It´s All About Asset Allocation

September 2022, Newsletter#75

Powell's Jackson Hole speech clarified that the Fed would continue to tighten monetary policy to combat inflation, even if it means more pain for consumers and businesses. **The hawkish tone rekindled fears of the Recession and therefore, the prospects of a Retest of the June lows. This cycle, both terms are interconnected** for two reasons: first, recession fears are near the top of any list of what would trigger a market decline. A common misconception of those who ignore technical analysis is that it is unrelated to the economy. In reality, it measures the collective decisions of millions of investors, including their hopes and fears over macroeconomic developments. Second, whether any retest is successful or not could very well be determined by whether the economy avoids a recession. The average non-recession bear lasts about seven months and has declined 25% (-18% over the past half century, for the Dow Jones), putting the January – June drop in line with the typical case. Conversely, the average recession bear has lasted about a year (17 months over the past 50 years) and declined a mean of 35%.

Initially, the rally off the June lows looked more like a young cyclical bull than a bear market rally. Several breadth thrusts and expanding new highs suggested much of the decline had run its course. Unfortunately, all these improvements have tumbled back suggesting the technical damage from the **worst first half since 1970** has not healed. Until the intermediate-term and long-term trend and breadth indicators confirm, a retest cannot be ruled out and the next several weeks may be the most likely time for it to happen.

Last but not least, Thursday´s BCE decision to raise rates an unprecedented 75bps, **gives a good hint of where hawks are flying in circles: all over the world**

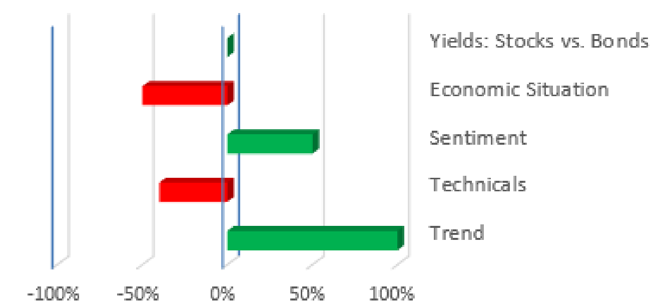
Our Global Flexible Fund, fLAB Core H-USD, is performing -9.66% in such a tough year.

For September, our Asset Allocation model gives the following reading: 45% stocks, 39% bonds and 16% in cash. Relative trend indicators support equity over fixed income but the economic and technical warrant some caution.

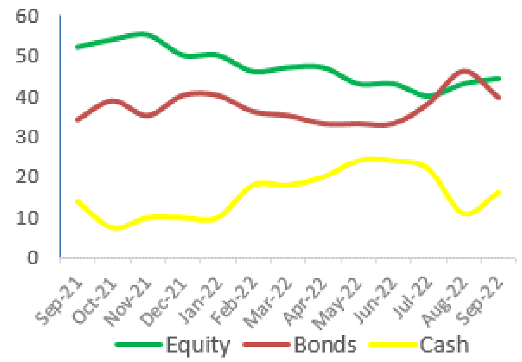
The summer rally led the S&P 500 to **just below its falling 200-day moving average** and has given up about half of its June 16 – August 16 gain. Not everyone greeted the rally off the June lows with the same level of enthusiasm. As a generalization, large institutional investors met it with skepticism focused on the Fed's continued hawkishness, geopolitical risks, and downward earnings revisions. Conversely, as a group, retail investors welcomed it, considering the damage already done to many stocks, especially small-caps and previously loved FANMAG stocks. But the happiness did not last long and Wall Street along with the global equity market (ACWI) ended August with losses

fLAB Core Asset Allocation Model		Sep-22	Benchmark
	Stocks	45%	55%
	Bonds	39%	35%
	Cash	16%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond & cash preference) green (equity preference)



Equity Regional Allocation vs MSCI World AC			
USA & Japan	*OW*	*Emerging Markets*	*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 Discretionary	*OW*	*Financials*	*UW*

Government Bond Allocation vs Barclays Global Government Bond Index			
	OW		*UW*

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

. **After this back and forth movement, our sector model is in a state of transition.** The technical composites (price-based) favor cyclical over defensive, but the macro ones are still supportive of a defensive leadership due the challenging environment. As a result, we are neutral on this matter as well as in Growth versus Value.

Global Government bonds returned to losses in August, especially outstanding in Europe. Investors, **scared by an increasingly gloomy economic prospects** for the region and a more aggressive stance by the main Central Banks (BOE and ECB) dumped bonds again. Gilts were the most punished as they were also affected by political uncertainty. The FED and the European Central Bank are committed to keep monetary policy tight in order to prevent inflation expectations to get out of control. The difference is that in US, the peak of monetary tightening can already be glimpsed, while in Europe they have only just begun to raise rates (with inflation recording new highs). Unless US and German 10-year yields break the June highs, we believe they could move in a trading range, within an up going trend. Our portfolio is close to benchmark in terms of geographical allocation and slightly underweighted in terms of duration (3.13 for the overall fund). In terms of currency, we have benefited from our real dollar exposure (24%) as the greenback has risen to a 20-year high.

Our Relative Return Fund, fLAB Satellite H-USD, keeps a decent performance of -2.19% YTD

August has been a difficult month for conservative products, like our Satellite, even holding a low risk - low duration bond portfolio (46%). US Dollar (14% real exposure) and our short position in iTraxx Crossover (3%) have been among the few assets that have appreciated. Global Commodities do not longer offer the high returns and the same level of decorrelation with markets as at the beginning of the year amid fears of a sharp global economic slowdown/recession. This is not trivial, since together with the US Dollar, they were one the few assets to hide against market volatility. Gold (3% of the portfolio) has struggle to shine and fell for a fifth straight month in August, pressured by expectations of more interest rate hikes. If we also add our equity multistrategy allocation (representing 13% of the fund), it will be easy to understand the troubles to achieve positive returns in such a context. We will remain flexible in terms of duration (1.56 for the overall fund) and risk exposure, trying to take advantage of market volatility.