fLAB

It´s All About Asset Allocation

December 2021, Newsletter#67

That a good story is one of the most important issues, we have learned it thoroughly. However, stories, like principles, are often volatile. Just as many asset managers cannot hide their losses infinitely by claiming that the market is wrong, **Jerome Powell has finally acknowledged that this inflation thing seems to be staying with us longer than expected**. And yes, it is true that everything is transitory, except death and taxes.

Daily routines usually prevent us from structuring our investment decisions and even more when the viruses of this world are playing dice with us. In fact, we seem to have already forgotten that the foundation of financial mathematics is somewhat damaged and that our investment decisions are guided more by Faith (or perhaps Greed) than Rationality. I am referring specifically to the **Term Structure Of Interest Rates**, the basis on which the entire architecture of financial decision-making is built upon.

We are aware of the fact that in recent years, these have been moving into negative territory. For example, the Bloomberg graph of the 3-month rate of the G7 basket of Govies is once again at a minimum (-0.37%), some sovereign curves, such as Germany, present negative rates for the next 30 years and the swap curve in euros remains negative until year 9 ……
And although this is more than known to ourselves, we seem to ignore what these oddities mean and the **negative consequences or opportunities** they may present.

1. First of all, it is worth mentioning a fact that may have been forgotten. With negative interest rates, the traditional valuation of any financial asset by discounting cash flows does not work. Therefore, the comparison between financial assets or classes of financial assets becomes just well-intentioned approximations.
2. Panic from the collapse of a long-duration bond has strongly come back, given the expected rise in interest rates worldwide. Sounds good to me, but it is often forgotten that stocks (especially growth and even more those that do not pay dividends) are financial assets with a longer implied duration. Additionally, as rates have been reduced, the duration has been increasing. For some unknown reason, the fear of a stock market crash does not run parallel to that of long bonds. On the other hand, the US Treasury Bonds have been confirmed as the new Giffen Assets (those that are more in demand as they become more expensive). Leaving aside the small detail that the FED owns 22% of all Treasuries and TIPs, it is no less true that in the face of the uncertainty that is coming to us, most foreign governments and corporations are eager to increase this kind of asset.
3. The great and only trigger for the recovery of the financial markets to the Covid shock has been a massive intervention by the Central Banks causing extreme liquidity. Confirmed the

gradual tapering in the face of the current inflationary spiral, liquidity will no longer support anything.

4. As every year on these dates, asset managers return with our clever predictions (usually in March/April they are no longer worth anything). I already anticipate the 4 that are going to be mainstream so that you do not waste time and spend it in a more productive way. Namely:
    - Generalized rise in interest rates
    - Positive evolution in the Stock Market but without double digits
    - Volatility increase
    - More optimistic scenario for the Euro

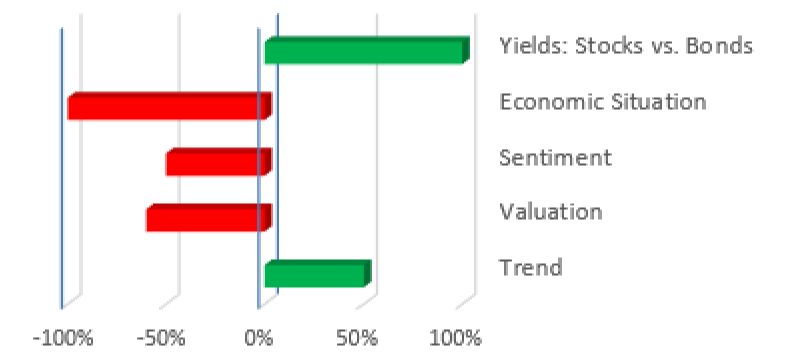
Wow, how odd, they are the very same ones that I wrote in the January 2018 newsletter…

Our Global Flexible Fund, fLAB Core H-USD, has appreciated 0.41% in November, thus performing 7.70% at the end of the month.

