It´s All About Asset Allocation

June2020, Newsletter#50

This year cyclical bear market lasted 40 calendar days, the briefest of the 37 cyclical bear markets since 1900. Thereafter, we have seen such a strong rally that it has even met the conditions of a cyclical bull market.
And all that in just 3 months!!
But there are still quite a few indicators that still warn of risks. Macro influences remain more supportive of bonds than stocks, Global Sentiment Composite already indicating excessive optimism and equities getting more expensive.

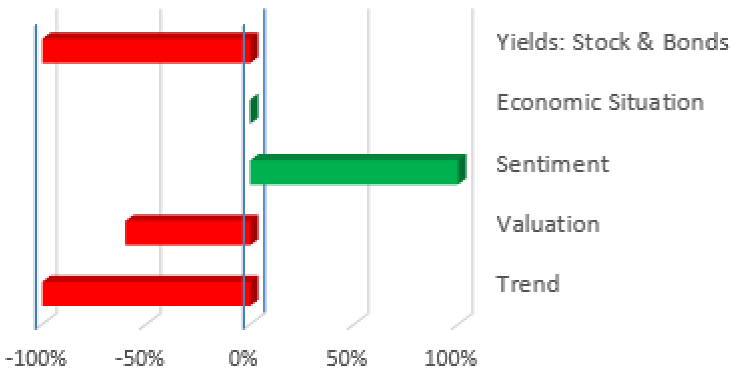
In March, we discussed fiscal stimulus packages among some of the world's largest economies in response to the COVID-19 pandemic. At the time, fiscal packages were in many countries already greater than those observed during the Global Financial Crisis (GFC). Moreover, the speed at which the stimulus was announced, in many cases within the first month of the recession, was unprecedented. Since then, stimulus has continued to climb all over the world, more than doubling since our March update. Although a significant portion of the stimulus includes direct support, loans to businesses make up an even larger portion, bringing the shares of stimulus to around 30% of GDP in Germany and Italy, and over 40% in Japan. **For us, this huge wall of money is the main reason of the good performance of Equity in this second quarter.** Is this sustainable? Neither us, nor our Asset Allocation Model think so. Meanwhile we recall our old friend Keynes.... markets can remain irrational longer than you can remain solvent.

Our Global Asset Allocation Fund, fLAB Core H-USD, has been flat this month thus performing -8.42% YTD.

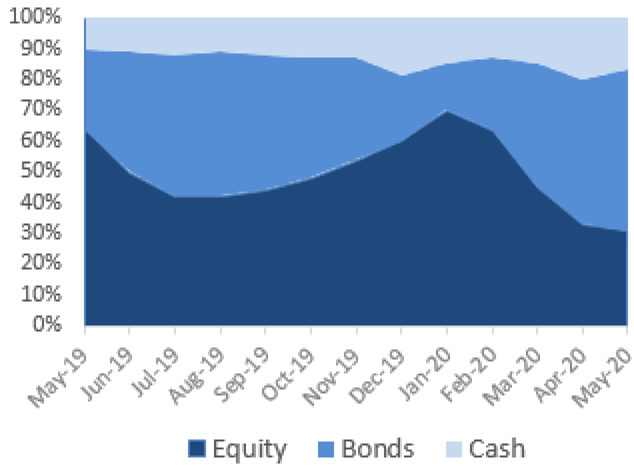
We would have liked to participate in this emerging cyclical bull market but as always, we have to remain disciplined and be aligned with our objective indicators and models. The Fund has been conservative in May (around 33% in equities) and will continue in June. Despite market breadth improvement, which has been outstanding over the short term, we still have relative trend, valuation and yield indicators favoring bonds over stocks. We start June as follows: 31% stocks, 52% bonds, 17% cash

fLAB Core Asset Allocation Model - June 2020		Model	Benchmark
	Stocks	31%	55%
	Bonds	52%	35%
	Cash	17%	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%)

It has been a tough month for our portfolio as some of our positions have underperformed: we have been slightly overweight in Emerging Markets and Pacific ex Japan, with a defensive growth sector approach and with a real dollar exposure around 26% that has reduced profitability.
Our geographical and sector models have now flashed new signals:
1) to downgrade Emerging Markets and Pacific ex Japan to underweight, in favor of the US, as geopolitical risks have picked up again and they have been losing relative strength since March (China weights 34% in the Emerging Market index);
2) to remove our defensive tilt. Financials and Industrials up to marketweight, Technology to overweight. Consumer Staples and Health Care down to marketweight. On the fixed income side, we have increased allocation through EuroBonds and Treasuries, both in the middle part of the curve (7-10yr), as well as some US Long Bonds too. We increase our fixed income duration up to 9.93 (being 4.92 for the whole portfolio).

Our Relative Return Fund, fLAB Satellite H-USD, is down 0.17% this month, performing -1.30% YTD.

The fund holds a strategic 70% in a low risk-low duration diversified fixed income portfolio plus some decorrelated and tactical positions.
This month, Risk On Assets have had a leading role, both in the equity and credit market. Therefore we have benefited from the recovery in spread products and from an increase in commodity prices (we have 5% in Gold and 1.5% in Global commodities). So, what has gone wrong? Mainly our short bet on equities (13% between US and MSCI World) along with our iTraxx Crossover Short Position (5%) and in a lesser extent, our USD exposure (18%). At this point, with S&P 500 above 3000, excessive optimism and taking into account the message from our asset allocation model, we have decided to reduce a bit of our short equity strategy to -5%.

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 | ★★★★

fLAB Core Awards, Jan 2020

CITYWIRE GOLD

HIGHLY RATED FUND SharingAlpha

Funds People 2020

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

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