fLAB

It´s All About Asset Allocation

December 2020, Newsletter#56

Vaccine news offered the most concrete information yet on an end to the pandemic. For investors, it represented a potential trigger to rotate into deeply oversold stocks that have suffered the most from the economic disruption. For the past six months, we have been looking for a cyclical rotation from Growth to Value that could last several months. In a normal economic cycle, that rotation probably would have happened by now. **But this is 2020; cycles are not normal and must be viewed through the lens of COVID.** One risk of an atypical cycle is getting swept up by short term gyrations into projecting what we think should happen. In fact, an uncommon feature of the 2020 recession and recovery is how little the yield curve has steepened. There is a battle shaping up between two competing forces next year. Economic recovery should put upward pressure on long-dated yields, while central banks try to limit their rise by keeping policy accommodative. That should result in a modest steepening of global yield curves.

After an unforgettable month, global equities enjoy from a strong breadth that has historically been bullish and that probably push equities higher into 2021. The leadership has broadened considerably with increased participation from stocks across market caps, styles, and regions. The problem…it has led to excessive optimism, and our **Sentiment Indicators** (Business and Consumer), as shown in the graph hereunder, **indicate the market is overbought short-term** and a correction/consolidation is likely, within an ongoing uptrend. The momentum, the tape and the FED (and other central banks) are clearly with equities but one needs to be wary of the crowd at extremes.

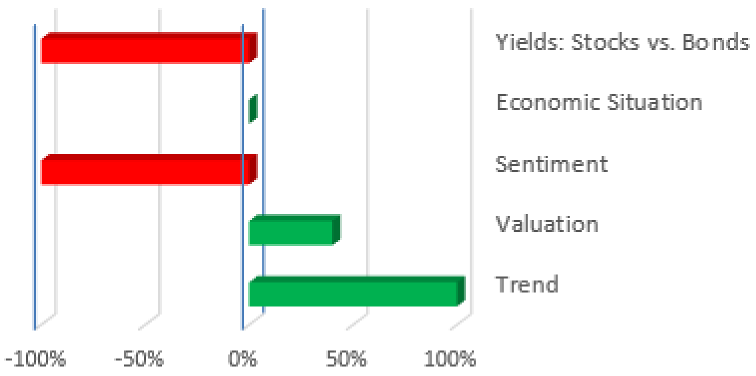
That´s the main reason why we have used Warren Buffet quote: `Be Fearful When Others Are Greedy and Greedy When Others Are Fearful'. Another hint: after the news of successful vaccine, one of the most interesting surveys of investor sentiment, the American Association of Individual Investors poll (AAII) showed the most bulls since January 2018.

Our Global Asset Allocation Fund, fLAB Core H-USD, has bounced 6.19% in November, thus performing -1.04% YTD.

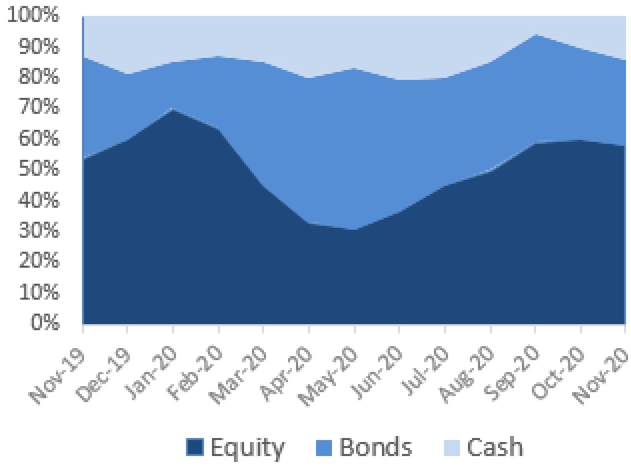
For December our positioning is: 58% stocks, 28% bonds and 14% cash. The robustness of the stock market, reflected in our trend, technical and momentum indicators is offset by sentiment. As told, the excessive optimism is the main responsible for not adding more Equity at this stage.

fLAB Core Asset Allocation Model - December 2020		Model	Benchmark
	Stocks	58%	55%
	Bonds	28%	35%
	Cash	14%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond preference) green (equity preference)



Equity Regional Allocation vs MSCI World AC			
Emerging Markets	*OW*	*UK & Pacific Ex-Japan*	*UW*

Benchmark (US 57%, Eur 13.4%, Emerg Mk 12%, Jap 7.1%, UK 4.3%, Pacific 3.3%, Can 2.9%)

Equity World Sector Allocation			
Industrials	*OW*	*Real Estate*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index			
Euro	*OW*	*US*	*UW*

Benchmark (US 50%, Europe 26%, Japan 19%, UK 5%)

Within equities, we have neutralized our Growth overweight/Value Underweight, downgrading Technology and upgrading Energy, both to marketweight. Additional moves toward Value will depend on model confirmation. This month, Energy and Financials have registered stellar performance as investors have rotated into the sectors hit hardest by the pandemic, cheapest and with most potential in terms of mean reversion. We believe Banks will likely need higher rates and a steeper yield curve for continued outperformance. We would like to see the 10-year yield breakout above 1% and the 10yr-6mo yield curve steepen above 100 basis points before turning bullish. Among regions we overweight emerging markets supported by its absolute and relative strength improvement, as participation has increased across regions. In fixed income we have a 28% exposure, with a preference for European govies over Treasuries, a duration of 10.78, being 3.12 for the whole fund. In terms of currency, we keep real dollar exposure at 14%.

Our Relative Return Fund, fLAB Satellite H-USD, has been pretty flat in November, thus performing -0.33% YTD.

The fund holds a strategic 70% in a low risk-low duration (2.03) diversified fixed income portfolio plus some decorrelated and tactical positions (23%). This month, **Risk On Assets have been the clear winners**, both in the equity and credit market. Accordingly, we have benefited from our Equity multistrategy exposure (9%), the recovery on global commodity prices (3%) and from the narrowing of credit spreads. Unfortunately, those good results have been clouded by the bad evolution of Gold among this period (5.5% of the fund) along with our short tactical bets on iTraxx Cross Over and world equities (each one representing 5%). We closed the short equity position after Pfizer's announcement. We keep a real dollar exposure around 5%. We remain overweight investment grade corporate credit, maintain our positive view on Gold (as long as our indicators describe bullish evidence) and keep flexible in terms of uncorrelated thematic exposure and duration.