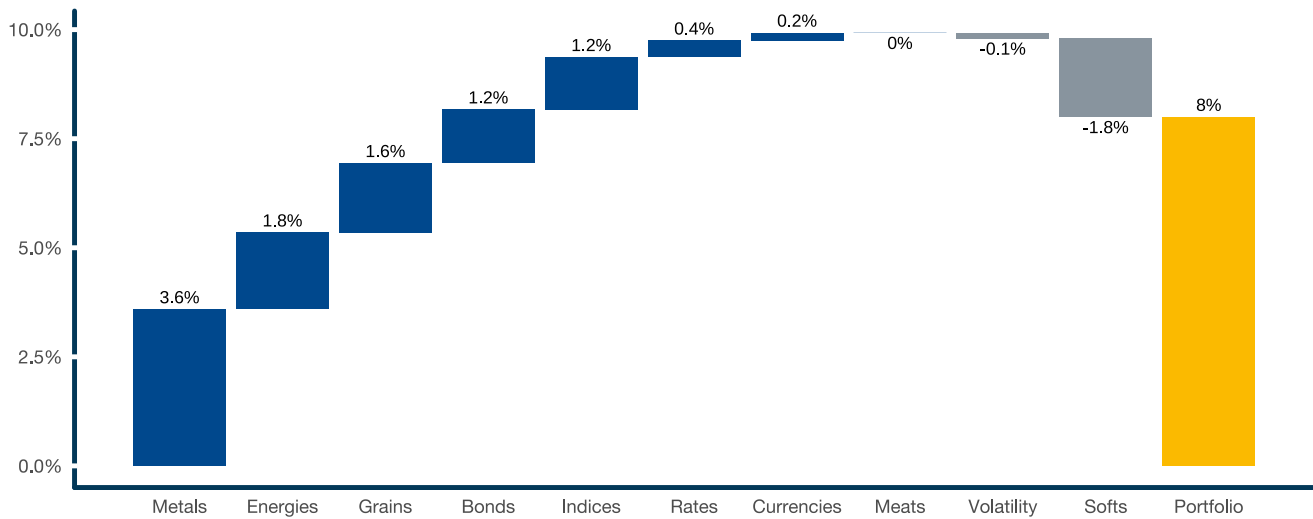


## PERFORMANCE REVIEW

The Osprey Program produced another strong quarter of profitable trading, gaining 8 percent and bringing year-to-date returns to 19.3%. The strategy benefitted from long and short exposures to a wide range of markets, motivated especially by signals in the Seasonality and Trend feature families. The macro trading program accrued gains in seven of nine sectors, with losses in softs standing out as the exception. Volatility trading in the tail hedging strategy was also marginally unprofitable.

**Figure 1. Q2 Return Attribution**



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.

**Metals** was by far the top performing sector, with most profits stemming from high conviction shorts in copper, followed by platinum and silver. Positioning was largely driven by Relative Value, Carry and Trend features

**Energies** once again contributed positively, led by longs in natural gas, crude oil, RBOB and gasoil. Positioning was largely driven by Carry and Relative Value features. Sharp declines in the final two weeks as recessionary fears intensified erased a portion of earlier gains.

**Grains** were the most actively traded sector, with profitable longs in bean oil and milling wheat earlier in the quarter (Seasonality and Trend) and short positions across every market in the back half, when gains were concentrated in palm oil, wheat and canola (Relative Value).

**Bonds** also performed well, primarily from short positions across the US Treasury curve, along with German 2-year Bobl and 10-year Bunds. Carry and Trend were the main driving signals, with important contributions from Relative Value at times. Longs in the German 30-year Buxl, Canadian 10-year and Aussie 3-year detracted.

**Equities** generated profits exclusively from short positions, led by the S&P500, TSX60, Aussie 200 and German DAX, and primarily driven by Carry and Relative Value.

**Rates** had profitable shorts in the Eurodollar (Trend) and Aussie bills (Carry, Relative Value and Trend) largely offset by losses from long Euribor (Carry).

**Currencies** offered incremental gains, led by longs in the US Dollar against the British Pound, Japanese Yen, Euro and Swiss Franc, informed largely by Carry and Relative Value systems.

