fLAB

It´s All About Asset Allocation

May 2022, Newsletter#72

Dear Oscar;

The concerns overhanging the market this year are already known to all (Inflation, Hawkish Fed, Ukraine war, Chinese lockdowns…) to which we must now include that the U.S. economy shrank in Q1 and earnings growth is slowing at the fastest rate since 2011. Add a 16% drop in the S&P 500 (May 9th) – with many stocks down over 50% - **and it should not be surprising that investors are skittish, not to say panicked**. The nervousness is reflected in several investor sentiment polls, with the AAII (American Association of Individual Investors) survey amongst the most extreme: at the end of the month it was standing at the lowest reading since March 6, 2009, one trading day before the secular low. Moreover, the put/call ratio hit on April 29, its highest level since March 18, 2020, three trading days before the pandemic bottom. We cannot say that all sentiment gauges are at such key levels, but yes in extreme pessimism. What does all that mean? **Reversals in such extreme readings could trigger a short-term rally, but the global market picture warrants some caution** as weakness could persist over the near term, as reflected by our macro and technical indicators.

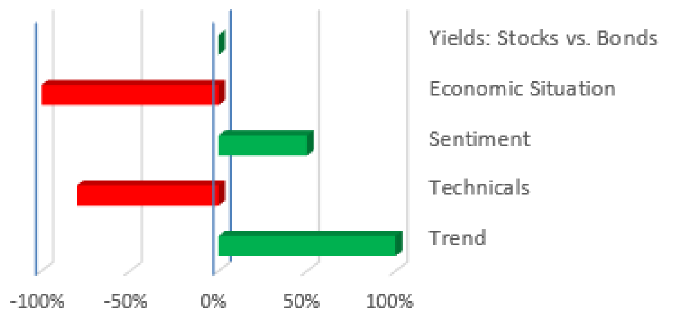
There are some warnings and potential risks ahead. From the earnings point of view, the Q1 season looks to be the start of the process of adjusting expectations. With over half of S&P companies reporting, the beat rate remains strong, but companies that have missed expectations have been punished (specially the mega cap Tech), implying that investors have little faith in consensus estimates for EPS growth in 2022. The issue is that after 2021's amazing results, comparisons are so difficult that a massive slowdown is inevitable. Historically, **stocks have struggled when the earnings growth rate has been falling rapidly. Then, we have the FED, on track for a fast tightening cycle**. The Federal Reserve will keep hiking rates until it gets neutral and will commence balance sheet reduction in June. Powell is guiding the market for 50 basis point hikes for the next couple of meetings and squelched last week the idea of 75 bp hike, which the market was pricing in. He stressed the Fed wouldn't hesitate to go beyond neutral if it was appropriate to do so. The market initially liked the cautious approach, Wall Street closed with sharp gains, but after the initial euphoria the markets collapsed again on fears that Powell could drive the US economy into recession. It's important to keep in mind, that the stock market has felt the effects of all tightening cycles. Historical data show that the impact has come quicker during fast cycles, when the Fed raises rates at almost every meeting, than during slow cycles, when the Fed has waited at least one meeting in between hikes, on average. During the first year of fast cycles, the S&P 500 has fallen 2.7% on average, versus a gain of 10.5% during the first year of slow cycles. If we add, that we are in a maturing economic cycle, that market breadth is terrible and that liquidity will decrease over the coming months, there are not few challenges to lie ahead. But the key will undoubtedly lie in how inflation evolves and therefore, the Fed.

Our Global Flexible Fund, fLAB Core H-USD, has receded 2.26% amid April's sell-off in both, stocks and bonds. The fund is performing -7.01% YTD.

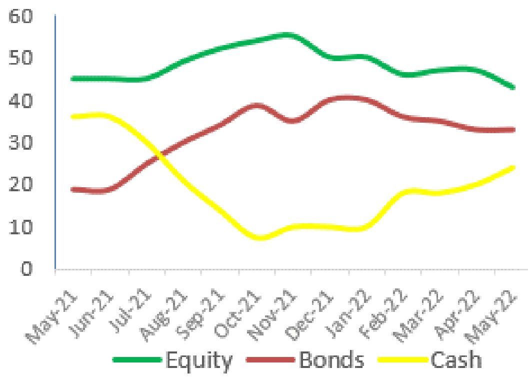
For May, our Asset Allocation model reduces equity allocation from 47% to 43%, keeping fixed income at 33% and raising cash up to 24%.

fLAB Core Asset Allocation Model		May-22	Benchmark
	Stocks	43%	55%
	Bonds	33%	35%
	Cash	24%	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*	*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 48%, Europe 25%, Japan 21%, UK 6%)

April was the weakest month for US stocks in years. The S&P 500 index fell 8.8%, the biggest one-month drop since March 2020 and the Nasdaq Composite tumbled 13.3%, its worst month since October 2008. Technology and Growth got trashed. The combination of rising rates and weakening fundamentals has soured investors on big tech for now. The low-beta defensive sectors held up better. **We maintain our sector bets but slightly reduce** the overweight exposure in Energy, Materials, Consumer Staples and Utilities. On a geographical basis, the results although bad in most regions, have diverged as different sectorial indices composition has been felt. Europe has outperformed the MSCI ACWI and the UK has been the only global region to post positive results. We have decreased a bit the overexposure in Canada and reduced emerging markets allocation.
Government bonds registered another turbulent month and are extremely oversold, which could lead to a pause from which digest the strong and quick rise in yields. In both, Germany and in the United States, the yield curve (2yr-10yr) has steepened but we believe this will not last, at least in the US since the curve tends to flatten during a tightening cycle. We remain underweight in terms of duration, currently at 2.46 for the overall fund. Expectations of higher rates catapulted the U.S. Dollar Index to levels not seen since 2017, thus causing a plunge of the EUR/USD (-4.72%) below the trend that has remained supportive for the last 37 years (on a quarterly basis: 1.0666). That has benefited our portfolio, accounting with a 20% real dollar exposure, which we will continue to manage tactically.

Our Relative Return Fund, fLAB Satellite H-USD, withstood quite well market volatility (-0.35%), holding an outstanding return of 0.74% YTD.

The compartment is now invested 51% in a low risk, low duration diversified fixed income portfolio plus 26% in some uncorrelated and tactical positions, being the rest in cash. **In April, there were few places to hide against market volatility, being the US Dollar and global commodities**, the favorites again. That contributed positively to our portfolio through a 17% and 3% exposure, respectively. Earlier in the month, we removed our Industrial Metals allocation (after strong accumulated gains) while kept Gold (weighting 4.3%). Investors, nervous about inflation, continued to dumped bonds leaving them hugely oversold. The jump in yields has put several indicators into extreme territory, for example, 10-year and 2-year Treasury yields are now more than two standard deviations above their 3-year means and sentiment is extremely bearish. Although yields can rise more, moves tend to run into exhaustion at these extremes. As a result, we have tactically closed our short bet in the long part of the US and German yield curve (6% distributed equally), setting the total portfolio duration at 1.90 (from 0.58 previous). We keep the short one on the iTraxx Crossover (2.88%), which is doing well in this framework, as a hedge against widening spreads. Our equity multistrategy position (16%) retreated in line with the market. We will remain flexible in terms of equity exposure and duration, trying to take advantage of market uncertainty without forgetting our low target risk

LIPPER LEADERS

10 year Ranking

Total Return	Consistent Return	Preservation	Expense Ratio
4	4	4	5

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

You can find all Technical Info, KIIDs, Prospectus, Investment Strategy and all about the Ucits Fund at: http://www.flabfunds.com

Please keep us informed if you need further information.

Kind regards,

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