PERFORMANCE REVIEW

The Osprey Fund delivered robust returns in the third quarter, rising +10.5 percent. Energies were by far the best performers, though important contributions also stemmed from bonds, softs, currencies and equities, while metals and grains detracted. Across the main feature families, Carry once again drove the lion's share of gains, with Seasonality also producing strong results, especially in September.

Table 1. Q3 Return Attribution

Sector	Q3	YTD
Bonds	2.1%	-1.9%
Currencies	1.6%	6.1%
Energies	5.6%	0.9%
Grains	-0.6%	-4.4%
Indices	1.0%	5.8%
Volatility	0.0%	0.0%
Meats	0.0%	0.0%
Metals	-1.4%	-2.3%
Rates	0.5%	-0.5%
Softs	1.7%	2.7%
Total	**10.5%**	**6.6%**

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 were the main highlight, driven primarily by longs in diesel (Trend) and crude oil (Carry and Relative Value). Heating oil also contributed (Trend and Seasonality), while gasoline (Relative Value and Seasonality) detracted.

Bonds benefitted from shorts across the German sovereign curve, especially the 30-year Buxl (Relative Value and Seasonality) and 10-year Bunds (Carry and Trend). Short Aussie 3-year and Korean 10-year (all features) added further gains, while longs in US (Carry and Seasonality) and Canadian (Carry and Trend) 10-year bonds led to losses.

Softs were led by longs in London Cocoa (Carry, Relative Value and Trend) and sugar (Carry and Relative Value), with additional contribution from short Cocoa (Carry) and long Robusta coffee (Carry and Trend).

Currencies produced important gains, primarily from short Aussie (Carry) and active trading in the Kiwi (Trend and Seasonality) Dollars. Active trading in the Mexican Peso (Relative Value and Seasonality) and short Japanese Yen (Carry and Trend) and Swiss Franc (Carry and Relative Value) also contributed, all against the US dollar.

Equity Indices also generated profits, led by shorts in the S&P500, French CAC40, Russell2000 and German DAX, all driven by a combination of Carry and Seasonality features. Long Japanese Topix (Carry, Relative Value and Trend) and active trading in the Hang Seng (Relative Value and Seasonality) further enhanced profits.

Rates were largely driven by gains from long Aussie Bills (all features).

Metals imposed the largest losses, stemming primarily from shorts in platinum (Relative Value and Seasonality) and palladium (Carry and Trend).

Grains also detracted, led by active trading in milling wheat and long palm oil (Relative Value, Seasonality and Trend), though short soybeans (Carry, Relative Value and Seasonality) produced important offsetting gains.

GENERAL MARKET REVIEW

Displaying remarkable resilience, US GDP accelerated in the second quarter to 2.4 percent[1], well ahead of expectations. Robust business and consumer spending were the main drivers of growth. Consumer sentiment approached a two year[2] high as measured by the University of Michigan. However, despite an increase in nonfarm payrolls, the US unemployment rate rose significantly in August, climbing well ahead of expectation to 3.8 percent[3]. CPI also rose ahead of consensus estimates[4], fueled by higher gasoline and housing prices, raising the prospect that the dynamics observed in the last twelve months may amount to transitory disinflation[5].

Speaking at the important Jackson Hole Symposium, Fed Chair Powell reiterated that the battle against inflation continues[6], indicating that developments in monetary policy remain largely data dependent. Weeks later, the Fed kept policy rates unchanged at a 22-year high while signaling there is likely more tightening ahead this year, and that monetary policy would remain restrictive for a considerably longer period[7]. Longer dated Treasuries and sovereign bonds across the Atlantic responded in kind, leading to a widespread selloff in global risk assets. A narrowly averted government shutdown[8], an expected doubling of the federal budget deficit[9] and a national debt milestone of 33 trillion dollars[10] further contributed to the souring mood, bringing the precarious US fiscal position into focus.

The European Central Bank raised interest rates to an all-time[11] high while signaling an end to the current hiking cycle, as Eurozone inflation fell to its lowest in almost two years[12]. In a split decision, the Bank of England held rates steady[13] following better than expected inflation figures. Chinese indicators continue pointing to a faltering recovery as growth remains sluggish, rising youth unemployment (which hit a record high, prompting the government to stop publishing the numbers[14]) and deflationary pressures, as both CPI and PPI July figures contracted[15] on an annualized basis. Policy makers have rolled out successive rounds of stimulus to try and reanimate the economy[16]. Despite loosening its yield curve control (YCC) policy in July, moving one step closer to normalization[17], the Bank of Japan was forced to intervene and protect the 1 percent yield cap on 10-year government bonds in the wake of the biggest selloff in 25 years[18].

