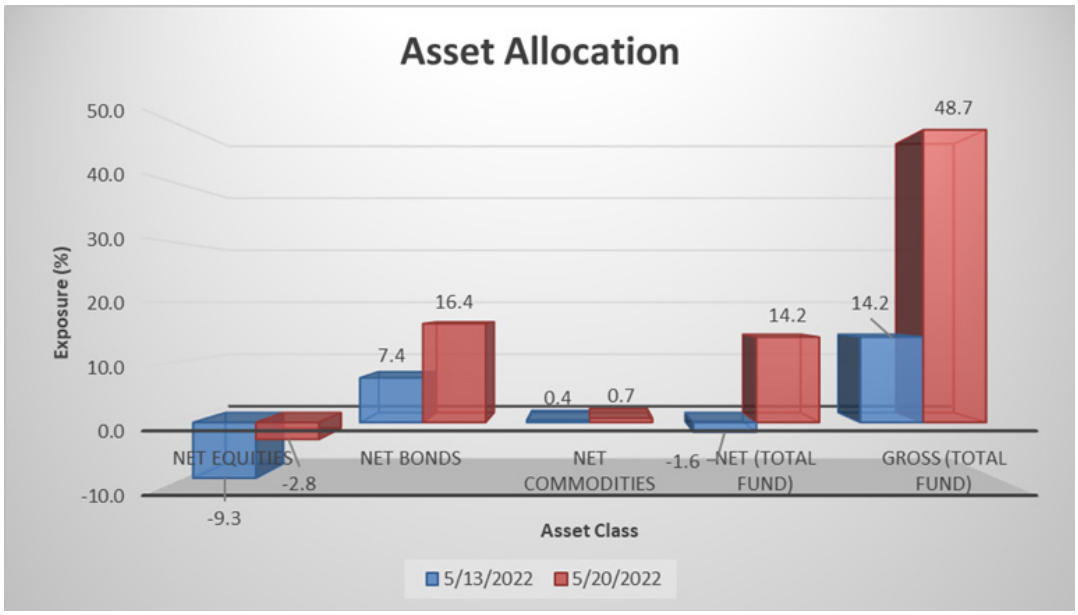


Monthly performance, macro context, current positioning and future expectations.

Performance
Week of May 20, 2022

Arrow Global Advantage Alternative Class (F Class):
WTD 0.08%
MTD 0.02%
YTD -2.35%

MSCI ACWI:
WTD -1.16%
MTD -4.86%
YTD -17.61%

Global Market Summary

The Fund had a small gain on the week versus another loss for both the MSCI ACWI and S&P500. Evidence continues to favour our view of a slowing global economy (and the resultant rate of change falls in corporate profits) and a better tone to government bonds on the back of weaker economic data (5/10 yr breakevens down 10% over the past month) as well. Fed Chair Powell suggested/stressed again in the WSJ interview that inflation killing is job #1 and they will not stop until there is "clear evidence" that it is coming down. If you believe him, then we will get the two 50 bps rate hikes in June and July. It was interesting to hear FED hawk Bullard on Friday afternoon talk about rate cuts in 2023 – the market took that very positively but anyone will tell you this is already priced in the Eurodollar curve – so just more blah blah – but the sheep (or the algos) got all bulled up on it. Our view is Powell stays the course and that the FED put is much lower.

In terms of our models, we continue to forecast falling inflation and GDP in the US for the balance of the year. That being said, after 7 weeks of falling equity markets we have decidedly to lighten up on equity shorts and position ourselves more neutral equities. The USD seems to have found a short term peak and any weakness could trigger a relief rally. If you tuned into our webcast last week, we suggested that equities will remain under pressure until the FED pivots (we expect in the fall). Corporate earnings estimates for the S&P 500 are r

far too high in our view and while we have had a multiple contraction, we will now get the broader earnings weakness (retail reports last week were just ugly). Remember just because a stock's multiple is down does not make it cheap.

In the world's second biggest economy, Xi continues his move to accommodating policy given the huge impact of the Covid lockdown on the Chinese economy. The tug of war here is compounded by the very strong USD. Biden mentioned on the weekend about possibly removing tariffs – this is unlikely given the political situation with the upcoming midterms although it may help with inflation – tough call!

