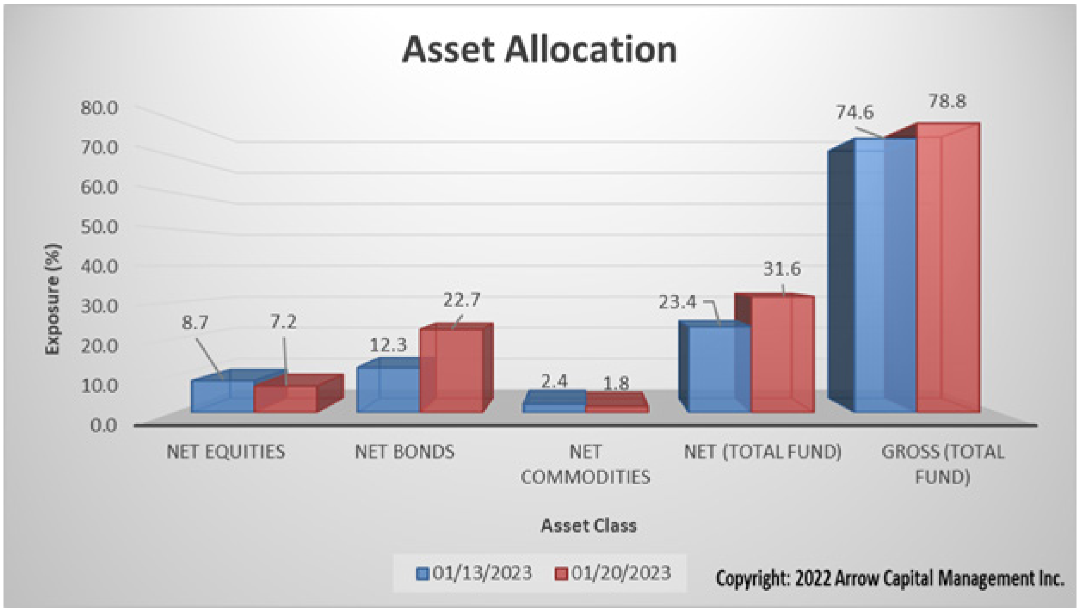


Weekly performance, macro context, current positioning, and future expectations.

Performance
January 20th, 2023

Arrow Global Advantage Alternative Class (F Class):
WTD -0.43%
MTD 0.08%
YTD 0.08%

MSCI ACWI:
WTD -0.26%
MTD 5.12%
YTD 5.12%

Global Market Summary

Happy Lunar New Year to many of our clients! The year of the Rabbit is for longevity, prosperity and peace – we certainly could use more peace in the world right now.

We were down on the week as our long exposure to Japanese yen (versus CAD and USD) and long defensive / short junk equity exposures detracted from performance. We remain confident that both of these short term trends will reverse as the US economy continues to slow and the FED remains in a monetary tightening mode. This week saw very poor retail sales, industrial production and capacity utilization results which do not augur well for corporate profits. While it is still early, roughly 10% of the S&P 500 has reported earnings which are down on average -4.5%. In our view, this is the start of several down quarters – we get another 25% of the S&P reporting this coming week.

The market remains fixated on the falling inflation data which included further support from the PPI which came in lighter YoY but hotter MoM. With QoQ real GDP expected to accelerate (based on Atlanta FED) in Q1 and CPI continuing to fall, we are getting a Goldilocks type scenario (albeit a weak one) developing in the very short run – and the chase is certainly on with FOMO in full view. Our models indicate a less than 25% chance of this unfolding (versus 50% in the market now) given the leading economic data we follow - but like Lloyd said in Dumb & Dumber: “so your saying there's a chance!". If you look at Dec 2024 Fed Funds futures you will see 200 bps of cuts roughly from a FED terminal rate of 5% from June of this year onwards. Assuming that in a recession we would see even further cuts (300 bps or more), we can assume the market is pricing in a high probability of a soft landing in the 50-60% range while the tails of either recession or "higher for longer" economic growth both around 25-30% range (h/t Bob Elliot). So while 10 year bonds are fine in our longer term scenario, they are not really "cheap" as a lot has been priced in. We expect the FED to focus on maintaining rates higher for longer as inflation takes it sweet time to get anywhere near the 2% Fed target level – our Q4 2023 estimate is for headline CPI to be 4.2%. They have consistently stated they are focused on labour markets and wages and so far the evidence is they are both still quite strong. We expect it will take lower corporate profits to see a meaningful increase in jobless claims or a fall off in service sector wages. On that score, the media has been reporting on layoffs in the tech industry especially and while noteworthy, the table below highlights just how much labour was increased during the pandemic at these high profile companies and possibly how much further there is room to fall (h/t @Inquisitiveinvestor):

Full-Time Employees	2019	2022	Growth	Layoffs
Google	118,899	156,500	37,601	12,000
Amazon	798,000	1,608,000	810,000	18,000
Microsoft	144,000	221,000	77,000	10,000
Meta Platforms	44,942	71,970	27,028	11,000

Source: Annual Report.

