important gains.

**Volatility** saw incremental losses from a small long exposure to VIX in late January and early February.

## GENERAL MARKET REVIEW

The U.S. economy continued to exhibit strong momentum since financial conditions began to ease in late 2023. GDP for the final quarter of 2023 annualized at 3.3 percent, exceeding expectations, while estimates by the Atlanta Fed pointed to first quarter growth on track to hit an annualized rate of 2.9 percent. February CPI was higher than expected at 3.2 percent, while core inflation annualized at 3.8 percent. The Fed's preferred Personal Consumption Expenditures (PCE) annualized at 2.5 percent, in line with expectations. Non-farm payrolls increased by 275,000 – ahead of forecasts – though January figures were revised sharply lower, while the unemployment rate hit a 2-year high of 3.9 percent.

Though the FOMC kept rates unchanged, expectations shifted markedly throughout the quarter as an optimistic Treasury curve implying between 6 and 7 cuts in early January adjusted to hotter economic data. Eurozone GDP grew at an anemic 0.5 percent in 2023, with a sharp deceleration in the fourth quarter. The U.K. has fared even worse, sliding into technical recession after two consecutive quarters of negative growth. The European Central Bank left interest rates on hold despite cutting its forecasts for inflation and growth. The Bank of England also kept policy rates unchanged for a fifth consecutive meeting, though signaled that multiple rate cuts are likely later in the year.

The Bank of Japan raised rates for the first time since 2007, the last major central bank to end negative interest rate policy, while indicating that the pace of bond purchases would remain unchanged. Chinese industrial production and factory order data showed signs of recovery, offering policymakers some respite as the People's Bank of China vowed to support a still struggling economy.

The U.S. dollar rallied against all G7 currency peers; the slide on the Swiss Franc and Japanese Yen approximated double digits. Sovereign bonds sank in the U.S. and Europe as rates continued to rise. Gold rallied to an all-time high as geopolitical risks escalated in the Middle East and across the globe, while Copper prices recovered after Chinese smelters, which process approximately half of global mining output, agreed on a joint production cut.

Crude oil and distillates continued to rise in the wake of ongoing turmoil in the Middle East, while OPEC+ extended production cuts. Natural gas prices sank to an inflation-adjusted 30-year low as relentless output continued to flow, largely as a byproduct of crude oil production in the U.S. Benefitting from cheap natural gas prices, abundant production pushed corn, wheat, soybeans and soymeal prices lower. Cocoa prices continued to soar and hit an all-time high on weather-related disruptions caused by El Niño.

Japanese stocks rallied to an all-time high, exceeding its 1989 peak, as the Yen slid in the run-up to the BoJ's decision to end its era of negative interest rates. Strong corporate results led by its retail and banking sectors have driven the Spanish IBEX 35 Index to a six-year high. After a strong corporate earnings season, U.S. large caps continued pushing higher into record territory.

**Table 2. Q1 2024 Asset-class Highlights**

| | Cocoa | Japanese Topix | WTI Crude Oil | Cotton | European Equities | S&P500 | Gold | US Dollar | US 30y Treasury | Japanese Yen | Platinum | Soymeal | Carbon Emissions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Q1 Returns | 142.9% | 17.4% | 17.0% | 12.1% | 12.0% | 8.8% | 6.0% | 3.6% | -3.5% | -8.1% | -9.6% | -10.8% | -22.8% |
| Annualized Volatility | 45.8% | 12.6% | 25.1% | 24.7% | 10.1% | 10.6% | 10.7% | 4.9% | 10.4% | 8.0% | 25.3% | 19.9% | 42.9% |
| Maximum Peak to Trough Loss | -8.6% | -3.1% | -7.4% | -10.0% | -2.6% | -1.8% | -4.3% | -2.1% | -5.5% | -8.2% | -12.9% | -14.2% | -34.5% |

Source: Data from Tiingo. Using continuous futures contracts. Returns are expressed in USD. European Equities represent the EStoxx50 Index.

## MACRO OUTLOOK

*"The U.S. federal government is on an unsustainable fiscal path. And that just means that the debt is growing faster than the economy. So, it is unsustainable. I don't think that's at all controversial. And I think we know that we have to get back on a sustainable fiscal path."* – Jerome Powell, Fed Chairman, on *60 Minutes*

President Biden signed into law a $1.2T government funding package, which now sees the federal government fully funded until the end of the fiscal year. Meanwhile the U.S. Treasury substantially increased the size of upcoming bond auctions, including a $70 billion five-year bond sale in April that will mark the biggest sale ever for debt with a maturity of two years or more.

The U.S. announced the biggest upgrade to its security alliance with Japan since their 1960 mutual defense treaty, as relations with China showed tepid signs of improvement. As momentum appears to have shifted in favor of Russia in its war against Ukraine, a senior NATO official warned that the West should prepare for a possible all-out confrontation with Moscow. Escalation in the Middle East led to a disruption in global shipping as Yemen-based Houthi forces attacked vessels on their way to the Suez Canal. Logistical concerns were compounded by increased congestion in the Panama Canal and later by the collapse of an important bridge in Baltimore, affecting a major shipping artery along the east coast.

Sincerely,

Your ReSolve Team

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