fLAB

It´s All About Asset Allocation

September 2021, Newsletter#64

We are glad to announce that fLAB Core has been updated to be compliant with article 8 of SFDR, **integrating ESG criteria as part of our quantitative investment process for stock and bond selection**. We use S&P Global Corporate Sustainability Assessment ranking: overweight companies with the best ranks and underweight the companies with the lowest. fLAB Core will not be invested in any company under the 33% rank. We will also use the MSCI ESG Government Rating for government bonds and will not invest in bonds with rating under BB as rated by the MSCI ESG Government Rating. Another interesting change in fLAB Core is that, from now on, **we are limiting our exposure to ETFs to 10%** (fLAB Core can be part of Funds of Funds portfolios, thanks to this change).

Going back to the markets, **and with a taper looming, we have wanted to look back and compare and contrast 2013 and today**. Here are some thoughts:

1. the Fed is telegraphing the taper differently: Taper talk started on 5/22/2013 when then-Chair Bernanke answered a question during Congressional testimony. The shock sent bond yields soaring, with the 10-year Treasury yield jumping 103 basis points from 5/23/2013 to 12/31/2013, the day before tapering began.There is no singular taper talk start date this cycle. Instead, Fed officials gradually moved from "not even thinking about thinking about" tapering to discussing timelines at FOMC meetings.
2. there are differences in the macro backdrop: Compared to 2013, the economy is much earlier in its expansion, cyclical bull market is younger, bond yields are lower, economic growth and inflation are higher and unemployment is lower. The uncertainty over the pandemic and slack in the labor market, explain why the Fed has not been more hawkish this year.

In terms of Market performance:

- Comparing the current pre-taper performance to that of 2013, the S&P 500 was in uptrends in both cases. Gains for the S&P 500 have been stronger this cycle.
- The bond market's reaction is one of the biggest differences between 2013 and 2021: The surprise of the taper talk caused a taper tantrum in the bond market in 2013. The "tantrum" occurred earlier this cycle, from 8/4/2020 – 3/19/2021, and was more about the economic reopening from the COVID shutdowns than Fed policy.
- Growth/Value has been tracking the 2013-2014 taper pattern, but Growth's outperformance has been much bigger this cycle. In both cases, Value had been outperforming Growth, and Growth retook leadership as taper approached.

With only one historical case, these observations should be viewed as a helpful guide but by no means be taken as a standalone prediction. In a sense, **there is a chicken-and-egg**

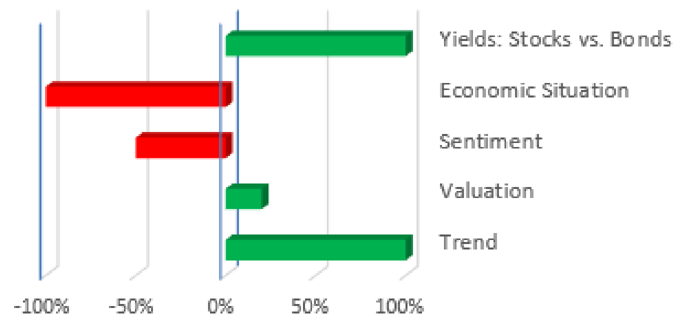
debate. Did stocks rise during the 2013-2014 because the taper was immaterial, or was the Fed able to taper because stocks rallied? Even though Fed officials would not admit it, completing a taper by mid-2022 would require the cyclical bull market continuing. One only has to look at the late-2018 debacle, when new Fed Chair Powell tried to tighten too quickly. The end of QE1 in 2010, QE2 in 2011, and QE3 in 2014 coincided with bigger corrections or shallow bear markets.

Our Global Flexible Fund, fLAB Core H-USD has appreciated 0.83% in August, performing 7.32% YTD.

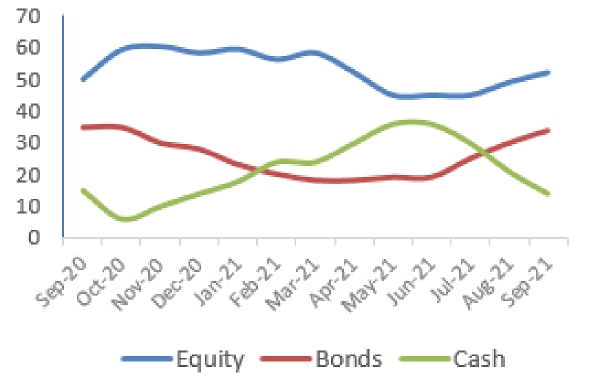
For September, our Asset Allocation model gives the following reading: 52% equities, 34% bonds and 14% in cash. In the last months, we have seen a gradual decrease of the historically high cash allocation in favor of bonds and to a lesser extent, to stocks.

fLAB Core Asset Allocation Model	sep-21	Benchmark
Stocks	52%	55%
Bonds	34%	35%
Cash	14%	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	*OW*	*Emerging Mkts, 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

	OW	*Consumer Staples*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index

Europe & Japan	*OW*	*US*	*UW*

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

There's been no shortage of negative head-lines this summer, reflecting worries about the negative economic impact of the latest COVID surges, angst surrounding the prospects for Fed tapering, frustrations over ongoing supply shortages, and the uncertainties surrounding the geopolitical impact of the Afghanistan withdrawal. **However, global equities (MSCI ACWI) largely shook-off these concerns** and reached new all time highs. The US equity market has been the top performer, with FANMAG stocks responsible for almost half of the S&P 500's returns in August. Global yields have trended higher, with a corresponding steepening of the yield curve that has benefited financial sector (due its positive correlation). The equity market **is really strong but not exempt of risks**: valuations remain stretched, even with booming and much better than expected earnings in Q2, the P/E ratio for the S&P 500 is still very high, global economic data has begun coming in more negative and the FED is preparing to taper. Within Equities, we continue to overweight Europe and underweight Emerging Markets, Pacific and UK. We are quite neutral in terms of sectors waiting for a greater leadership clarity. Aligned with our AA and bond models (which suggest to be positioned 100% of Benchmark duration) our fixed income portfolio sensitivity is now at 10.16 being 3.43 for the overall fund. In terms of currency, we have a real dollar exposure of 20%, which we continue to manage actively.

Our Relative Return Fund, fLAB Satellite H-USD has also advanced in August (0.29%), 2.10% YTD.

The compartment is invested 53% in a low-risk, low-duration diversified fixed income portfolio plus 28% in some decorrelated and tactical positions, being the rest in cash. This past month, our equity multiestrategy position (15%) has contributed positively, especially our Global Water ETF allocation (3.7% of the fund, that has appreciated 4.63%) and our European banks exposure (representing 2.3%, which has gained 4.11%). Our 16% dollar allocation has also added some basis points. Instead, Gold (4.8% of the portfolio) and fixed income exposure (sovereign and corporate) have receded slightly. **We expect modestly higher yields for the end of the year**. Covid developments and its impact on growth and inflation, will be key in this sense. The equity market has room for more optimism in the short term but is vulnerable to the next piece of bad news after such strong gains. Our unconstrained bias will allow us to remain flexible in terms of equity exposure and portfolio duration, without forgetting our 3% target volatility.

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 People 2020 A B C