PERFORMANCE REVIEW

The Osprey Fund returned +2.5 percent in the second quarter, led by positions in currencies and equity indices, partially recovering from losses incurred earlier in the year. Carry was by far the best performing feature family, followed by Trend, while Seasonality underperformed.

Table 1. Q2 Return Attribution

Sector	Q2	YTD
Bonds	0.0%	-4.0%
Currencies	3.3%	4.4%
Energies	-2.2%	-4.4%
Grains	-4.0%	-3.6%
Indices	3.1%	4.9%
Volatility	0.0%	0.0%
Meats	0.0%	0.0%
Metals	0.8%	-1.0%
Rates	-0.1%	-0.9%
Softs	1.6%	1.0%
Total	**2.5%**	**-3.5%**

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.

Currencies were the primary source of returns, with the lion's share stemming from short Japanese Yen (Carry and Trend) against the US dollar. Long Mexican Peso (Carry and Relative Value), British Pound (Relative Value and Trend) and short Aussie Dollar (Carry) further contributed.

Equity Indices were a close second, largely benefitting from long Japanese Nikkei and Topix (Carry and Trend). Long Italian MIB (all features) and French CAC40 (Carry, Relative Value and Seasonality), short UK FTSE (Carry and Seasonality), and active trading in the Aussie200 (Seasonality) also added to performance.

Softs added further gains, mostly through longs in London cocoa (Carry and Trend) and Robusta coffee (Carry, Relative Value and Trend).

Metals contributed with gains from short copper (Relative Value and Trend), platinum (Relative Value and Seasonality) and palladium (all features), as well as long silver (Carry).

Bonds led to marginal gains, as profits from shorts in German 5-year Bobl (Carry, Seasonality and Trend) and 30-year Buxl (Relative Value and Seasonality) were largely offset by losses from longs in US 5-year and 10-year Treasuries (Carry and Seasonality).

Grains were the worst performers, with most losses stemming from short palm oil (Relative Value and Seasonality), and longs in soybeans (Carry), soy meal (Carry and Seasonality) and Kansas City wheat (Carry and Relative Value). Short wheat (Carry) produced important offsetting gains.

Energies also detracted, primarily due to active trading in Brent crude (Relative Value, Seasonality and Trend) and long WTI crude (Carry), partially countered by profits from active trading in diesel (Relative Value and Trend) and heating oil (Carry, Relative Value and Trend), and long natural gas (Carry and Seasonality).

Rates imposed incremental losses, with a profitable short in Euribor (Carry and Trend) offset by losses driven by long Aussie Bills (Carry and Relative Value).

GENERAL MARKET REVIEW

The seesaw of cyclical and structural forces pulling in opposite directions continues to add increasing complexity to the future path of US interest rates, one of the most critical variables in determining risk appetite for global assets. Rates, bonds, equities and energies have been mired in loose ranges for many months while economic forces play out against a backdrop of policy ambiguity along several axes.

Extraordinary short-term measures at the Treasury to manage the debt-ceiling conflagrations resulted in a surge in short-term liquidity. Once negotiations in Congress were concluded and the debt-ceiling once again extended, Secretary Yellen elected to replenish the Treasury General Account by issuing short-term Treasury bills (as opposed to longer dated bonds) in an apparent attempt to minimize the expected impact on liquidity. This will likely dampen the effects of Quantitative Tightening and further complicate the Fed's fight against inflation. Concerns over financial stability following the failure of important US banks in March appear to have somewhat moderated, though growing signs of non-performing loans to the commercial real estate sector could add further strain to the industry[1].

After 10 consecutive hikes, the Fed kept rates unchanged in its latest FOMC meeting in June, though optimism about a "pause" was tempered by comments by chairman Powell indicating that the tightening cycle was not over yet, and an expected increase in terminal rates (as indicated by so-called Dot Plots). Inflation slowed but remained well above the Fed's target, while stronger than expected labor market and revised Q1 GDP[2] data signaled activity remains robust. An unusually large dispersion in growth measures across different segments of the economy is further complicating the jobs of policymakers as they attempt to pursue a "data driven" approach.

The Bank of Japan (BoJ) kept its ultra-loose monetary policy unchanged while suggesting an inflationary overshoot would unlikely lead to tighter conditions in the short-term[3]. The People's Bank of China (PBOC) reduced interest rates for both its one-year medium-term lending facility (MLF) and reverse repo rate, indicating further easing might be warranted to boost a weakening economy[4].

Warning that inflation is far from vanquished, the European Central Bank (EBC) increased its policy rate to the highest level since 2001[5], days before inflation data for the Eurozone showed an acceleration in core CPI[6] despite headline figures falling more than expected. Across the Channel, the Bank of England (BoE) also raised rates (by more than anticipated) as stubbornly high inflation – the highest among major economies[7] – showed no signs of abating.

