fLAB

It´s All About Asset Allocation

February 2020, Newsletter#46

Dear ;

As 2020 got started, stock market conditions were starting to look better, priced for perfection. The global stock/bond ratio had moved to a new high, as had the equal-weighted ACWI. Both had finally followed the earlier new highs achieved by the ACWI benchmark – like other cap-weighted indices, driven higher by the megacaps. But they had struggled to do so, with valuations stretched and with **dangerous levels of concentration and complacency. Vulnerable to disappointment, equities were poised to sell off in response to a negative catalyst**, since provided by the coronavirus outbreak in China. In raising doubts about the economic recovery prospects of the region that drove the global economic slowdown in 2018 (and apparently poised to help end it this year), the health scare has raised questions about the underpinnings of an earnings recovery priced into the ACWI's most expensive forward earnings multiples since early 2018. To an increasing extent global breadth worsened, yet sentiment indicators are far from indicating that the excessive optimism has given way to extreme pessimism. And it has yet to become evident that the market has adjusted to the probability that the outlook for economic growth and earnings is less favorable than suggested by the stretched valuations. As a result we have seen a volatility increase, renewed declines in bond yields, widening credit spreads and a shift to risk-off assets. Considering the positive correlation between bond yields and stock prices, and that both are inversely correlated with the VIX, if yields continue to drop, it will become increasingly likely that the VIX will continue to rise on the renewed economic worries, in tandem with dropping stock prices.

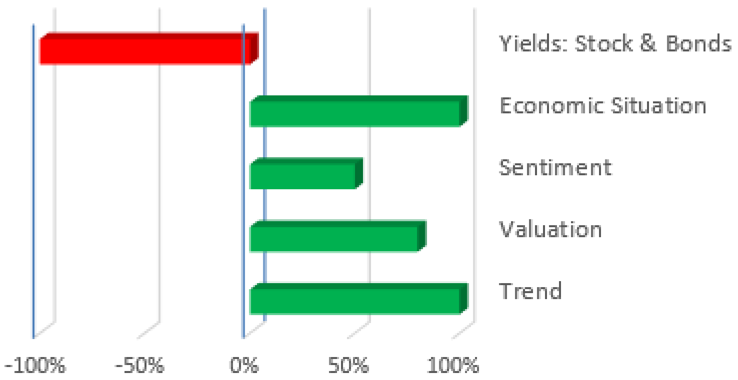
That said, despite coronavirus fears, **overall conditions are still bullish**, with trend and accommodative central bank policies supporting equity markets.

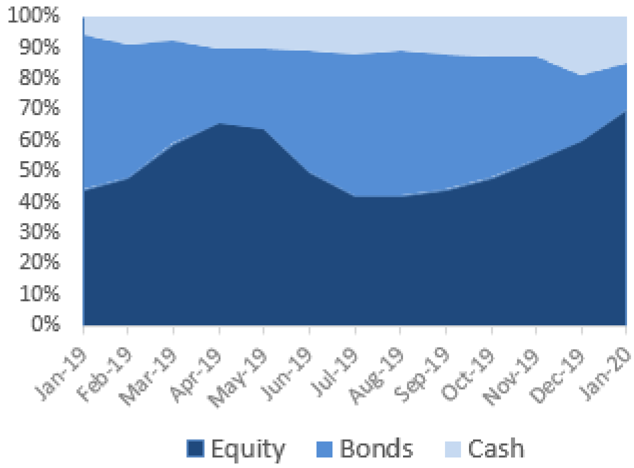
Our Global Asset Allocation Fund, fLAB Core H-USD, started the year in good shape till markets were rattled by the epidemic, finally performing 0.09% in January (although we are up 1.41% on Feb 5th).

For February, our Asset Allocation model shows better economic situation, triggering a shift from bonds (-6%) and cash (-4%) to stocks (+10%). As a result, and following the weight of the evidence of our objective indicators we are 70% equities, 15% bonds and 15% cash.

fLAB Core Asset Allocation Model - February 2020		Model	Benchmark
	Stocks	70%	55%
	Bonds	15%	35%
	Cash	15%	10%

Equity Relative Strenght by Betalphing 5 groups of Indicators





Equity Regional Allocation vs MSCI World AC

Market Weigthed All Geo Areas

Benchmark (US 53.2%, Eur 15.5%, Emerg Mk 9.8%, Jap 7.9%, UK 6.8%, Pacific 3.9%, Can 3%)

Equity World Sector Allocation

Health Care	*OW*	*Consumer Staple & Real Estate*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index

US	*OW*	*Europe*	*UW*

Benchmark (US 49%, Europe 26%, Japan 19%, UK 6%)

Within equity allocation, we have shifted from Defensive/Value sectors to more Cyclical/Growth sectors. We reduced our weighting in defensive Consumer Staples , Real Estate and Utilities, and increased Consumer Discretionary, Technology and Communication Services. **Our style trend model has changed to favor Growth over Value…again.** On a geographical basis, we continue quite neutral comparing to the MSCI ACWI. On the fixed income side, we have reduced European government exposure even more, now that yields have deepened into negative territory, keeping only overweight Treasuries. We maintain a duration around 9, being 1.69 for the overall portfolio. We increase real USD exposure up to 23%.

Our Relative & Return Fund, fLAB Satellite H-USD, has withstood quite well market volatility, posting a positive return of 0.46% YTD.

The Fund is 66% invested in a low risk low duration (1.81) diversified fixed income portfolio plus 21% invested in some thematic and decorrelated assets, aiming to achieve an excess return over the free risk rate. The remaining 13% is in cash. In January the portfolio has benefited from its conservative bias, through appreciation in gold and fixed income securities. Instead, it has been negatively impacted by the fall in commodity prices, such as Oil and Industrial Metals along with other equity positions, as fears have weighted on risk appetite. We believe that credit should remain well-supported and spreads tight if the economic outlook remains favorable. We keep a portfolio duration in the range 1-3 until we get more clarity on the economic and/or signs of a yield breakout to the upside.

fLAB Core Awards, Jan 2020

LIPPER LEADERS

10 year Ranking

Total Return	Consistent Return	Preservation	Expense Ratio
5	5	4	5

MORNINGSTAR

10 year Ranking

fLAB Fund SICAV Core A | ★★★★

fLAB Fund SICAV Core H-USD | ★★★★

CITYWIRE GOLD

Funds people 2019

***Note : We remind you that we have launched fLAB Core & fLAB Satellite clean share classes in both EUR and USD**, applying the same management fees as the cheapest Institutional class. Please check new ISIN codes by clicking the links down here.*

Monthly factsheets

Please find attached the Fact Sheets of our main Luxembourg products fLAB Core & fLAB Satellite, available in EUR, USD, GBP and SGD

fLAB Core

fLAB Satellite

You can find all Technical Info, KIIDs, Prospectus, Investment Strategy and all about the Ucits Fund at: http://www.flabfunds.com

Please keep us informed if you need further information.

Kind regards,

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