fLAB

It´s All About Asset Allocation

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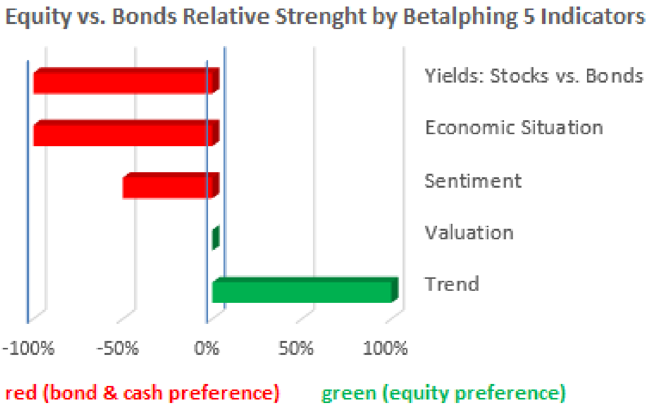
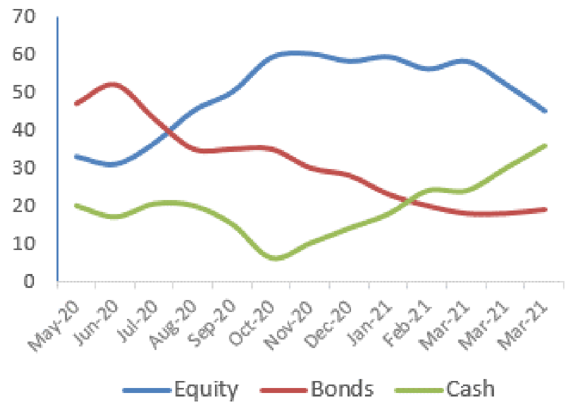
Last week, the Fed reiterated its very friendly easy money policy. According to their "definitions," we are not even close to full employment, any inflation will be "transitory", and thus, they are not even thinking about any taper. We have found, Fed policy is a great tool for market analysis. With decades of data now to test, and a lot of programs to analyze the data, now everyone seems to agree that one should not fight the Fed. Except for 1962, 1987, and 2020, most other major bear markets tested were led by a tightening in Fed policy, as were most recessions. Not only do all the researchers now know this, so do the computer algos, and thanks to social media, the analysis is there to be tweeted to everyone for free! So, up, up, and away for stocks. However, the study of **the history of the stock market tells us that once an indicator gets too popular, it tends not to work as well**. What everyone knows may not be that useful going forward if it's been discounted. So we are worried that the easy Fed might soon be a "hook" at the next top to trap the majority to stay long. We therefore plan to avoid a potential trap by **not "fighting the tape"**, which continues to lean bullish, although showing a loss of momentum. We also like to look at sentiment, which is very useful to warn about some complacency risks. In this sense, most of our **sentiment/valuation** indicators have shown an excessive amount of optimism. It's true that confidence can get higher and that financial markets are awash in liquidity, but remember..."Beware of the Crowd at Extremes".

Our Global Flexible Fund, fLAB Core H-USD has appreciated 1.29% in April, thus performing 4.76% YTD.

For May, our Asset Allocation model gives the following reading: 45% stocks, 19% bonds and 36% in cash. Despite the trend is still our friend, other indicators (such as yields, economic and sentiment) reflect a lower preference for stocks for the past two months. Instead, cash allocation continues to grind higher.

fLAB Core Asset Allocation Model		may-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*	*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%)

This past month, Growth has outperformed Value and the US Equity markets have outperformed the MSCI ACWI, thus reversing some movements seen the previous month. In fact, since mid-March, several early cycle themes (such as small caps, value, financials, low quality stocks…) have underperformed and are near key support levels. If they break support, they could signal a transition into mid-/late-cycle leadership.
We see three reasons to not abandon early cycle themes en masse just yet. First, although COVID-19's influence still looms large, **if vaccines win the race** against the last worrying variants, then cases should rollover again, and COVID laggards (many of which are also early cycle stocks) would be in better position to outperform. Second, since some early cycle themes **started earlier than others,** it stands to reason that the rotation could happen in phases. Third, since several relative strength lines are near support, we are watching them to determine if the last few weeks have been **countertrend rallies or new trends**. For now we continue to favor value on a tactical basis, and keep overweight in Financials, Industrials and Energy. In fixed income, we have seen US Treasuries taking a breather, after a large move in yields over the first quarter, consolidating its recent yield gains. Instead, in Europe, the yield advance has gained traction. Inflation expectations continue to be critical on this matter. We remain defensively positioned in terms of exposure (19%) and duration (5.06 for the bond portfolio, thus 0.96 for the overall fund). The US Dollar downtrend has resumed in April (falling 2.87% against the euro).

Our Relative Return Fund, fLAB Satellite H USD, has performed 0.28% this month, accumulating a positive return of 0.77% YTD.

The compartment is now invested 66% in a low-risk, low-duration diversified fixed income portfolio plus 25% in some decorrelated and tactical positions, being the rest in cash. By mid-month we closed our tactical short position on US Treasuries and Euro-Buxl (opened two months ago) to realize profits on the belief that after such large run-up, yields would take a break before to resume its uptrend. We also doubled our Gold position (up to 4.87%) now that influences have turned more positive, with US yield stability and gold price recovering and rising back above the 50-day smoothing. Contrary to what happened the month before, dollar weakness has benefited our bets on Global Commodities (3.6%) and Gold, due its inverse correlation with the greenback, but hurt our profits in terms of currency (as we have a 12% real USD exposure). We have added 3% in Japanese Yens (buying short term Japanese Government Debt) to increase diversification in case of potential market pullback. We remain flexible in terms of portfolio duration and currency exposure, without forgetting our target volatility of 3%.