It´s All About Asset Allocation

November 2021, Newsletter#66

A few years ago, every financial innovation was quickly embraced and adopted by everyone within the industry as they appeared to be useful and reliable. Nowadays, however, due to the **financial craze we live in** (some prefer to mention the rapidly evolving financial industry), everyone who is not up to date with the Crypto Dog Fight: Shiba Inu vs Dogecoin is considered a "boomer" . Thus, it seems almost impossible to comprehend and predict where we are going. Perhaps, we (plain traditional investors) lack perspective or we might just be getting old. We live in a world where Tesla´s stock value rises as much as all of its 5 biggest competitors combined in one single month and which its capitalization exceeds ALL the sector it intends to crush, the Energy Sector.

In the other hand , I am really fascinated by developments on financial literary production. I can perfectly picture a thinking head **creating acronyms** as if they were pancakes. We have gone from BRICs and FAANGs to super-fashionable FOMO (Fear of Missing Out) and TINA (There is No Alternative).
Yes, I am getting old.

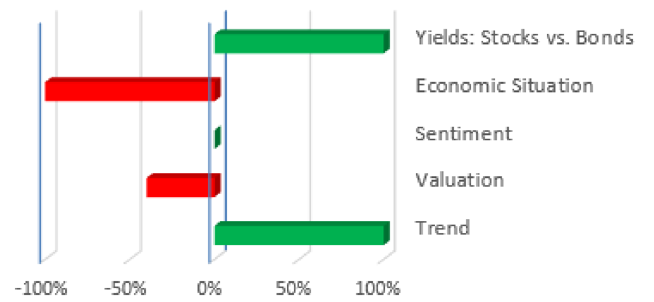
Going back to our world, and as widely expected, the FOMC announced last week it would start to taper its $120 billion of asset purchases at mid-month, a program that is expected to finish in the middle of next June. **The significance of the taper announcement** is that the Fed is starting to turn off the liquidity spigot, which has helped keep nominal and real yields low, creating potential headwinds to capital markets. The Fed is joining other developed central banks, including the Bank of England, the Bank of Canada, and the Reserve Bank of Australia in reducing accommodation or tightening policy. Powell's Jackson Hole inflation narrative is already stale. Only two months old, he cited some reasons why the current inflation spike was likely to prove temporary, and now most of them are suspect. Although the Fed acknowledged supply and demand imbalances have contributed to "sizable price increases in some sectors," these factors are still largely expected to be transitory and end in Q2 or Q3 of next year. Inflation risks however remain tilted to the upside. Not surprisingly, Powell refused to say what the path or pace of rate hikes will be. He did emphasize "patience" and that the Fed needs to see maximum employment first, which could occur in the second half of next year. The Federal's Reserve message should not lead to a large change in market expectations of two rate hikes next year and a flatter yield curve.

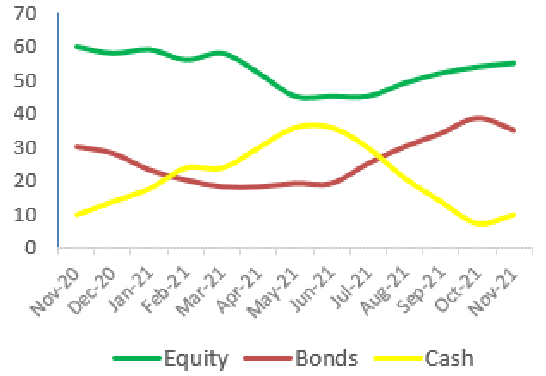
Our Global Flexible Fund, fLAB Core H-USD, has appreciated 1.87% in October, thus performing 7.33% at the end of the month (around 9% while I write this newsletter)

For November, our Asset Allocation model gives the following reading: 55% equities, 35% bonds and 10% in cash. Stocks are on a very good shape and **benefiting from our great couple, TINA and FOMO.** However, we can't ignore our economic (such as G7 Leading Indicator Index or Crude Oil Momentum) and valuation indicators, which are currently restricting a more aggressive allocation.

fLAB Core Asset Allocation Model		nov-21	Benchmark
	Stocks	55%	55%
	Bonds	35%	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			
Europe Ex-UK & 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	*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%)

Global equity markets have recovered strongly in October, with US outperforming and Emerging Markets and Japan lagging, the latter by a wide margin. The top three ACWI sectors have been Consumer Discretionary, Financials and Information Technology. In fact we have seen a mix of Cyclical Growth and Cyclical Value leadership. Stagflation worry in September has given way to reflation recognition in October. The relative performance trends have been **a sign that renewed economic confidence is driving the year-end rally, keeping earnings optimism elevated**. Last month, we talked about the Reopening 2.0 trade, which should support a rotation back to cyclical Value sectors and accordingly, we finally upgraded Financials and Energy to overweight this month. So far, it has not been as strong as the original (version 1.0 in 2020) and we expect will be shorter, that's why we are closely monitoring it. In fixed income, the curve has been quite tricky, with the short part suffering more on higher inflationary expectations, than the very long (+15y) one, which has performed positively. Our bond portfolio, which stands at 9.86 in terms of duration (3.36 for the overall portfolio) has withstood quite well in this framework. Regarding geographical allocation, we have underweighted Gilts, increased Treasuries (although to a lesser extent than benchmark), keeping overweight in Japanese and European government bonds. In terms of currency, our real dollar exposure of 20% has been quite flat over the month.

Our Relative Return Fund, fLAB Satellite H-USD, has also advanced (+0.52%) , posting a positive return of 2.47% 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. October has been a very strong month for risky assets, benefiting through our equity multistrategy position (15%), as well as for commodities, where prices rose led by the energy segment. Our 10% exposure is currently allocated half in Gold, 3% in Industrial Metals and the remaining 2% in a global diversified basket (L&G Longer Dated All Commodities UCITS ETF). In a backdrop of growing inflation fears, the market has come around to the view that supply chain disruptions would be more than transitory and could last several months to several quarters. As a result, we have seen diverging trends within the yield curve, as we pointed out previously. Even so, the fund has achieved a very positive return considering its conservative profile. Here, the impact in terms of currency has also been flat, as we have the same USD exposure than in fLAB Core.

fLAB Core Awards, June 2021

LIPPER LEADERS

10 year Ranking

Total Return	Consistent Return	Preservation	Expense Ratio
4	4	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. 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

allfunds BANK Leaders in Open Architecture — MFEX Mutual Funds Exchange — inversis Banco — AVIVA Aviva's investment platform - Navigator