fLAB

It´s All About Asset Allocation

October 2020, Newsletter#54

After a record rally September brought us a pause. The latest sell-off in global equities has **raised the question of whether it's time to reallocate**: adding exposure on weakness or cutting exposure ahead of continuing deterioration. On one hand, we have seen a global equity market participation (or breadth) deterioration and we know that additional pessimism may be needed to wash out the bulls after a powerful five-month rally. On the other hand, trend, economic and macro indicators continue to support stocks over bonds. For now, there has not been a technical damage that warn us about a trend's change, so it seems the bull market is likely to continue amid higher volatility, with the U.S. election gaining market share.

Nowhere was the September reversal felt more than in the Nasdaq. Its 5.2% drop in September included an 11.8% correction from September 2 to September 23, its biggest decline since the March lows. **It's not surprising**, after incredible returns over Q3 (+11.02%) and YTD (+25%). The recent pull back understandably made investors wondering if Growth's run has finally come to an end. With two days left in September, the Russell 1000 Growth Index has outperformed the Russell 1000 Value Index by 35.1% year-to-date, by far the best first nine months on record. At this point we can say that its rally is consistent with the final stages of previous Growth secular bulls and that FANMAGs make Growth look expensive, but overall Growth is not overvalued versus Value. While a cyclical rotation into Value is likely in the coming months as the economy fully reopens, until the economy can sustain faster growth, it's a Growth secular bull until proven otherwise.

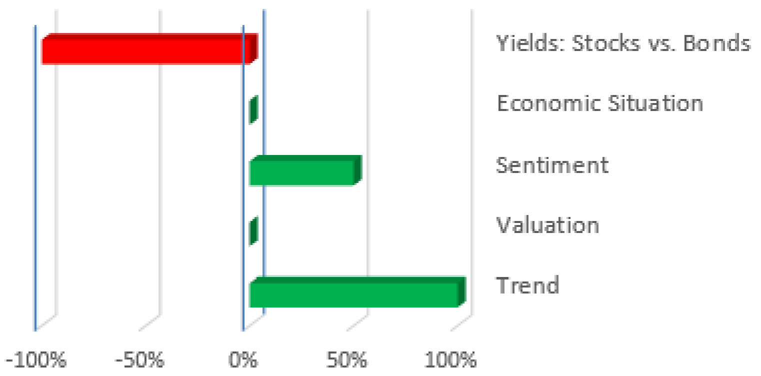
Our Global Asset Allocation Fund, fLAB Core H-USD, has performed well in such a volatile month (+0.36%), thus continuing its recovery: -6.20% YTD. It has been a good month for the fund: it withstood quite well market's pull back, thanks to its bond and USD exposure.

For October, our asset allocation model gives the current reading: 59% stocks, 32% Government Bonds and 9% cash. Our two relative trend indicators between equities and bonds continue to favor the former, that's why we believe the market is experiencing a bull correction rather than a cyclical bear.

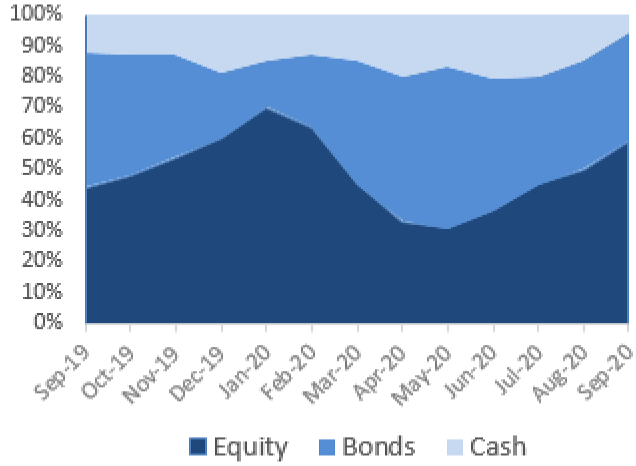
fLAB Core Asset Allocation Model - October 2020

	Model	Benchmark
Stocks	59%	55%
Bonds	32%	35%
Cash	9%	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 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 & Industrials	*OW*	*Energy & Real Estate*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index

Market Weigthed All Geo Areas

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

Within equity allocation we are increasing Emerging markets exposure and lowering Japan slightly. Among the seven regions comprising the MSCI ACWI, EM Global Composite (50% technical & 50% fundamental) outstands, benefiting from buy signals on indicators based on mean reverting relative momentum and trend improvement in crude oil and the EM PMI. MSCI Emerging Markets Index is reversing its long-term downtrend of relative strength. It's too soon to conclude that the EM Index is entering another sustainable relative strength uptrend, but the weight of the evidence has been improving. **Regarding sector allocation**, we are upgrading Industrials to overweight and waiting for more data evidence before getting much cyclical. We have observed a limited rotation into traditionally early-cycle areas since the March 23 market bottom. Cyclical Value Industrials and Materials, for example, have been able to outperform from the market's low, while Energy and Financials have lagged substantially. Industrials' strength has continued through the September selloff, Energy, in contrast, has been the worst-performing sector in September. Cyclical Growth and select cyclical Value sectors will likely reestablish themselves as leaders once the market is able to find a near-term bottom. **In fixed income**, we have continued to profit through our global government exposure (neutral in terms of geographical allocation) which has a duration of 11, being 3.60 for the whole fund. As mentioned before, our 30% real dollar exposure has contributed positively this month (due to its 1.80% appreciation against euro). We expect euro reversal to continue in the short term but we are ready to adjust this exposure if technical indicators warn otherwise.

Our Relative Return Fund, fLAB Satellite, has recovered +0.25% in this framework, being at -0.54% YTD.

The compartment is invested 71% in a low risk & low duration diversified fixed income portfolio plus 24% in some decorrelated and tactical positions , being the remaining 5% in cash. In September, the fund has benefited through its bond and dollar exposure (17%), along with its Multistrategy bets (highlighting the contribution of Global Clean Energy this month (+10.31%) and YTD (+49.65%), representing 1.70% of the portfolio). On the other hand, our overall commodity exposure (Gold accounts for 5.75%), which is inversely correlated with the greenback, has contributed negatively. Our short tactical bets on iTraxx Cross Over and world equities (5% in each one) have reported some profitability due to its uncorrelated role. It's still too early to know if correction started on September 3rd is over, that's why we will keep all these positions.

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 α SharingAlpha

Funds people 2020 A B C