It´s All About Asset Allocation

April 2021, Newsletter#60

Recently it was one-year anniversary of the bear market lows, providing **an opportunity to put the rally into perspective** and look at how history suggests the next year could unfold. Conceptually, market action in the last year has been remarkable in its speed and magnitude, but not trend. The gains of the past year **leave investors perched on a precarious branch**, from which they could feel nauseous if they dare look down. History's reassuring message is that the imbalances of the first year of a bull market are usually rebalanced in the second year, with bigger corrections but rarely major bear markets

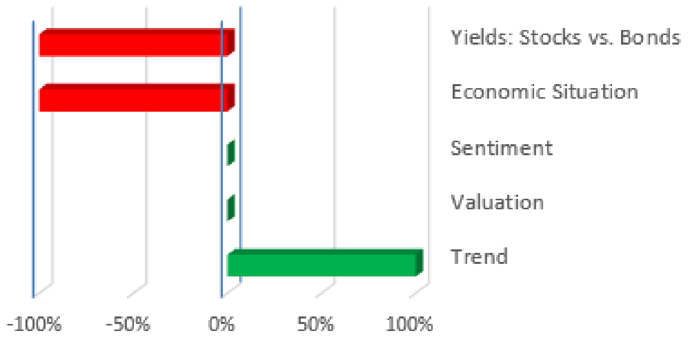
For year two of a bull we can expect **smaller market gains**, with stronger earnings and economic growth. The combination of smaller gains and faster EPS growth means that P/Es tend to fall. Along with earnings, economic growth picks up. Money supply growth decelerates to a median of 7.6%, implying a less friendly Fed. The jump in long-term rates tends to be smaller, with a median 17.5 basis points (for the T-note). In the stock market, smaller gains have usually been seen in the second year after a bear market trough in the S&P 500 and in the Nasdaq. And in terms of style, Small-cap outperformance has tended to diminish in the second year. Value has tended to outperform by more, although it should be noted that Value outperformed Growth more consistently before 1990. The bull markets that came out of recessions have different characteristics than those that have not. Post recession bulls tend to be more powerful but more volatile than post non-recession bulls, with higher median gains but also larger drawdowns in both the first and second year. In them, earnings growth acceleration is greater and therefore, the P/E compression. The Fed is friendlier, but long-term bond yields tend to rise more on post recession bulls.

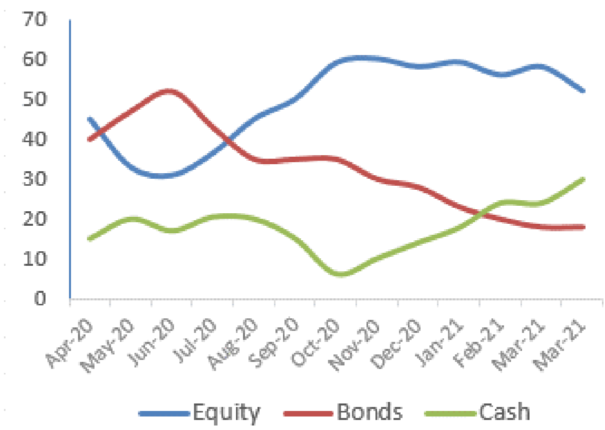
Our Global Flexible Fund, fLAB Core H-USD has appreciated +3.43% YTD.

For April, our Asset Allocation model calls for 52% stocks, 18% bonds and 30% in cash. Divergence between our Betalphing indicators are higher than ever, meaning that the scenario is not clear at all (cash allocation going up).

fLAB Core Asset Allocation Model		April 2021	Benchmark
	Stocks	52%	55%
	Bonds	18%	35%
	Cash	30%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators





Equity Regional Allocation vs MSCI World AC			
Europe Ex-UK	*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, Financials & Energy	*OW*	*Health Care, Consumer Staples & Utilities*	*UW*

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

Benchmark (US 48%, Europe 25%, Japan 21%, UK 6%)

Of the first quarter we would highlight that **stocks trounced bonds** and that Value outperformed Growth, with Covid laggards now leading and Covid leaders now lagging. **Within regions**, we have seen the MSCI Emerging markets underperforming the ACWI since mid-February and Europe gaining traction, especially this last month. In response to these changes, which have been reflected in our objective indicators, we have downgraded Emerging markets from overweight to marketweight and upgrade Europe to overweight. **Within sectors**, we continue to favor Cyclical Value tactically. The first quarter of 2021 was one of the worst quarters for Treasuries on record (the 10-year Treasury yield rose 81 bp, while the long bond rose 76 bp). From a technical perspective 2.00% area on tens has been historically important, **Global bond yields broke out around** the world, although in Europe and Japan, to a lesser extent than in the US. Bond fundamentals favor Europe over U.S. Fundamentally, the U.S. economy is recovering quickly, as the rebound from February's winter storms, vaccine rollouts, more reopenings, and fiscal support led to widespread job gains in March. Europe, in contrast, continues to struggle with vaccine deployment, lockdowns, and limited fiscal support. As a result, the Fed has been more willing to let long-term yields rise, while the ECB continues to pledge support for its bond markets. Furthermore, inflation expectations have risen in both places but are closer to seeing a multiyear break out in the U.S. than in Europe. The fund has been able to perform quite well in this environment of higher yields thanks to a defensive exposure and duration the last two months, and so we will continue on April (our overall duration is at 0.96). We have benefited from our 20% dollar exposure since the middle of the quarter (now at 18%) but we are monitoring very closely now that optimism is becoming excessive.

Our Relative Return Fund, fLAB Satellite H USD, has appreciated 0.49% during the first quarter.

The compartment is invested 55% in a low-risk, low-duration diversified fixed income portfolio plus 23% in some decorrelated and tactical positions, being the rest in cash. The fund has withstood quite well higher rates as we neutralized duration in mid-February (-0.19 from the whole portfolio). In March, our Multi-Strategy equity position (12%) has contributed positively along with our real dollar exposure (12%). Conversely, our bets on Global Commodities (3.6%) and Gold (2.4%) have suffered from dollar appreciation (2.86% against euro), due its inverse correlation with the greenback. Our contrarian position on Itraxx Crossover short (5%) has detracted some profitability. We keep our portfolio allocation and remain flexible in terms of duration and currency exposure.

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 Core Awards, January 2021

CITYWIRE GOLD

HIGHLY RATED α 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.*