Global X ReSolve Adaptive Asset Allocation Corporate Class ETF (HRAA)

Market Overview

Political turmoil set the tone in July, beginning with an assassination attempt on Donald Trump during a campaign rally, which he luckily emerged from largely unscathed. A week later, after mounting pressure from his party, President Biden withdrew from the presidential race, giving way to Vice President Kamala Harris to lead the Democratic ticket in November. Across the Atlantic, Sir Keir Starmer became Britain's new Prime Minister following the Labour Party's landslide victory, ending 14 years of Conservative rule. France braced for a period of instability, with no party securing a parliamentary majority in the wake of snap elections called by President Macron.

Equity markets suffered an acute and abrupt selloff in the first few days of August, which began with a whopping -12.4% decline in the Japanese Nikkei – the steepest single-day drop since 1987 – and spread across the globe. Like most episodes of this nature, it wasn't caused by any single catalyst, but rather a combination of factors that compounded, leading the CBOE Volatility Index (VIX) to spike to levels not seen since March 2020. Stocks had been enjoying strong year-to-date performance led by U.S. big tech firms, many of which reported disappointing earnings in the preceding days. Weaker-than-expected labour numbers in the U.S. emerged as one of the leading causes, along with the Bank of Japan's 25 basis point (bps) rate hike and subsequent sharp rally in the Japanese Yen, which has long been the source of cheap funding throughout the globe. Growing concerns over the Chinese economy and increasing geopolitical tensions further exacerbated a tenuous macro backdrop.

Panic was short-lived, and concerns gave way to hope as expectations surrounding a reduction in U.S. Federal Reserve (Fed) Fund rates shifted from whether they would take place to the size of impending cuts. Global equities recovered quickly as incoming economic data appeared to cement the case for monetary easing. U.S. Consumer Price Index (CPI) for July came in below expectations, the lowest since the spring of 2021, though core inflation still annualized above 3%. Both PCE (Personal Consumption Expenditures) and its core reading – the Fed's preferred inflation gauge – confirmed the deceleration, indicating a trend below 2%. The Bureau of Labor Statistics (BLS) issued the biggest downward revision since the Great Financial Crisis, essentially wiping out over 800 thousand jobs while the unemployment rate hit 4.3%.

As expected, the Fed lowered policy rates in September as it tries to "achieve a situation where we restore price stability without the kind of painful increase in unemployment that can sometimes come with this" as stated by Chair Jay Powell at the press conference. Assets responded accordingly – stocks and bonds rose, along with gold and other precious metals, while the U.S. Dollar softened. Policymakers in Beijing announced new monetary and fiscal measures to help reignite an ailing economy, sending Chinese shares soaring along with a large bounce in copper. But the confluence of forces and events taking place in Eastern Europe, the Middle East and within the U.S. today could suddenly take precedence over the ebb and flow of the business and economic cycles, with the potential to cause major shifts in global asset prices.

Table 1. Q3 2024 Asset-Class Highlights

	Robusta Coffee	Hang Seng	Gold	Japanese Yen	Canadian TSX60	Spanish IBEX	US 30y Treasury	German 30y Buxl	U.S. Dollar Index	Milling Wheat	Brent Crude	Heating Oil
Q3 Returns	42.1%	20.7%	11.1%	10.3%	9.8%	8.3%	4.8%	4.5%	-4.8%	-7.7%	-13.0%	-16.8%
Annualized Volatility	34.6%	22.3%	14.2%	12.8%	11.7%	13.6%	10.6%	12.5%	5.2%	22.8%	27.3%	26.4%
Maximum Peak to Trough Loss	-9.9%	-9.5%	-4.5%	-3.9%	-5.2%	-7.9%	-2.7%	-3.9%	-4.9%	-17.3%	-19.2%	-23.0%

Source: Data from CSI. Using continuous futures contracts. Returns are expressed in USD.

Quarter in Review

The strategy rose by 0.6% in the third quarter (Q3), led by long exposures to equities, bonds, metals and softs. The alpha component delivered positive returns, while the risk parity core was slightly down.

Table 2. HRAA Performance Attribution – Q3 2024

Sector	Q4	YTD
Bonds	1.4%	2.2%
Currencies	-1.8%	0.3%
Energies	-2.0%	0.4%
Grains	-0.5%	-1.0%
Indices	1.8%	4.0%
Metals	0.8%	0.5%
Softs	1.4%	2.7%
Volatility	-0.5%	-0.8%
TOTAL	**0.6%**	**8.4%**

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Analysis by ReSolve Asset Management SEZC (Cayman). Q3 and YTD return figures as of September 30th, 2024. Note: Results may differ due to rounding. Performance is expressed in CAD. Strategy attribution is a best effort approximation due to rounding and trade timing, net of all applicable borrowing costs, fees and fund accruals for the period.

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

Equity Indices generated the lion's share of gains, led by long Hang Seng, Spanish IBEX, EStoxx50 and ChinaA50.

Bonds contributed primarily from long 5- and 10-year U.S. Treasuries, followed by U.K. Gilts.

Softs also produced meaningful profits, led by long sugar, coffee and cocoa.

Metals delivered gains from long gold and silver, while short copper detracted.

Energies were the main detractors, led by long WTI and Brent Crude, heating and diesel. Short gasoline and active trading in natural gas generated important offsetting gains.

Currencies also suffered, primarily from short Swiss Franc, Kiwi Dollar, Canadian Dollar and Japanese Yen, partially countered by the long British Pound and Euro.

Grains sustained small losses, concentrated in short bean oil and active trading in soy meal while short-milling wheat produced offsetting gains.

Volatility initially generated gains from long positions as markets sold off in early August, which later turned into small losses as the market recovered on expectations of a dovish Fed pivot.

Outlook and Positioning

Iran's second missile attack on Israel, following a series of recent strategic defeats by proxy groups supported by Tehran, marked a major escalation in the conflict. Energy prices reacted as Iranian oil infrastructure emerged as likely targets for retaliation. As the world's most volatile region moves closer to the brink, Russian forces have made notable territorial gains over the last few months, as Ukraine's defenses continue to sustain heavy casualties and suffer from equipment shortages. While the government in Kyiv lobbies the U.S. and other NATO members for additional support, the Kremlin announced that it would consider the West to be directly at war with Russia if Ukraine is allowed to strike Russian territory with Western-made long-range missiles. Further, the Russian president recently announced changes to the country's Nuclear Doctrine that appear to have significantly lowered the threshold for using such weapons.

The domestic picture in the U.S. has also grown more complex with less than a month to go before the U.S. presidential elections. Donald Trump suffered a second assassination attempt, though this time with no injuries, as polls indicate a very close race. As the threat of political violence appears to be at its highest point in decades, the country witnessed another important sign that the pendulum continues to swing in favour of labour in its tussle versus capital, with critical implications for inflation. For the first time in almost 50 years, tens of thousands of dockworkers walked out across 14 of the largest U.S. ports on the East and Gulf Coasts, as a strike by the International Longshoremen's Association threatened to disrupt logistics right before the busiest season for retail. A tentative agreement raised wages by 62% and suspended the strike until January 15, 2025, though disputes over the increased use of automation in ports remained a "major stumbling block" that might not be resolved in 100 days, according to industry executives.

While any one of these events would be concerning on their own, combined they make for a very precarious macro and geopolitical backdrop. The binary nature of some of these variables and their potential for compounding is especially worrisome and could lead to a major crisis not seen in generations.

Source: ReSolve Asset Management as of September 30, 2024.

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