This week will get some PMI's, PCE, new home data amongst other things.

Summary Table
Economic Forecasts (Q2/2022 and Q3/2022)

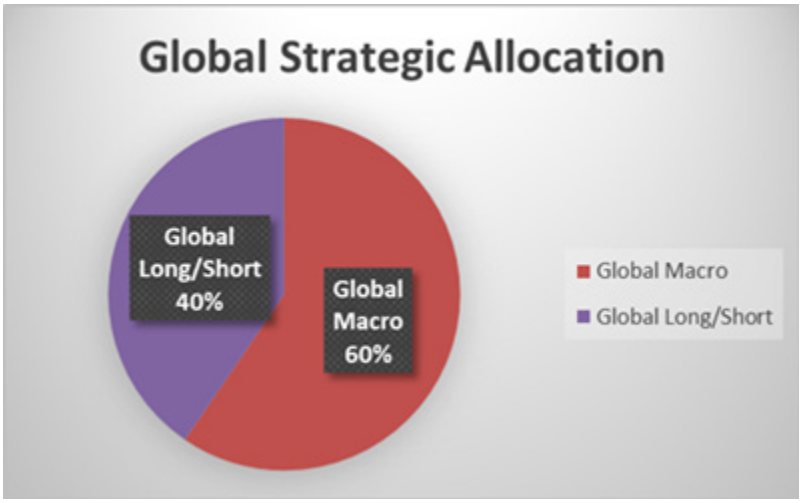
Country	Q2 Outlook	Q3 Outlook
US	D	G
Canada	G	D
Eurozone	D	D
China	R	R
Japan	R	G

D= Deflation / G= Real Growth / R= Inflationary Growth / I = Inflation

Q2 in the US remains more in the Inflationary "I" zone in the first part (April / May) and then Deflationary "D" as base effects kick in for real.

Economic Weekly Update

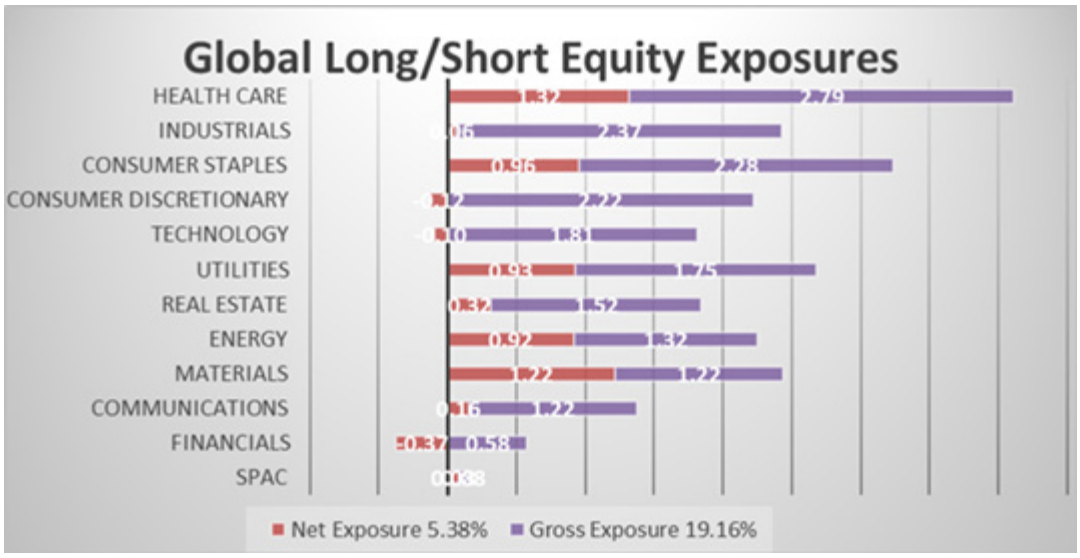
Below is a summary of the week and significant changes.



We have simplified the portfolio into 2 parts – a Global Long/Short part (individual securities) and a Global Macro part that focuses on liquid futures, ETF's etc. across FX, Commodities, Fixed Income and Equities.

