It´s All About Asset Allocation

January 2021, Newsletter#57

First of all, we want to wish you and your family a happy and prosperous 2021.
This last year could be defined as… **Unprecedented**: a global pandemic causing economic collapse and a cascading stock market crash, followed by an immediate and astronomical monetary and fiscal response, worldwide, fueling a rapid stock market recovery. And 2021 has started with the Covid Third Wave, the Trump Show…what else?

The model we use to manage fLAB Core, since its inception almost 12 years ago, is based on a series of 22 indicators that try to capture the market trend in the medium term. The S&P 500 fell 20% during the first quarter, the worst start to the year in its history. The speed we went from a bull market at record highs to a bear market was astonishing ... it only took 18 trading days!
However, what really amazed us was yet to come: The S&P 500 only took 6 months to set a new record: the biggest recovery in history. In fact, it was 17 months faster than the one experienced after the 1987 crash, which has moved to second place.
To be honest, the **violence and speed of these movements** affected the performance of fLAB Core in 2020. Broadly speaking, the decline in the stock markets was experienced with an average of 20% more investment in Equity than during their recovery. This imbalance is the reason for our worse performance compared to various competitors in 2020.

fLAB Core USD share class finished the year with a modest + 0.62% and fLAB Satellite USD share class + 0.52%

However, we continue to trust our models, since in the historical 10-year ranking from Citywire, composed by all flexible funds, **we remain within the first quartile in all measures**: Profitability, Volatility and Maximum Drawdown

CITYWIRE SELECTOR

fLAB Fund SICAV Core

Ranked 230 out of 996 in - **Flexible EUR** over 120 months

Flexible EUR over : **10 years**

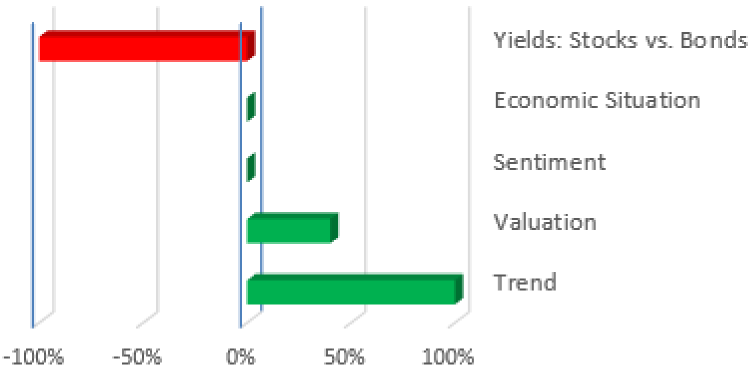
Rank **230**/996	Rank **229**/996	Rank **227**/996
Total Return	**Standard Deviation**	**Max Drawdown**

Our Global Asset Allocation Fund starts the year invested 59% stocks, 23% bonds and 18% cash.

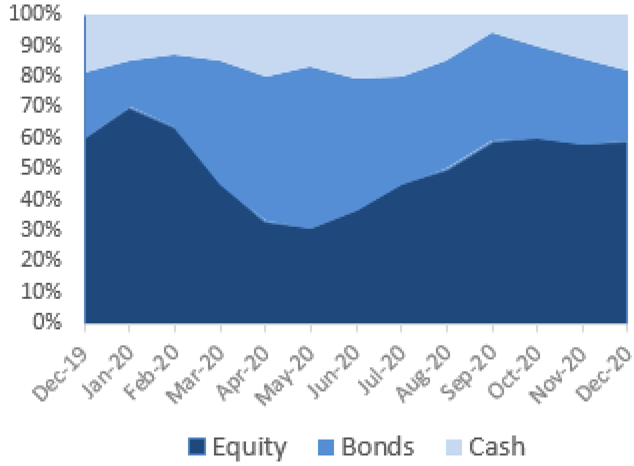
The market is entering 2021 with the cyclical bull intact. The Fed is friendly, economy is in the early stages of recovery, earnings are rebounding, and breadth is the strongest in years. Short term, the risks are excessive optimism and near-record valuations (in absolute terms).

fLAB Core Asset Allocation Model - January 2021		Model	Benchmark
	Stocks	59%	55%
	Bonds	23%	35%
	Cash	18%	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, Japan & 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	*OW*	*Consume Staples*	*UW*

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

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

Within Equities, in response to the **shift in sector leadership** and indicator developments, we upgraded Financials to overweight and downgraded Consumer Staples to underweight on mid December. Additionally, most of U.S. Curve Composites are in their steepening mode, historically bullish for Banks. Instead, Consumer Staples has underperformed since November 9 and breadth has deteriorated. For **regional allocation**, we continue to overweight Emerging Markets in relative terms, are bullsih on US and constructive on European equities. Regarding the latter, a review of technical, fundamental, and macro data finds 2020 has parallels with the European equity market recoveries in 2003 and 2009. The returns following these two periods were generally robust and support the case for owning European equities in 2021. Our trend watch and rally watch indicators also suggest that equities are likely to move higher as in 2021, and we do not see European sentiment as excessively complacent yet.

Near term, it should be noted that any compromise in the **effectiveness of coronavirus vaccines** represents a significant risk to equities. In **fixed income** we have reduced our exposure up to 23%, setting the duration of the fund at 2.46 and, continue to prefer European govies over treasuries (underweight). The 10-year Treasury yield, following the Georgia run-off election has recently broke above the 100 basis points, its first resistance, on raising expectations for increased fiscal stimulus, therefore inflation. For this year, we expect moderately higher rates and a steeper yield curve. In terms of currency we keep a real dollar exposure of 14%. We are looking for USD downtrend to continue this year despite some contrary rallies, due to oversold conditions, which we will try to take advantage tactically.

Our **Relative Return Fund, fLAB Satellite**, kicks off the year invested 65% in a low duration fixed income portfolio (3.17), 27% in some decorrelated and tactical positions and the rest in cash.

We remain overweight investment grade credit, supported by a favorable fundamental and technical environment. On one hand we count on improving credit indexes and rising banking liquidity and on the other hand, we are seeing impressive breadth and momentum on an intermediate and long term basis. Within our tactical portfolio we have 13% in equities, 5.6% in

Gold, 5% in short Credit High Yield and 3% in Global Commodities. We keep our bet on Clean Energy (2.79%) and Global infrastructures (2%), now reinforced by the Blue wave, along with other thematic such as Water, Real Estate and Health Care Innovation. The Commodity uptrend should continue, considering the CRB Index's positive correlations with both the ACWI and inflation expectations. Unless rising interest rates send real rates to positive levels and start turning the dollar trend higher, gold can be expected to continue taking part in the commodity uptrend. In fLAB Satellite, our real USD exposure is around 8%.