PERFORMANCE REVIEW

In the opening quarter of the new year, the Evolution Fund sustained a -8.2 percent loss, driven by a shock to the US banking sector in the second week of March that reverberated throughout global markets. For a deeper analysis of this event, please read our report here[1].

Table 1. Q1 Return Attribution

Sector	Q1
Bonds	-5.5%
Currencies	1.7%
Energies	-2.7%
Grains	0.8%
Indices	2.4%
Volatility	0.0%
Meats	0.0%
Metals	-2.6%
Rates	-1.2%
Softs	-1.2%
Total	**-8.2%**

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE PERFORMANCE.

Source: ReSolve Asset Management SEZC (Cayman). Results may differ due to rounding. Performance is expressed in USD. 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.

Bonds were the worst performing sector as short exposures to Canadian, US and especially German sovereign debt – which had been a critical source of positive returns for the prior 18 months – motivated by a combination of all feature families, led to losses. Long Aussie 3-year (Relative Value and Seasonality) produced important offsetting gains.

Energies also detracted, primarily driven by active trading in Brent and WTI crude oil markets and short diesel (Relative Value and Trend). Short exposure to natural gas and long gasoline (all features) led to meaningful profits.

Metals negatively impacted the portfolio, with most losses stemming from a short position in gold (Carry and Relative Value) that was affected by the 'flight to quality' move in the wake of the US banking crisis, along with active trading in platinum (Carry and Seasonality). Short palladium (Carry, Relative Value and Trend) generated some gains.

Rates were also partly responsible for losses, stemming from shorts in the Canadian BAX and Euribor (all features), though important profits were generated from long Aussie Bills (Carry, Seasonality and Trend) and active exposures to Eurodollar (all features).

Softs' negative contributions resulted from short sugar (Relative Value) and Arabica coffee (Relative Value and Seasonality), partially offset by long Robusta coffee (Carry, Relative Value and Trend).

Equities were the primary source of profits, led by shorts in the UK FTSE (all features), S&P500 (Relative Value) and Hang Seng (all features), and longs in the Aussie 200 (Carry), French CAC40 (Carry and Seasonality), Italian MIB (Carry and Trend) and Spanish IBEX (Carry and Trend).

Currencies produced important gains, with the lion's share emanating from long Mexican Peso (Carry, Relative Value and Seasonality). Short exposure to the British Pound (all features), as well as the Aussie (Carry and Trend) and Kiwi (Seasonality) dollars also contributed.

Grains also offered opportunities for positive returns, driven largely from short wheat (all features), combined with long soybeans (all features) and soy meal (Carry, Relative Value and Trend). Longs in bean oil (Carry and Seasonality) and corn (Carry, Relative Value and Seasonality) detracted.

[1] https://investresolve.com/inc/uploads/pdf/evolution-program-march-2023-commentary.pdf

GENERAL MARKET REVIEW

The year began with a rally across global equities and bonds, as decelerating inflation in the US and Europe rekindled hopes that a potential pause in monetary tightening was in sight, even though central bank Chairs on both sides of the Atlantic continued to emphasize a tightening bias. US economic data was robust, especially in February, as GDP and employment figures conveyed resilience. Despite some evidence and expectations of a meaningful activity slowdown across the Atlantic, the European Central Bank and the Bank of England continued raising rates.

As reopening and activity normalization began to gain traction, the People's Bank of China issued a cautiously optimistic report on the economy, which is expected to rebound and be marginally supportive to the global economy. The toll from prolonged shutdowns in the Middle Kingdom was laid bare when last year's meager 3 percent GDP growth was announced, a multi-decade low and barely half the 5.5 percent target.

Japanese GDP for the fourth quarter of last year fell short of expectations, as did several other economic indicators, while inflation accelerated. If persistent, this dynamic would pose a grave challenge to the Bank of Japan's ultra-loose monetary policy of Yield Curve Control (YCC), which has led to the BOJ accumulating approximately half of the country's outstanding debt[2] over the past few decades.

The war in Ukraine raged on, with both sides speculated to be preparing for a spring offensive that could break the apparent stalemate of recent months. The Black Sea Grain Initiative was renewed, allowing food and fertilizers to continue flowing from southern Ukrainian ports, though Ukrainian and Russian officials disagreed on the extension's duration.