Summary of our current positioning:

1) Global Sector Exposures (Long / Short Portfolio of individual companies)

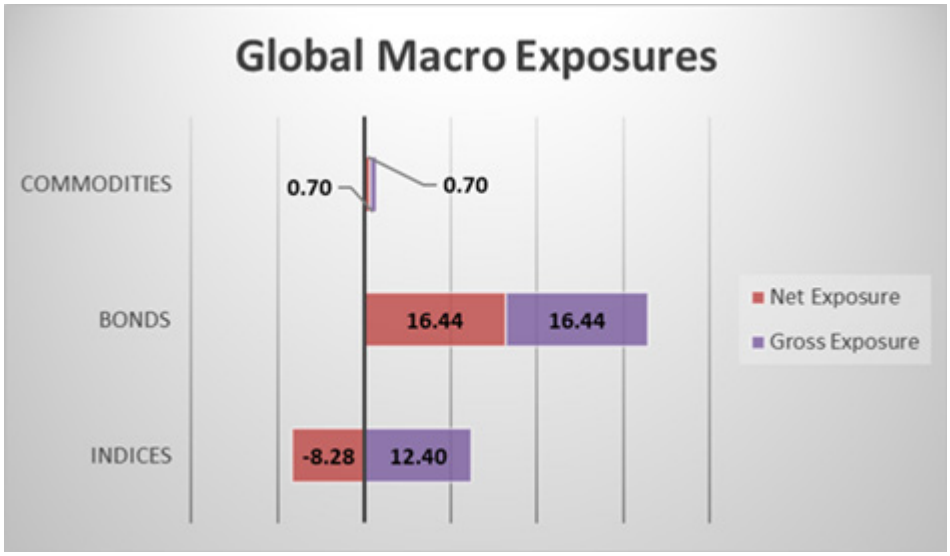


We lightened our shorts after this week's correction. The meltdown in equities started with the negative surprise from Walmart and Target, indicating how vulnerable retail spending has been. Staples finally broke down, with Utilities and Energy sectors being the only ones that still held up.

What exactly happened to Walmart and Target? While the issues are a bit different for each, both are facing similar issues including higher cost from fuel and freight as well as weakness in discretionary spend which was squeezed by hot inflation. A larger issue with TGT is in their inventory as they ordered too much after seeing the unprecedented growth over the last 2 years. Target cut their 2Q margins by half as a result of elevated cost to store extra inventory plus large discounts needed to right-size their inventory levels. For Walmart, the issues is more of their inability to raise prices, despite that, they are seeing consumers switching to cheaper private brands as their purchasing power gets squeezed by the highest inflation in four decades.

Nearly every retailer of size is reporting materially slowing trends. The question now is how much weaker consumers can get from here? Six months ago, companies couldn't get the workers they needed, now we started to see quite a few companies (particularly in tech and real estate services) that need to cut costs fast to preserve cash. We believe the consumer will likely be feeling more pressure in the coming months when companies start trimming jobs.

2) Global Macro Exposures



Commodities – Bullish Gold

We will need a weaker USD to help this position or weaker real rates. Both are likely in the near term.

Bonds – Bullish Duration / Short Credit

We believe we have seen the cycle high in the 10yr which is in line with our view that headline CPI has also peaked (although it is sticky high for now).

Equity Futures – Negative

We reduced our net short exposure and are now close to neutral. This is a tactical shift for now given the length of the equity drawdown. Will wait for a decent bounce here before getting more aggressive again.

Foreign Exchange Positions:

FX EXPOSURE	%
CAD	95.7
USD	2.6
Other	0.7
JPY	0.6
GBP	0.2
EUR	0.1
AUD	0.0
DXY	-1.4
Total Fund	**98.5%**

FX – Bullish USD

We have reduced our CAD short materially again on the thesis that we will get a bounce in risk assets this week.

We look forward to reporting back next week.

Historical Performance – As of Apr 29, 2022

	1-Year	3-Year	ITD
AGAA - Series F	-0.28%	5.43%	3.98%

Published May 24, 2022

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The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values or returns on investment in an investment fund.

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The comparison presented is intended to illustrate the historical performance of the Fund as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investments. There are various important differences that may exist between the Fund and the stated indices or other investments that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Arrow Capital Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document.

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