fLAB

It´s All About Asset Allocation

April 2022, Newsletter#71

"History repeats itself: first as a great tragedy, second as a miserable farce". *The 18th Brumaire of Louis Bonaparte*, Karl Marx, 1852.

The truth is I am not sure whether history only repeats itself twice, we live continuous cycles or the facts simply rhyme. Great historical events are usually linked to characters who, due to their achievements or failures, have shaped history. And we already know that history is usually written by victors; a set of consensual half-truths, as Louis Bonaparte's uncle, the illustrious Napoleon, well knew. We frequently find characters who, less than a century after a tragic event, imbued with their own internal traumas, become beacons pretending to guide us. So here we find Putin, who, far away from Marxist historical materialism, but with a tight control over his citizens and social media, is trying to take us to the Europe of 1939.
And you never know how these things end. Perhaps it depends on Vladimir's musical tastes, which I hope will differ from Woody Allen's character: "I just can't listen to any more Wagner, you know...I'm starting to get the urge to conquer Poland."

It is evident that in the face of such a tragedy, whether investment funds generate -5% or +3% is quite irrelevant. However, in the same way that the baker continues to make croissants (if he gets the wheat) or the automotive engineer designs alternative energy sources (if he gets lithium), we continue to manage fLAB (if we don´t run out of electricity … or ideas).

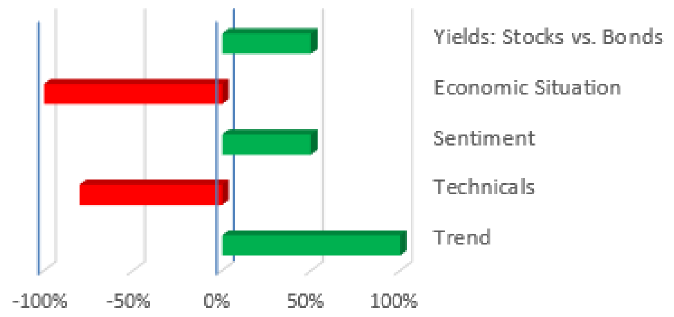
That said, we feel confident with fLAB fUNDS performance. **In such a tumultuous environment**, fLAB Core was -4.87% in the quarter as fLAB Satellite was getting a nice +1.10%.
(-3.91% and +1.46% on Apr 5th)

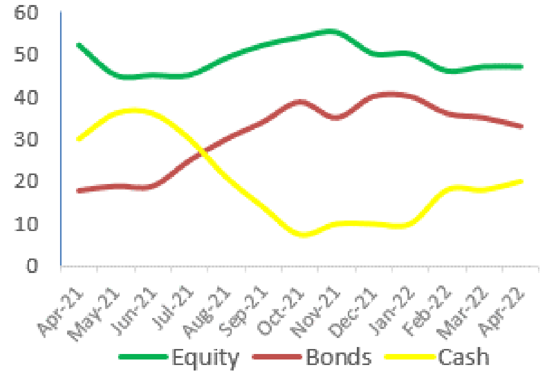
One does not need to look far to understand why we talk about a tumultuous quarter: runaway inflation in US and Europe, the **Federal Reserve is embarking on a tightening cycle more hawkish than ever** and the **war in Ukraine** risks commodity shortages further pressing already stressed prices. In this scenario, global equity markets (ACWI) corrected as much as 13% as of March 8, reaching really extreme pessimism readings and oversold conditions to finally bounced sharply, thus respecting the pattern usually seen around crisis events. All of the regional indices are participating in the current rally, and they have been doing so to such an extent that thrust signals have been generated. Those early and hopeful indicators have had the most bullish implications when they have been confirmed by an improvement of the long term ones, which we are still waiting for.

For April, in **fLAB Core**, our Asset Allocation model keeps stocks at 47% and reduces bonds from 35% up to 33%, against cash. Trend indicators have improved in favor of stocks but sentiment and yields have receded. As mentioned before, we need additional confirmation before we get more bullish.

fLAB Core Asset Allocation Model		Apr-22	Benchmark
	Stocks	47%	55%
	Bonds	33%	35%
	Cash	20%	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, Canada	*OW*	*USA, 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			
Cons Staples, Energy, Materials, Health Care & Utilities	*OW*	*Cons Discretionary, Comm Services & Technology*	*UW*
Government Bond Allocation vs Barclays Global Government Bond Index			
Europe	*OW*	*US*	*UW*
Benchmark (US 50%, Europe 26%, Japan 18%, UK 6%)			

In this tough quarter, the US Underperformed the ACWI, the Nasdaq registered through March 14, its worst start of year since 2001 and not surprisingly, Europe ex UK was the weakest region. Only **Commodity-based countries outperformed**, regardless of geographic location or developed classification. Value outperformed Growth, but Growth staged a comeback the second half of March, driven by an improvement from the tech mega-caps. Our sector model continues to **favor cyclical value sectors above cyclical growth but to a lesser extent**. As a result, we are watching to upgrade consumer discretionary and reduce energy and consumer staples to a more neutral stance. On a geographical basis, we continue to overweight Europe and Canada.
Bonds struggle during the first quarter and failed to hedge the loss in equities as inflation fears pushed yields higher around the developed world. The U.S. yield curve (2y10y) finally inverted, and talk of recession is swirling in the air. Instead, the 2s10s German curve has steepened even though is the economy most at risk for recession. We believe this discrepancy is more related to the Fed’s sudden awakening to the inflation problem than a recession one. Markets are pricing that the Federal Reserve will hike rates much more than the ECB will, resulting in different curve expectations. **We remain underweight in terms of duration**, currently at 2.60 for the overall fund. Regarding currency exposure, we keep a 23% in US Dollar, one of the few assets that has protected global portfolios, which we’ll continue to manage tactically.

As mentioned, our **Relative Return Fund, fLAB Satellite H-USD registered an outstanding quarter** (+1.46% on April 5th)

The compartment is invested 46% in a low risk, low duration (1.25) diversified fixed income portfolio **plus 30% in some uncorrelated and tactical positions**, our main source of profitability this year. The remaining 24% is in cash. Earlier this month, **we took partial profits** on our commodity exposure due to strong accumulated gains and volatile prices amid geopolitical news. We reduced Gold allocation by 3% (now at 4.3%) and to a lesser extent (-1%) Industrial Metals, now representing 2.7%, the same exposure we have in Longer Dated All Commodities. The equity Multistrategy allocation (17%) recovered quite well, once risk appetite returned to the market, highlighting the positive contribution of real assets such as infrastructures (4.47% of the fund) and real estate (2.5% exposure).
Our fixed income portfolio has had to endure higher yields and widening spreads, resulting in

negative returns, but this has been partially offset by our short bet in the long part of the US and German yield curve (6% distributed equally) and the positive contribution of Chinese government bonds (4.5% of the fund). In terms of currencies, we have benefited from our 15% real dollar allocation. **We will continue to be flexible,** especially in terms of equity exposure and duration (0.58 for the overall fund), without forgetting our low target risk.
with our low target risk and Sharpe Ratio objective.