Aided by a decelerating CPI (and, consequently, higher real yields), the US dollar strengthened against most of its major peers. The largest US technology companies rallied, also fueled by the intense hype surrounding Large Language Models (LLMs) and other applications that have fallen under the 'Artificial Intelligence' umbrella. Japanese indices also benefitted from the 'AI-mania', in addition to a weaker Yen and a recent bout of strong corporate profits. Industrial metals and the energy complex suffered from slowing demand amid growing expectations of a global economic slowdown. Gold sank to its lowest levels since March[8] amid signs that interest rates have likely not yet peaked.

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1 https://www.morningstar.com/news/marketwatch/20230607508/treasury-secretary-yellen-warns-of-commercial-real-estate-issues-that-could-strain-banks

2 https://www.calculatedriskblog.com/2023/06/q1-gdp-growth-revised-up-to-20-annual.html?m=1

3 https://www.reuters.com/markets/asia/boj-set-keep-ultra-low-rates-may-signal-inflation-overshoot-2023-06-09/

4 https://www.bloomberg.com/news/articles/2023-06-13/china-credit-demand-weakens-in-fresh-sign-of-waning-recovery

5 https://www.ft.com/content/25c99f1d-c730-4ab8-a7ff-7aca6bcd35b9

6 https://www.bloomberg.com/news/articles/2023-06-30/euro-area-core-inflation-accelerates-again-in-setback-for-ecb

7 https://www.cnbc.com/2023/07/04/uk-is-now-the-only-major-economy-where-inflation-is-still-rising.html

8 https://seekingalpha.com/news/3978337-gold-tumbles-to-lowest-since-march-as-us-yields-hit-fresh-june-highs

Table 2. Q2 2023 Asset-class Highlights

	Nikkei	Robusta Coffee	Nasdaq	US Natural Gas	S&P500	European Equities	US Dollar Index	US 10y Treasury	Gold	Brent Crude	UK 10y Gilts	Copper	Japanese Yen	Milling Wheat	Corn
Q2 Returns	18.3%	17.8%	13.9%	8.2%	7.4%	3.2%	0.8%	-3.0%	-3.9%	-5.3%	-7.7%	-8.2%	-9.3%	-11.7%	-15.4%
Annualized Volatility	14.3%	26.1%	16.6%	63.4%	11.6%	11.6%	6.0%	6.9%	12.4%	35.6%	11.1%	19.6%	8.8%	27.4%	32.6%
Maximum Peak to Trough Loss	-3.0%	-10.3%	-3.7%	-20.6%	-2.7%	-4.1%	-2.1%	-4.5%	-7.6%	-17.3%	-10.1%	-13.7%	-10.7%	-16.7%	-21.4%

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

MACRO OUTLOOK

In early June, Ukraine began its long-awaited counteroffensive which appears to be making slow progress[9] as of this writing. As the conflict escalated over the past few weeks, the destruction of the Nova Kakhovka dam will likely have dire effects over huge swathes of grain producing regions in southern Ukraine, while Russian officials have indicated the Black Sea Grain Initiative would not be extended past July[10]. These events could have severe implications for global food supplies[11]. Still on the geopolitical front, Italy announced it will no longer participate in China's Belt and Road Initiative[12], in yet another sign that great power competition is leading to a more fragmented global economy. Meanwhile, a top US military officer warns of an arms race in the Western Pacific[13].

A study released by Deutsche Bank expects an imminent wave of debt defaults in the US and Europe, likely peaking in the fourth quarter of 2024[14], while odds of an economic hard landing appear to be rising[15]. As the interplay between economics and geopolitics grows more complex every day, it's not surprising that macro uncertainty appears high relative to other historical periods, at least according to these measures[16].

While range-bound conditions are especially difficult for intermediate-term quantitative strategies, the biggest payoffs tend to occur when equilibrium transitions to disequilibrium, setting the stage for new trends and sustained price moves. It's impossible to know when major shifts will happen, but it seems likely we are closer to the end than the beginning of this process.

Sincerely,

Your ReSolve Team

9 https://www.reuters.com/world/europe/ukraines-counter-offensive-slower-than-expected-too-soon-judge-pentagon-2023-07-07/

10 https://www.reuters.com/world/europe/kremlin-aide-says-russia-unlikely-quit-grain-deal-before-july-17-renewal-date-2023-06-16/

11 https://www.reuters.com/world/europe/ukraine-warns-over-impact-kakhovka-dam-collapse-farmland-2023-06-07/

12 https://www.euronews.com/2023/05/12/italy-abandons-the-belt-and-road-initiative

13 https://www.voanews.com/a/top-us-military-officer-warns-of-arms-race-in-western-pacific/7026600.html

14 https://www.reuters.com/markets/default-wave-imminent-will-peak-2024-deutsche-bank-2023-05-31/

15 https://www.researchaffiliates.com/publications/articles/987-odds-of-a-hard-landing

16 https://mcusercontent.com/6750faf5c6091bc898da154ff/files/a5581dc3-204b-d360-891e-38cce411f39e/AQR_Certainly_Uncertain.pdf

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