CTAs survive May's wild ride

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Commodity prices except for oil retreated during May 2022 owing to the concern over an impending global recession driven by the hawkish Federal Reserve and geopolitical uncertainty. The Eurekahedge CTA/Managed Futures Hedge Fund Index was down -0.20% in May (+8% YTD), snapping its five-month winning streak.

Similarly, the HFRI Macro: Systematic Diversified Index is up 14% YTD after losing -0.7% in May, and the Barclay CTA Index is up 8% YTD after losing -0.1% in May. That month, energies lead gains, buoyed by the short-term trading strategies, while currencies, grains, and ags detracted, said a CTA manager. Sector benchmark Barclays BTOP50 CTA gained 0.28%.

The **J8 Global Absolute Return Strategy** (J8 GARS), on the other hand, gained 2.4% in May to reach a 23% YTD return.

J8 GARS is formulaic and fully systematic. It trades liquid exchange-traded futures on 20 commodity markets, futures on liquid currencies, and futures on North American and European government bond markets only. It does not trade futures on equity markets. It uses long-term price trends, demand and supply dislocations in the term structure, interest rate differentials, and inventory signals to generate returns. The risk-weighted portfolio returns are managed to target volatility. The investment process is governed by rigorous risk management rules. The $52m strategy is managed by UK-based J8 Capital Management.

Then there is the **Auspice Diversified Program**, which managers believe we are in the midst of a commodity bull market with opportunities aplenty.

The program lost 1.8% in May but remained positive YTD with almost 17% returns. The strategy is a rules-based multi-strategy investment program managed by Canada-based Auspice Capital Advisors. It is rooted in trend following but it pulls together other complementary strategies and wraps them in a rigorous risk and capital allocation model. Auspice Diversified outperformed as markets corrected in early 2020 and here again in 2022.

"Global equity markets had a wild ride in May with many markets down over 5%, NASDAQ over 10% (with its biggest one-day decline since 2020) as we ended the third week before bouncing back," says the program's monthly commentary. "Some markets made it back neutral or small gains with Asian markets leading the pack and closing higher - the Nikkei was up 1.6% yet still down for the year alongside all global benchmarks. The MSCI ACWI global benchmark remains down 12.8%, the S&P500 down 13.3%, while the tech-heavy Nasdaq is weakest at down 22.8% year to date."

From 1970 to 1980, US Fed Fund Rates increased from 3% to over 20%, the managers comment in their outlook. This didn't stop CPI/inflation. "Central banks are learning again that raising rates is likely ineffective in combatting today's "cost-push" inflationary environment. A higher Fed Funds rate doesn't alleviate record structural commodity deficits and ensuing inflationary drivers - decarbonization, supply chain complications, labour shortages, and war among others. Commodity cycles are typically long, 10 plus years. We are in year 2 of this commodity bull market. We believe this is a generational opportunity."