During the second week of March, huge (albeit unrealized) losses from Treasury holdings, that had been accumulating across the US banking system since the Fed began raising rates, precipitated the first bank run of the digital age[3]. A tsunami of depositor capital was rapidly drained from smaller regional banks, and financial institutions otherwise perceived as "non-systematically important", and into the (relative) safety and extra yield offered by Treasuries and other sovereign debt.

Just days after coordinating fresh US dollar funding facilities with other central banks to alleviate the market turmoil that ensued, the Fed once again raised rates, though less than previously expected and in line with the dislocations implied by the yield curve. Importantly, the Chairman admitted the FOMC considered pausing[4], fueling speculation especially across duration-sensitive risk assets.

Table 2. Q1 2023 Asset-class Highlights

	Robusta Coffee	Nasdaq	Sugar	European Equities	Nikkei	Copper	Gold	German 30y Buxl	US 30y Treasury	Soymeal	US Dollar Index	Diesel	Wheat	US Natural Gas
Q1 Returns	22.1%	19.3%	18.3%	14.3%	8.9%	7.5%	6.8%	4.7%	4.2%	2.3%	-0.7%	-11.1%	-14.0%	-51.9%
Annualized Volatility	22.3%	21.8%	23.5%	18.3%	13.9%	22.9%	15.6%	27.9%	13.9%	21.7%	8.2%	39.8%	25.2%	81.5%
Maximum Peak to Trough Loss	-6.3%	-7.8%	-5.4%	-6.7%	-5.9%	-9.8%	-7.2%	-13.7%	-7.6%	-11.2%	-3.6%	-25.1%	-17.6%	-54.3%

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

MACRO OUTLOOK

The Fed's tightrope has become a lot thinner; though financial stability concerns appear to be relatively contained for the moment, additional tremors of sufficient magnitude could force their hand even if inflation remains well above target. A group of midsized US banks requested regulators to extend FDIC insurance to all deposits for the next two years[5]. Even if regulators can momentarily arrest the bleed with sweeping guarantees for small and midsized institutions, the US regional banking system has been dealt a heavy blow that could reshape the industry. The question of recession may be

[2] https://asia.nikkei.com/Business/Markets/Bonds/BOJ-holds-over-50-of-Japanese-government-bonds-for-1st-time

[3] https://www.bloomberg.com/news/articles/2023-03-12/silicon-valley-bank-s-fall-was-a-faster-more-viral-breed-of-bank-run#xj4y7vzkg

[4] https://www.bloomberg.com/news/videos/2023-03-22/powell-fed-considered-rate-pause-consensus-backed-hike

[5] https://www.bnnbloomberg.ca/midsize-us-banks-ask-fdic-to-insure-all-deposits-for-two-years-1.1897285

about depth and duration, while another (and perhaps more consequential) congressional 'debt ceiling showdown' approaches just as foreign appetite for US Treasury securities may have peaked.

Strong remarks from top Chinese officials of "conflict and confrontation" and "unprecedented grave challenges to our nation's development" showed just how strained US-Sino relations have become after Washington imposed additional measures to restrict China's access to the most advanced microprocessors. Beijing also criticized new developments in the AUKUS defense pact between the US, UK and Australia, denouncing a "dangerous road" lay ahead. Not surprisingly, defense spending grew as a share of budget when the Middle Kingdom announced its GDP growth target of "around 5 percent"[6] during its annual parliamentary gathering.

China's geopolitical ambitions were on full display as President Xi visited his Russian counterpart, reaffirming the two countries' 'limitless friendship' and offering a peace proposal that would allow Moscow to keep Crimea and other territories annexed in 2014 (promptly rejected by Kyiv). The Chinese also participated in a historical rapprochement between Saudi Arabia and Iran, while the former is also reported to be considering accepting Yuan instead of Dollars for Saudi oil[7], an unprecedented break from the Petrodollar System. Intentions were further solidified when it was announced that, in partnership with Brazil, India, Russia and South Africa, the so-called BRICS are now seeking to develop a new currency to rival the US dollar.

Sincerely,

Your ReSolve Team

[6] https://www.reuters.com/world/china/chinas-economy-government-revamp-focus-parliament-set-open-2023-03-04/

[7] https://www.wsj.com/articles/saudi-arabia-considers-accepting-yuan-instead-of-dollars-for-chinese-oil-sales-11647351541

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