There was a fair bit of noise around the debt ceiling this week on basis of "extraordinary measures" to now be undertaken by the Treasury. There has been some bullish interpretations here (i.e. fewer treasury bonds to be issued now = better bond prices) but really all that is happening is the TGA account ($380 bn plus the remaining new issuance of $70 BN = $400+ bn) will be released to fund the government and that will help offset the QT program as well at least until the summer – a number of folks thought the QT would then need to be paused at that point. Fed Governor Waller (a voting member) however stated Friday at a conference that until the RRP plus the bank reserves fell to 10% of GDP (i.e. roughly $2.5 trillion) that QT would continue – with those facts (if they truly represent the FED's thinking), QT is slated to go on for at least another 2+ years!

Globally, high frequency data remains very supportive of a substantial jump in the Chinese growth rate but with the New Year holiday week and all the travel, we will be watching for signs of Covid related issues impacting the economy further. The Asian market, we feel, has more room to run as flows move from extremely underweight levels in Asia to a more neutral level especially versus the US. Without a doubt, the anticipated growth pick up there is adding to the soft landing narrative in both the US and European equity markets. We will be paying attention certainly to earnings for Q4 this week and especially guidance and commentary on inflation and supply chains.

This coming week will highlight first estimates of Q4 GDP, PCE, inventories, durable goods and personal income and spending in the US. The BoC is on deck for a likely 25bps hike this week; like most, we believe this is the last hike for now and will be watching CAD crosses closely.

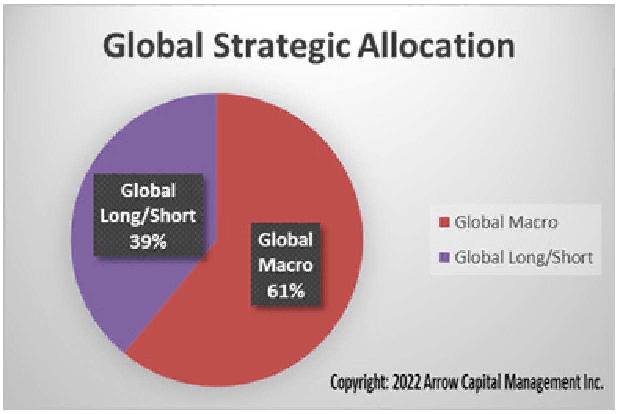
Summary Table
Economic Forecasts (Q4/2022 and Q1/2023)

Country	Q4 Outlook	Q1 Outlook
US	D	D
Canada	D	D
Eurozone	I	D
China	D	I
Japan	I	D

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

Economic Weekly Update

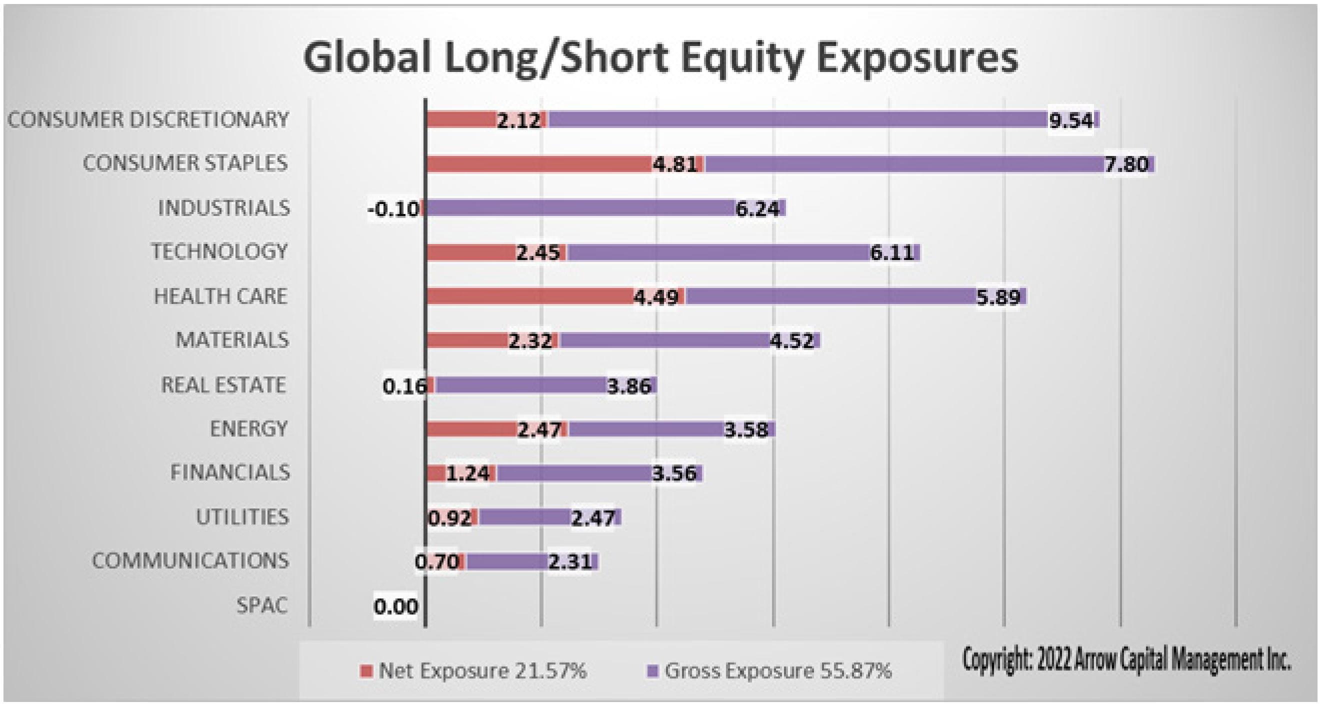
Below is a summary of the week and significant changes.