Adverse weather conditions, in some cases related to the El Niño phenomenon, and expected lower production yields continue to drive the prices of cocoa[19], cotton[20] and sugar[21] higher. Despite the interruption of the Black Sea Grain Initiative, a bumper late harvest in Russia and Ukraine, and increased export shipments from the former, pushed wheat prices further down. Saudi Arabia, Russia and other OPEC members announced an

1 https://www.cnbc.com/2023/07/27/gdp-q2-2023-.html

2 https://finance.yahoo.com/news/americans-havent-felt-this-good-about-the-economy-in-almost-two-years-151453360.html?.tsrc=372

3 https://www.reuters.com/markets/us/us-job-growth-picks-up-august-wages-gains-slow-2023-09-01/

4 https://www.reuters.com/markets/us/us-consumer-prices-accelerate-august-gasoline-2023-09-13/

5 https://thefelderreport.com/2023/09/15/what-if-disinflation-turns-out-to-be-transitory/

6 https://www.federalreserve.gov/newsevents/speech/powell20230825a.htm

7 https://www.reuters.com/markets/rates-bonds/fed-projections-show-if-soft-landing-is-new-baseline-or-baseless-2023-09-20/

8 https://www.bloomberg.com/news/articles/2023-10-01/senate-clears-bill-to-avert-government-shutdown-sends-to-biden

9 https://www.bloomberg.com/news/articles/2023-10-01/senate-clears-bill-to-avert-government-shutdown-sends-to-biden

10 https://www.cnbc.com/2023/09/19/united-states-national-debt-tops-33-trillion-for-first-time.html

11 https://www.reuters.com/markets/europe/ecb-considers-lifting-rates-record-high-even-economy-slows-2023-09-13/

12 https://www.ft.com/content/37b13644-5ed9-4caa-83a4-4f3094125d8e

13 https://www.cnbc.com/2023/09/21/bank-of-england-ends-run-of-14-straight-interest-rate-hikes.html

14 https://www.washingtonpost.com/world/2023/08/15/china-economy-youth-unemployment-rate/

15 https://www.reuters.com/markets/asia/chinas-consumer-prices-fall-july-deflation-risks-build-2023-08-09/

16 https://seekingalpha.com/article/4634598-china-steps-up-stimulus-economy-falters

17 https://www.reuters.com/markets/rates-bonds/boj-seen-keeping-ultra-low-rates-may-debate-tweak-yield-cap-2023-07-27/

18 https://www.bloomberg.com/news/articles/2023-09-29/redux-of-1998-selloff-hits-japan-bonds-as-boj-support-wanes

19 https://www.nasdaq.com/articles/icco-expects-global-cocoa-deficit-of-116000-t-for-2022-23-season

20 https://www.bloomberg.com/news/articles/2023-08-11/cotton-jumps-on-larger-than-expected-crop-cut-grains-slide

21 https://www.reuters.com/article/global-softs-idAFL1N3AB2CY

extension of production cuts[22], leading to steep inventory declines for crude oil[23] and refined products[24]. Precious metals continued to suffer from real yields (which have reached an almost 15-year high[25]), while concerns over Chinese and global growth weighed on copper prices[26].

As investors adjusted expectations to interest rates remaining higher for longer, major global equity indices and sovereign bonds declined in lockstep, led by US markets. The yield on the 10-year Treasury hit 4.49 percent, a 16-year high[27], and the US dollar rallied strongly against most major peers.

Table 2. Q3 2023 Asset-class Highlights

	Diesel	WTI Crude	Sugar	Cotton	US Dollar Index	Japanese Topix	S&P500	Soybeans	Gold	European Equities	US 30y Treasury	German 30y Buxl	Wheat
Q3 Returns	44.6%	30.7%	15.1%	8.5%	3.5%	2.6%	-4.7%	-5.1%	-5.2%	-5.6%	-10.5%	-12.5%	-20.3%
Annualized Volatility	30.6%	22.3%	22.8%	21.7%	6.1%	12.6%	10.6%	19.4%	9.0%	14.6%	11.7%	17.0%	42.8%
Maximum Peak to Trough Loss	-5.5%	-5.8%	-6.9%	-5.1%	-3.5%	-4.3%	-7.5%	-10.5%	-7.8%	-8.2%	-11.2%	-14.5%	-31.8%

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

MACRO OUTLOOK

While the Fed is no longer the dominant buyer of Treasuries under Quantitative Tightening (QT), US banks have pulled back from the market in the wake of the banking crisis earlier this year, and appetite from foreign sovereign buyers also appears to be waning at the margin. Combined with surging debt and ballooning deficits, market forces are pushing US Treasuries to clear at a lower price, resulting in higher yields. As Ray Dalio recently put it: “We're going to have a debt crisis in this country. How fast it transpires, I think, is going to be a function of that supply-demand issue, so I'm watching that very closely.”[28]

The geopolitical picture also grows murkier. Despite a recent diplomatic push and intentions to reopen communication lines between the two countries, the US announced successive rounds of export and investment bans aimed at curbing China’s ability to produce state of the art computer chips. Beijing has countered with its own measures, restricting exports of key minerals, as the “semiconductor war” marks yet another chapter in great power competition.

Sincerely,

Your ReSolve Team

22 https://caspiannews.com/news-detail/russia-saudi-arabia-extend-oil-output-cuts-to-stabilize-market-2023-8-4-1/

23 https://twitter.com/ericnuttall/status/1699039252925849765?s=46&t=sFwxlljubhpOgHA2GDpoTQ

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25 https://www.capitalspectator.com/has-treasury-market-misjudged-timing-for-peak-rates-again/

26 https://www.reuters.com/article/global-metals-idAFL1N39V0F4

27 https://www.reuters.com/markets/rates-bonds/10-year-yields-hit-16-year-peak-fed-seen-higher-longer-2023-09-21

28 https://www.cnbc.com/2023/09/28/ray-dalio-says-the-us-is-going-to-have-a-debt-crisis.html?&qsearchterm=dalio

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