**Softs** were the only group to accrue losses, led by longs in cocoa, coffee and sugar (Carry and Relative Value).

## GENERAL MARKET REVIEW

The dynamics that gripped global markets in the first quarter of the year accelerated into the second quarter, leading to an intensifying selloff in global sovereign bonds and equity indices. The war in Ukraine raged on, as battered Russian forces pivoted their focus to the east in an effort to establish a 'land bridge' between the Russian territory and the Crimean Peninsula, securing access to the Black and Mediterranean seas. The prospects for a diplomatic solution to the crisis in Ukraine appear vanishingly small since the last round of negotiations broke down with no material progress. There is growing concern regarding the availability of grains and especially fertilizers, which may threaten food security across the globe starting late summer.

Investors were once again laser focused on the actions, words and tone emanating from central banks as the abundant liquidity that once flooded global markets – and especially US-based assets – continued to be drained from the system. The Fed raised rates by 50 basis points in May, followed by a 75-bps hike in June – the first time in three decades – and signaled an aggressive pace of monetary tightening in the coming months. Quantitative Tightening (QT) also began in June and despite the expected bear steepening of the curve, rising risks of a hard economic landing drove the yield curve to flatten. Across the Atlantic, top ECB officials have suggested that a 50 basis point increase might be necessary to contain inflationary pressures – with Germany seeing its highest price increases since 1963 – as pressure mounted for an end to Europe's ultra-loose monetary policy. But perhaps the most shocking claim came from the Bank of England Governor's candid admission that policy makers have been left "helpless in the face of inflation".

Government bonds intensified their selloff, particularly in Europe; the German 30-year Buxl declined by 18 percent, while 10-year bonds in Canada, France, Germany, Italy, UK and US fell between 3 and 9 percent. Global equities also suffered steep losses, led by double-digit declines in US, Canadian, Australian and German indices, and high single-digit corrections across various European and Asian markets. The US Dollar Index rose by 6 percent as the greenback strengthened against developed and emerging market currencies alike; smaller losses in the Canadian Dollar and Swiss Franc, larger for the Aussie and Kiwi Dollars, British Pound and especially the Japanese Yen. Even commodities endured losses, especially in June as recession fears grew. Metals were the hardest hit, with large losses in copper and silver. Losses in agricultural markets were led by cocoa, wheat, cotton and corn. Energies were down in June but still positive in the quarter, led by 20 to 30 percent rises in heating oil, gasoil and RBOB, though UK natural gas futures fell by 53 percent.

### Muddling Through – The Rising Risk of Stagflation

Despite FOMC members' claims to the contrary, there is mounting evidence of a global economic slowdown. The World Bank and OECD have slashed their growth expectations, the University of Michigan Consumer Sentiment dropped to its lowest recorded level, dating back to the mid-1970s, and a growing number of economists are questioning the chances of a 'soft landing'. The possibility of a 'muddle through' scenario was eloquently summarized by economist Mohamed El-Erian: "I believe they're going to flip-flop. And that's the worst of all three possibilities. Right now, they are focused on inflation, but as the growth consequences become clear they will ease their foot off the brakes...and then will have to slam on the brakes again."

As the war in Ukraine entered its fourth month, Russian forces seem to have carved the so-called land bridge from its border into the Crimean Peninsula, though fierce fighting is still taking place in many cities in the region. Pledges by the US and UK to provide more sophisticated weapon systems to the Ukrainian army prompted the Russian government to issue a deliberately vague threat of further escalation, while Russian state media has allegedly been openly discussing a possible nuclear attack on British soil. Growing tensions among European countries have led Finland and Sweden to abandon decades of neutrality and formally request NATO membership.

Across the Pacific, the US president's explicit promise to defend Taiwan militarily if attacked by China, deviating from more than half a century of strategic ambiguity, although quickly recanted by the State Department, was met with a strong rebuttal from the Chinese government, further straining an already fragile relationship. Worsening global cooperation has the potential to continually feed inflationary pressures, while worsening the outlook for growth and tightening living standards will breed further political turmoil.

Sincerely,

Your ReSolve Team

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