The portfolio is divided 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:

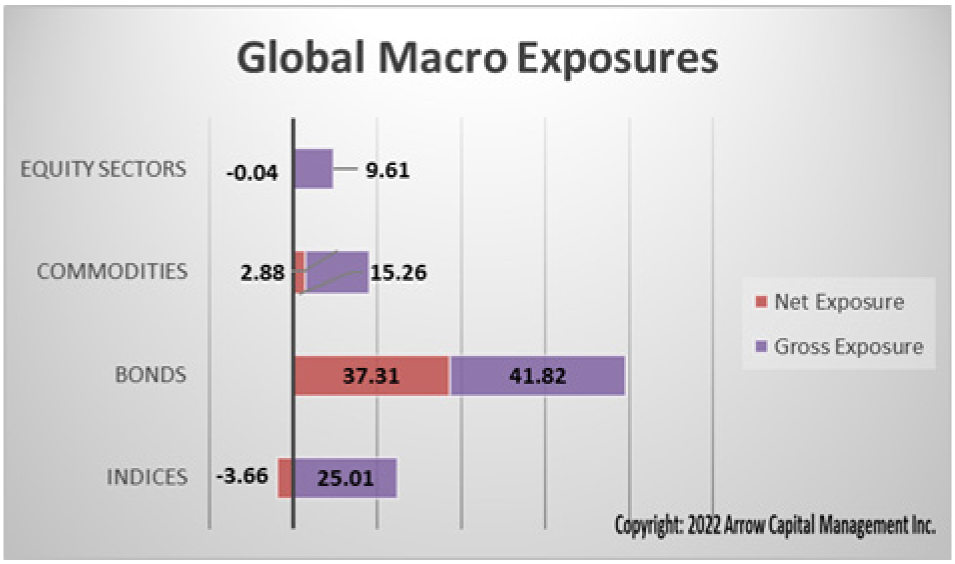
1) Global Sector Exposures (Long / Short Portfolio of individual companies)



We made no major changes to our positioning last week, as we wait for company earnings to come in over the next month. We have realized that the conditional probability of a Quad 1 has increased while this rally in equity markets has persisted through the beginning of the year. We are watching this closely for clues if a true recovery is close on the horizon, versus just another bear market rally. We would err on the side that this is a bear market rally, but earnings could support the market in the near term if they were to come in better than expectations.

High beta outperformed low volatility by 4 percentage points in the past week as some investors anticipated the aforementioned Goldilocks regime in the near term. Our equity portfolio was down as we are still shorting low quality names in the U.S. and expecting their earnings to surprise to the downside. On the longs, we favor international stocks as we believe there could be more runway from China reopening. We also favor U.S. names with large foreign exposure, Europe and Asian in particular, as recent USD weakness could add some juice on the earnings. P&G is a good example, which has over half of their revenue from outside U.S. We added more on the weakness last week when they reported disappointing volume as a result of some one-off reasons, i.e. China lockdown and reduction of their Russia portfolio. Gross margin declined 160bps in Q4 vs a year ago, where about 40% of the decline is from USD appreciation. As this trend is likely to reverse in Q1, and potentially in the next few quarters, more importantly, management noted the FX impact hasn't been factored in their guidance on the call. Plus some disinflation relief on their input cost as well as on consumers' spending from lower gas prices. We like the setup here.

2) Global Macro Exposures



Total Gross: 91.7%, Total Net: 36.49%

Commodities – Bullish Gold

Commodities were reduced by 0.66% as we took some profits in our long GSG position.

Bonds – Bullish Duration / Short Credit

Bonds were increased by 10.34% by adding further to our 5 year TIPs and 10yr nominal US government bonds. We added a long IG and short HY pair last week as well.

Equity Futures – Negative

Index shorts were increased by 1.1%.

Foreign Exchange Positions:

FX EXPOSURE	%
CAD	88.8
JPY	7.5
AUD	5.5
USD	1.5
GBP	-0.2
EUR	-1.3
Other	-1.8
DXY	0.0
Total Fund	**100.0%**

* We have included the delta adjusted totals to the FX summary above.

FX – Bullish USD

CAD was increased by 0.3%. JPY was reduced by 1.7%. AUD was increased by 3% versus NZD and CAD. USD was increased from -1.3% to 1.5%. EUR was reduced from 0% to -1.3% versus JPY.
We look forward to reporting back next week.

Thanks,
Arrow Investment Team

Historical Performance – As of December 31, 2022

	1-Year	3-Year	5-Year	ITD
AGAA - Series F	-1.73%	4.93%		3.47%

Published January 23, 2023

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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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