It´s All About Asset Allocation

July2021, Newsletter#63

Since the market received updated expectations from FOMC participants on June 17 regarding the timing of future rate hikes, sector leadership has been upended. **The resulting moves in interest rates** (short-term rates higher, long-term rates lower), **inflation expectations** (lower), **and the yield curve** (flatter) have been headwinds for the cyclical Value sectors that have led the market for most of 2021.The tech-heavy cyclical Growth sectors, which have been more negatively correlated with rates and inflation expectations since the COVID outbreak, have bounced back. In the US stock market, which has once again led the advance, Technology, Communication Services, and Consumer Discretionary have been the top performing sectors since the announcement. The recent move was enough for cyclical Growth sectors to breakout relative to cyclical Value sectors. The prior two instances of major cyclical Growth rallies this year were ultimately met with the resumption of cyclical Value leadership once cyclical Growth got around 2.0 standard deviations overbought. To help to determine **if cyclical Growth leadership could have more staying power this time, we are watching for:**

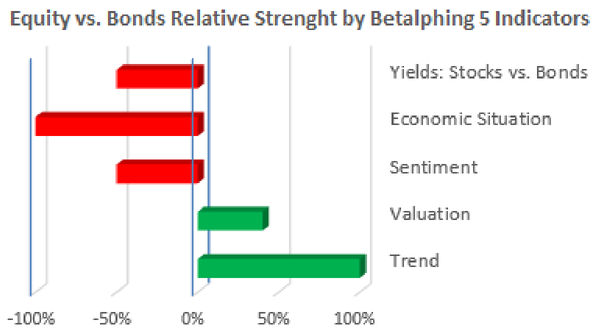
- A relative FANMAG breakout (in relation to S&P 500), which remains range bound since it peaked in early September. As it stands now, four of the six FANMAG components remain on relative death cross signals, suggesting it is still too early to assume a transition from cyclical Value leadership is underway.
- Improving long term breadth. Although Technology's short term breadth has improved since May along with Communication Services, Value sectors of Real Estate, Financials and Energy still have the strongest long-term (200-day) breadth.
- Our sector's model message. In June, it got more bullish on cyclical Growth sectors, while cyclical value sector saw model score deterioration. The net message right now it is a more neutral Growth/Value stance.

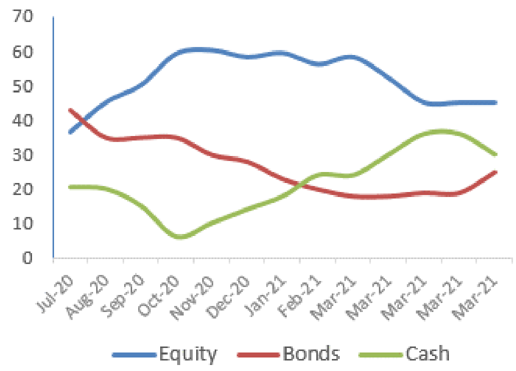
Where interest rates and inflation expectations move from here could be important drivers for sector leadership going forward. The interest rate and inflation tailwinds that Growth sectors enjoyed in June could shift back to headwinds in the second half of the year.

Our Global Flexible Fund, fLAB Core H-USD has appreciated 0.72% in June, thus performing 5.95% YTD.

For July, our Asset Allocation model gives the following reading: 45% stocks, 25% government bonds and 30% in cash. We are starting to see an increase from very low levels of bonds against cash. As in terms of style, it remains to be seen whether this trend keeps going.

fLAB Core Asset Allocation Model		jul-21	Benchmark
	Stocks	45%	55%
	Bonds	25%	35%
	Cash	30%	10%





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

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*	*Consumer Staples & Technology*	*UW*
Government Bond Allocation vs Barclays Global Government Bond Index			
None	*OW*	*None*	*UW*
Benchmark (US 48%, Europe 25%, Japan 21%, UK 6%)			

The Fed's announcement this month reverberated across the financial markets. The change in sector leadership affected portfolios that, like ours, are favoring cyclical Value sectors. As mentioned above, **we believe it's too early to trust this movement**. We think the curve could re-steepen in the coming months based on several factors such as an increase of Treasury supply, persistent inflation above the Fed's 2% target, and a likely more dovish FOMC composition. For the time being, our sector and curve models support our sector allocation but if indicators further deteriorates, expect us to change it.

Another possible implication of the shift in the Fed's tone is that **it could extend the positive correlation between stocks and bonds** that has reigned since the late-1990s, the vast majority of the time. The one-year correlation has fallen to its lowest level since 2017. If the market's conclusion is that the Fed is ahead of the inflation curve, then the correlation should rise again and the stock-bond relationship of the last 23 years should remain intact. After having been with a record low duration (1.01) during the past months, we have increased it up to 1.95, keeping neutral on a geographical basis. In terms of currency, we have profited from the dollar recovery (3% against the euro) with a real exposure around 20%. We will continue to manage it actively, trying to take advantage of YTD's trading range.

Our Relative Return Fund, fLAB Satellite H-USD is 1.02% YTD.

The compartment is now invested 51% in a low-risk, low-duration diversified fixed income portfolio plus 27% in some decorrelated and tactical positions, being the rest in cash. Earlier this month, we neutralized the duration of the fund (from 2 up to -0.27) on the belief that yields will go higher (specially after the pause in the US) **but FED's blinking caused the opposite.** We are closely monitoring key levels in case we have to reverse this position. It has been an heterogeneous month for risk assets, with strong winners (those already mentioned Growth sectors) but also strong losers (Cyclical Value, in which we hold 2% through European banks). Our equity multistrategy position (14%) is no longer related to the technology sector, but to other themes (infrastructures, water, minimum volatility stocks…) has contributed positively. Instead, commodity exposure (9,5%), which has been impacted by gold's correction (above 7%) has done negatively. Our fixed income allocation has not caught the recovery in terms of duration, only in terms of spread. Currency Allocation, 15% in dollar and 4.75% in yen, has reported gains during this time.

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 FUND SharingAlpha

Funds People 2020 A B C