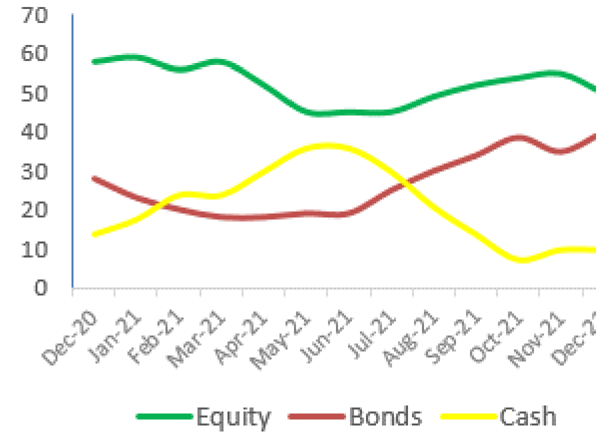
For December, our Asset Allocation model turns a little bit more defensive, with the following reading: 50% equities, 40% bonds and 10% in cash. Stocks still look more attractive than bonds, although to a lesser extent, due the weakening in longer-term breadth measures and sentiment indicators over the past weeks.

fLAB Core Asset Allocation Model	dec-21	Benchmark
Stocks	50%	55%
Bonds	40%	35%
Cash	10%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond & cash preference) green (equity preference)



Equity Regional Allocation vs MSCI World AC

US & Japan	*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

Financial, Energy, Consumer Discr.	*OW*	*Health Care*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index

Europe & Japan	*OW*	*US & UK*	*UW*

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

Post-Thanksgiving indigestion was triggered by the worst of fears, a new variant that is more transmissible and better able to evade immunity measures. The result was the worst Friday after that holiday on record for both the S&P 500 and Dow Industrials. The risks of Omicron will not be known for weeks so it's possible **that risk-on assets remain on the defensive until more is known.** Markets being discounting mechanisms, prices should move before all the information is public. In this framework, Growth sectors such as Information Technology and Consumer discretionary have held quite well recording positive returns, while Cyclical Value sectors have been the clear losers. The US stock market has been more resilient, helped by the weight of the tech sector (>27%). The back-and-forth leadership between reopening and stay-at-home stocks continues now that the first ones have lost steam. We have upgraded Consumer Discretionary to overweight to be more aligned with our sector model (now more neutral in terms of style) and have financials on watch for a possible downgrade with the yield curve flattening and renewed COVID concerns. Market hates uncertainty and with the return of volatility, global government debt has regained its status of Safe Haven. Our bond exposure has helped us to withstood quite better. In terms of currency, the US dollar has continued to strengthen (1.90% against the euro), which has had a positive impact in our portfolio due to our 25% allocation.

Our Relative Return Fund, fLAB Satellite H-USD, has also advanced this month (+0.26%), posting a positive return of 2.74% YTD.

The compartment remains invested 54% in a low-risk, low-duration diversified fixed income portfolio plus 29% in some decorrelated and tactical positions, being the rest in cash. November started on a good shape but ended quite weak as we have pointed out. **Investors switched from risk-on to risk-off assets and also left those that had been most boosted in recent months** on rising inflation expectations, such as commodities. Crude oil has been heavily affected, finishing the month down roughly 20% on concerns that renewed travel and mobility restrictions resulting from Omicron could lead to lower demand. In this sense, we are positioned 2.30% in Longer Dated All Commodities ETF, 3.10% in Industrial Metals (that have done better in relative terms, -2.21%) and nearly 5% in Gold, which has been quite flat (-0.37%). Our Equity Multistrategy exposure (15%) has receded slightly while our bond and currency exposure (20% in US Dollar) have done well in this context. For the time being we keep our bets, although we remain flexible in terms of risk and duration (now at 0.81 for the overall portfolio).

LIPPER LEADERS

10 year Ranking

Total Return 4 | Consistent Return 4 | Preservation 4 | Expense Ratio 5

MORNINGSTAR

10 year Ranking

fLAB Fund SICAV Core A | ★★★★

fLAB Core Awards, June 2021

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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