fLAB

It´s All About Asset Allocation

June2021,
Newsletter#62

We have just celebrated **12 years at fLAB fUNDS in great shape**. If we look back, we can be satisfied with some of our achievements even though we still have quite a few challenges ahead. To our credit, we undoubtedly stand out being able to offer our investors two solid products (Core / Satellite) that define our market vision at all times. The risk-reward profile of fLAB Core has earned us multiple recognitions over the years (Morningstar / Lipper / Citywire). However, being independent and out of mass retail distribution is not an easy task ... although we are looking forward to the next 12 years.

In our 2021 outlook, we expected a strong first half followed by a weak second half. Five months into the year, several indicators are lining up. The MSCI ACWI is up 11% year-to-date (in local currency terms), so the first part of the year has been playing out as anticipated. Meanwhile, **several macro and earnings indicators are in the process of transitioning from their most bullish readings in years to bearish in the coming months**. Some, notably sentiment, are already there. Technicals are a major exception, as they remain bullish. If breadth were to deteriorate, the market would have few legs to stand on.

Let's go diving into specific indicators:

- **Earnings**: good news almost priced in.
- **Macro**: slack to overheated. The same concept of the market moving ahead of the data applies to economic indicators. One example is the output gap, which measures the difference between potential GDP and actual GDP. Market gains have been strongest when the output gap has been extremely negative and weakest when the output gap has been narrow. We expect the output gap in the US, to almost disappear before the end of the year, So, the good news could already be priced in by the time the improved gap data is reported.
- The **Yield curve**: is a real-time economic gauge. Historically, the strongest gains have come when the yield curve has been upward sloping, but not too steep. The Fed remains unabashedly dovish. The risk is if investors fear that the Fed will be forced to change course as inflation numbers worsen. Inflation may be transitory, but that may not prevent inflation fears from triggering corrections.

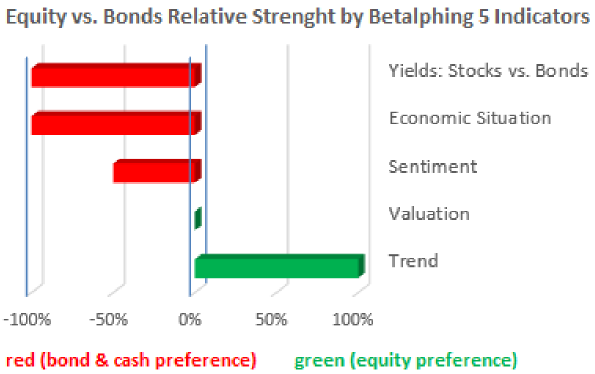
- **Sentiment**: already a warning. The overall message from sentiment indicators is that complacency is rampant.
- **Technicals**: still strong. Perhaps the defining characteristic of the current bull market is its technical strength. The breadth of participation has been at levels not seen in decades.

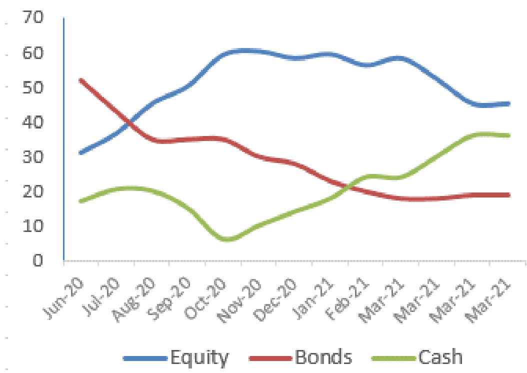
That said, the weight of the evidence is bullish and favors stocks over bonds, but we must not lose sight that in the coming months, we would transition to a more mature part on the stock market and economic cycle, in which risks will increase.

Our Global Flexible Fund, fLAB Core H-USD has appreciated 0.41% in May, thus performing 5.19% YTD.

For June, our Asset Allocation Model remains unchanged: 45% stocks, 19% bonds and the remaining 36% in cash. Despite the trend is still our friend, other indicators (such as yields, economic and sentiment) reflect a lower preference for stocks at this time. Cash allocation continues to be preferred over bonds.

fLAB Core Asset Allocation Model		jun-21	Benchmark
	Stocks	45%	55%
	Bonds	19%	35%
	Cash	36%	10%





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%)			

Europe, Australasia, and the Far East were the top performing area in May. Cyclical Value sectors, which have been the best players this year, led again this month. In the US, the **rotation out of cyclical Growth accelerated** when consumer prices for April came in higher than expected. Tech-related sectors felt the inflationary sting, with Consumer Discretionary, Information Technology, and Communication Services all underperforming in May. The mega-cap tech FANMAG group underperformed the S&P 500 by over 350 basis points, with all FANMAG components underperforming the broader market.

Within equities, we have downgraded Technology to underweight (due its deteriorated breadth) and upgraded Health Care to marketweight. We continue to favor Value sectors relative to Growth.

In **fixed income**, we have removed our preference for European govies over Treasurys, and are quite neutral regarding geographical allocation. While the US is leading in terms of economic growth, with respect to monetary policy, however, it might be the caboose as Federal Reserve policy is determined to lag. Earlier this month the Bank of England said it would slow its weekly asset purchases and talk is now swirling that the ECB could announce a reduction later this year. Such policy decisions haven't been lost on the markets. After the U.S. led the way up in yields earlier in the year, expectations are shifting..European inflation expectations have risen to a critical level, and as a result, German bund yields have broken out to the upside (although since then, have reverted). Gilt yields also confirmed the upside breakout. Yet U.S did not, despite a stronger than expected CPI data. For now, we continue to be defensive, both in terms of exposure (19%) and duration (5 for the bond portfolio, thus 0.98 for the overall fund).

In the **currency** market, the US dollar downtrend has continued this month (-1.72% against the euro). Some reasons support this path and our negative view on the greenback (narrowing yield differentials, continued global economic recovery, the US trade deficit, Financial flows, PPP...) but in the short term the trend can get more tricky, moving within YTD'S trading range (1.17-1.23). Now we have a 17% real dollar exposure but remain flexible on this matter.

Our Relative Return Fund, fLAB Satellite, registered a positive gain of 0.40% during the month, accumulating 1.17% YTD.

The compartment is invested 61% in a low-risk, low-duration diversified fixed income portfolio plus 27% in some decorrelated and tactical positions, being the rest in cash. The fund has benefited from a risk-on environment in May. Our commodity exposure (10%), distributed half in Gold (which has rallied 7.65%) and half in global commodities and industrial Metals, has been the main contributor and is taking advantage in a framework of global economic recovery and higher inflation. The equity multistrategy allocation (13%) has been the other great contributor (driven by the strong performance of European banks, +7.63% during that period and represented by 2%). In the past months, we have been selling our tech-related positions. Now our most relevant thematic are global Infrastructures (3.5%) and global water (3%). Instead, our fixed income exposure has performed slightly negative this month. The overall duration of the fund is at 2 but we will maintain an unconstrained bias on that issue. Here, our real dollar exposure is at 14%.

fLAB Core Awards, January 2021

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 | ★★★★

CITYWIRE GOLD

HIGHLY RATED FUND SharingAlpha

Funds 2020 people 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..*