It´s All About Asset Allocation

July2020, Newsletter#51

Dear Client;

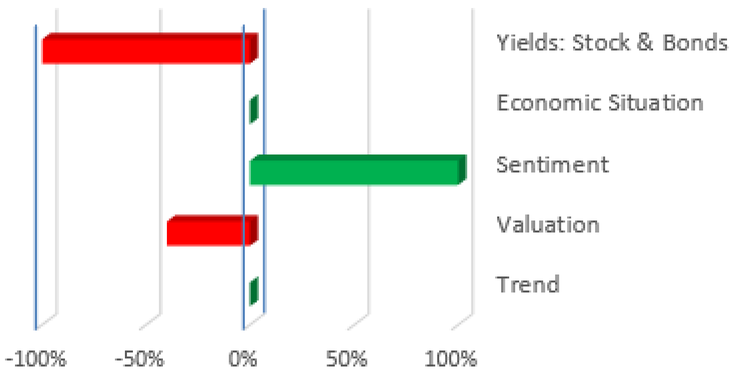
The most significant question for the second half of this year is whether global equities are resuming the secular bull market that started in 2009, or if a secular bear has started. What makes the question relevant is that **in the last 2 years, equity benchmarks have failed to turn rallies into sustainable uptrends,** in contrast to the cyclical bull that started in 2016. As stock market performance is a barometer of economic expectations, strengthening secular bull evidence would indicate that the massive monetary and fiscal liquidity infusions had restarted the reflation trend that has underpinned the bull, whereas mounting secular bear evidence would be a sign that the global economy is failing to reflate despite the infusions. While short-term and intermediate-term breadth indicators have improved since March, reflecting relief that the worst of the economic impact is behind us, confirmation has been lacking from longer-term breadth indicators based on 200-day moving averages, a sign of deficient confidence in the sustainability of an economic recovery now threatened by the COVID-19 comeback.
In the U.S, the risks for the 2H include **earnings visibility, continued market volatility, the shape of the recovery and the election cycle.** Our base case is that the cyclical bull market will continue, volatility will remain elevated but diminish, the economy will begin to mend and the election cycle will grow in importance.
Our fixed income outlook is that high quality sovereign yields will remain in a trading range. The Fed and other central banks will keep rates at lower bound levels, not only for the remainder of this year, but at least for the next year or two. There is zero chance that policy rates will move up. That means the short end will be well anchored in the months ahead. Instead, the long end will be determined by supply, the economic recovery, and inflation expectations.
In the coming months we will see **if prevailing trends will continue.** Whether Gold is heading to record highs (with renewed strengthening of its inverse correlation with the dollar), and whether US equities will maintain their long-term uptrend of relative strength or whether emerging markets will finally put an end to chronic underperformance. For now we expect both to continue.

Our Global Asset Allocation Fund, fLAB Core H-USD, has appreciated 0.89% in June, thus performing -7.60% YTD.

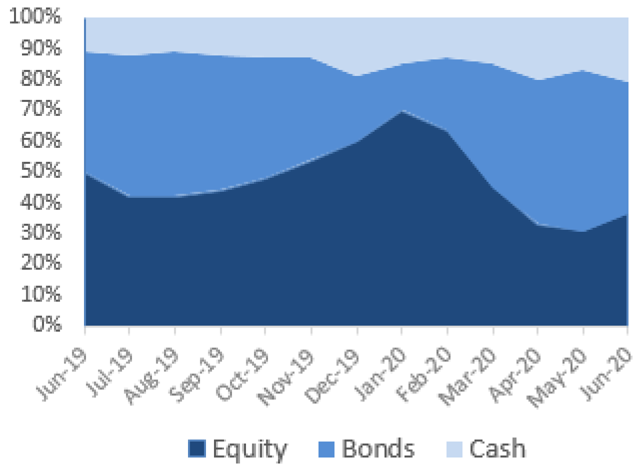
The fund has recovered less than what we would have liked over the second quarter due to a defensive positioning (35% invested in stocks, on average). The reason is that most of our relative strength indicators between stocks and bonds, which are designed to take advantage from the market trend in the mid-term haven’t turned bullish for equities yet.
In July, our Asset Allocation model rises Equities (+6%) and cash (3%) against bonds (-9%), due to an enhancement from a trend and valuation point of view. We enter the second half as follows: 36% stocks, 43% bonds and 21% bonds.

fLAB Core Asset Allocation Model - July 2020		Model	Benchmark
	Stocks	36%	55%
	Bonds	43%	35%
	Cash	21%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond preference) green (equity preference)



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

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			
Technology	*OW*	*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, our portfolio has a tilted toward growth sectors, such as Technology and Health Care. Historical data point that broad cyclical sectors consistently outperform defensive sectors from about three months prior to the start of economic expansions to about four months post in U-, V- and W-shaped recoveries. In most cases, the bulk of the mean reversion takes place within the first six months of the expansion. We will move to a more cyclical value approach when our Asset Allocation model turns more bullish. On the geographical side, we are overweight US and underweight emerging Markets and pacific ex Japan. Within fixed income, we have reduced exposure through EuroBonds and Treasuries, both in the middle part of the curve (7-10yr) as well as US Long Bonds too, thus neutralizing the increase of the last month. The duration of the bond portfolio has barely changed, 4.18 for the whole fund. In terms of currency, we keep a real dollar exposure around 28%.

Our Relative Return Fund, fLAB Satellite H-USD, is up 0.24% in June, performing -1.06% YTD.

During the second quarter, the fund has been on average 70% invested in a low risk low duration diversified fixed income portfolio plus some decorrelated and tactical positions (between 20%-30%). The portfolio has benefited in that period, from the credit market recovery and risk on assets performance (of our Mutistrategy and commodity exposure). Gold has been the largest contributor in terms of performance attribution this year (5% exposure) while our short bet on equities (initially 13% between US and MSCI World and 5% at present) the worst contributor. We enter the second part of the year keeping the same bets on iTraxx Crossover Short posiiton (5%), Gold (5%) and USD (18%) but remain very flexible in terms of duration and equity exposure, without forgetting our current target volatility (3%).

fLAB Core Awards, June 2020

LIPPER LEADERS

10 year Ranking

Total Return	Consistent Return	Preservation	Expense Ratio
4	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 ABC

***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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