fLAB

It´s All About Asset Allocation

May2020, Newsletter#49

Dear ;

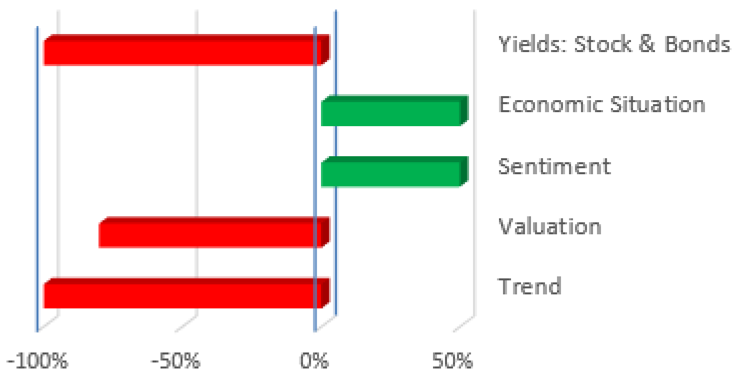
Fed actions and anticipation that gradual reopening serve as a light at the end of the coronavirus tunnel, pushed the S&P 500 to 30% above the March 23 low. The rally has not only been stronger than average coming off a waterfall low, but it has been also bigger at this stage than any of the 13 previous post-waterfall bounces. After such large gains, it's natural that we **ask ourselves about whether the rally has been big enough to dismiss the risks of a retest of the lows. The answer is, no**. The rally does not eliminate the possibility of a retest, but it increases the chances that any retest would be less severe. We have noted market improvement, specially from a technical point of view but for an uptrend to last, **it must broaden out.** Sentiment alone can drive rallying in the stable big name growth stocks. But a lasting advance requires participation from a broad contingent of markets, sectors and individual stocks.
Flattening coronavirus curves tell us little about what will happen to future economic growth and earnings, as the scale of the damage will only be known in hindsight. There's no way of knowing when an effective vaccine will be introduced, whether another wave of infection lies ahead, and how long it will take for business and consumer confidence to recover. But global equities have been able to rally as expectations have shifted away from the most gloomy outcomes. Net inflows have returned to the megacap-dominated ETFs and traders have joined in for the short-term profits.
What we haven't seen is the **breadth improvement** that would describe an advance with staying power. It would be a sign that investors had started to consider valuations as justified and see increased upside potential in a broadening contingent of markets and sectors. That would reflect rising optimism in the outlook for economic growth and corporate profits, currently in very short supply. For now caution is warranted by breadth of global equities, regions, sectors, megacaps, risk-on/risk-off proxies, Purchasing Manager Indices, earnings revisions, and earnings growth, both trailing and expected.

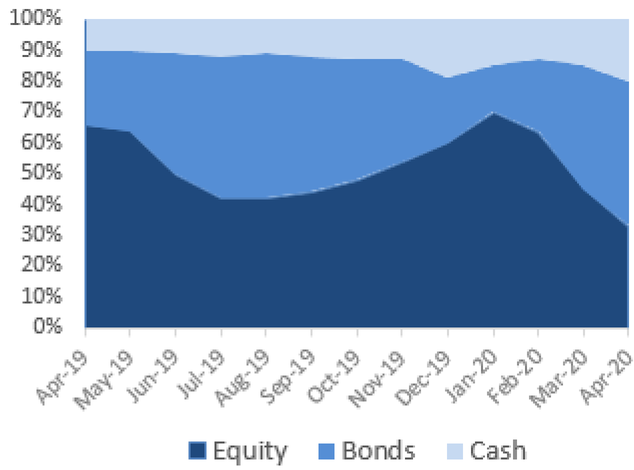
Our Global Asset Allocation Fund, fLAB Core H-USD, has recovered 4.65% in April, thus performing -8.30% YTD.

In May, our Asset Allocation model continues to reflect an unfavorable environment for stocks and reduces equity exposure (-10%) in favor of government Bonds (+7%) and cash (+3%). Our portfolio is now 33% equities, a level we have not seen since the fourth quarter of 2018, 47% in bonds and the remaining 20% in cash.

fLAB Core Asset Allocation Model - May 2020		Model	Benchmark
	Stocks	33%	55%
	Bonds	47%	35%
	Cash	20%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators





red (bond preference) green (equity preference)

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 & Consumer Staples	*OW*	*Financial, Industrials & Energy*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index

Market Weigthed All Geo Areas

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

Within equity allocation, **we keep our geographical and sector bets until we get more evidence** that we have entered in a sustainable market advance. After a bottom, the market typically has a strong mean reversion period for up to 26-weeks. In this sense, longer-term mean reversion shows Energy, Industrials and Financials as most oversold, the three sectors we are underweight. All are on watch for an upgrade. While Health Care and Technology are the most overbought, and are potential downgrade candidates. Concerning fixed income allocation, we have 45% in Treasuries, 34% in European government bonds, 12% in JGB, 7,5% in GILTS and a residual position in emerging sovereign debt. Our portfolio duration remains high, at 9.81, being 3.90 for the whole fund. In terms of currency, we maintain a real USD exposure around 27%.

Our Relative Return Fund, fLAB Satellite H-USD, has recovered more than half of the losses (+1.62%), being at -1.13% YTD.

After a disastrous March, credit came roaring back in April but not enough to erase the March losses. Gains were widespread. Investment grade (our main preference within credit) outperformed high yield in the U.S. and globally. Our fixed income ETFs also continued to benefit from the narrowing spreads between real NAVs and prices quoted in the market. **It seems the worst is behind us in terms of market liquidity** but not necessarily in terms of solvency. In fact, despite the improvement in corporate securities last month, underlying credit conditions deteriorated. The fund holds a strategic 70% in a low risk low duration (1.95) diversified fixed income portfolio plus a 30% in some tactical and decorrelated positions. At the end of the month and aligned with our market view, **we have opened a tactical short position** (13%) on US and world equities. The Fed may have taken the worst-case scenario off the table, but in doing so, it could have pushed the market to overshoot, setting the stage for an eventual pullback. In addition, we keep our bets on Gold (5%), iTraxx Crossover Short (6%) and Dollar (19%).

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

HIGHLY RATED FUND SharingAlpha

Funds People 2020 A B C

***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

allfunds BANK Leaders in Open Architecture · MFEX MUTUAL FUNDS EXCHANGE · inversis BANCO · AVIVA Aviva's investment platform - Navigator

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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