It´s All About Asset Allocation

September 2023, Newsletter#86

I am glad to announce that in the last Lipper Ratings update, our clean shares in USD have been awarded with the highest ranking (5) for Total Return, reflecting our great historic total return performance relative to peers in USD share classes.

LIPPER LEADERS

About Lipper >>

Fund Lookup Results Highest 5 4 3 2 1 Lowest Back to Fund Lookup

Fund Name	Fund Company	Asset Type	Classification	Total Return	Consistent Return	Preservation	Expense
fLAB fUNDS Sicav - fLAB Core CL USD HDG	Link Fund Solutions Luxembourg SA	Mixed Assets	Mixed Asset EUR Flex - Global	5	4	4	4
fLAB fUNDS Sicav - fLAB Satellite CL USD HDG	Link Fund Solutions Luxembourg SA	Mixed Assets	Absolute Return EUR Low	5	4	4	3

In August, the global equity markets experienced an intra-month correction close to 5%. Better than expected economic data, the possibility that inflation rates have troughed, and the potential for additional Fed rate hikes combined to push the 10- year Treasury yield to 4.34% (on August 21th), its highest level since November 2007 ahead of Jackson Hole Economic Symposium. The spike in bond yields coincided with a 4.8% pullback in the S&P 500 Index (to its low on August 18) after a strong two-month surge. How much of the drop was due directly to the bond market is difficult to quantify, but we can say that August decline was similar to February-March correction, which also started with excessive optimism and was driven by rising bond yields at a time when yields and equities are inversely correlated. Now as then, bond yield downturn has helped market to recover from oversold condition with optimism relieved and long-term to short-term uptrend intact.

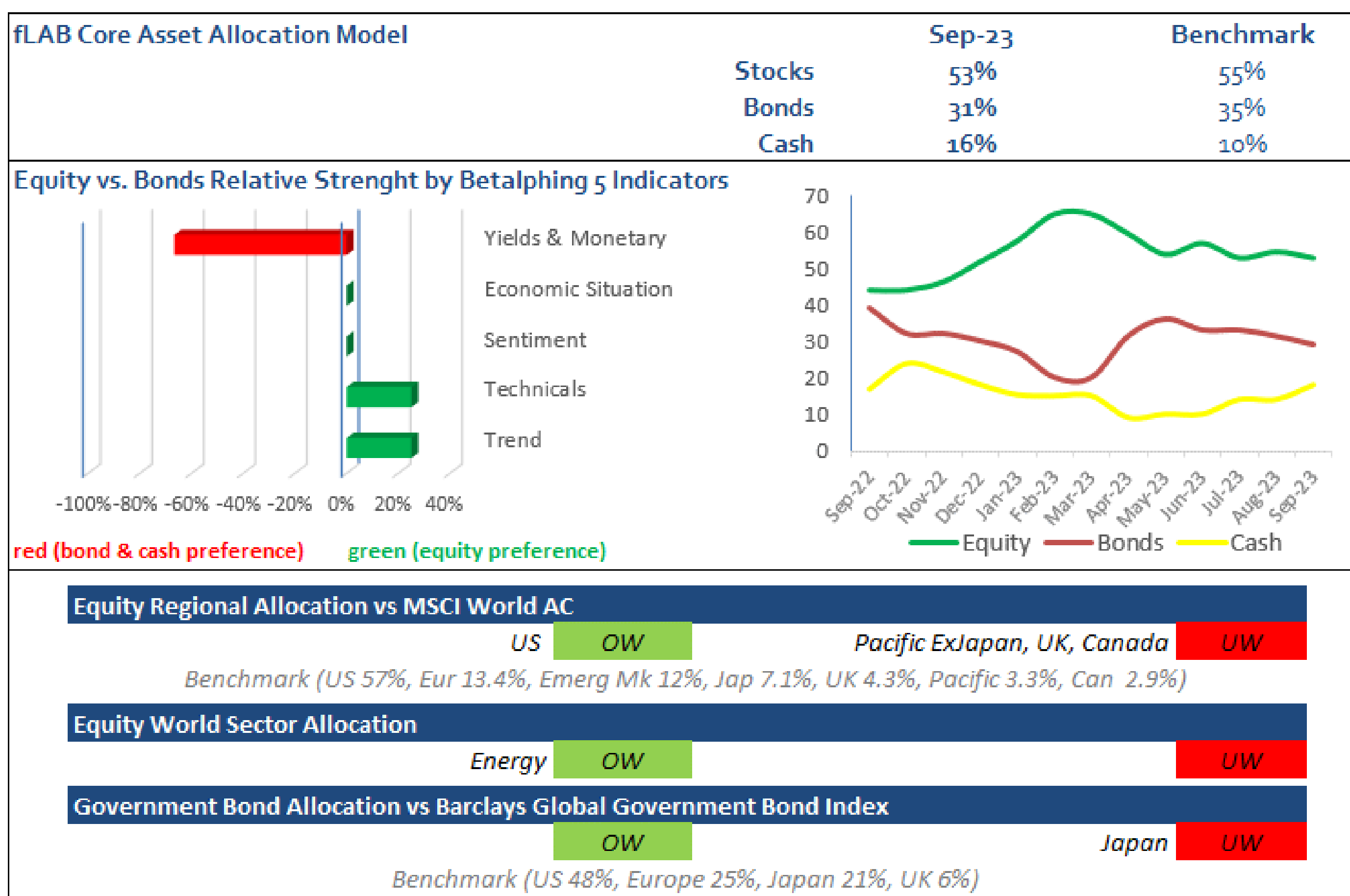
Hopeful signs of an economic soft landing emerging from Powell's speech at Jackson Hole, in which the different leaders of the main central banks ratify their "Data-dependent" approach, as well as the latest soft economic data (consumer confidence, GDP and payrolls) have allowed the markets to regain some of the lost ground during the month. The Chairman of the Fed noted that the outlook for economic growth and inflation remains shrouded in uncertainty, mainly stemming from the unknown duration of policy lags and changing labor market dynamics. Nevertheless, Powell did not mention the words recession or pain for households, as he did at last year's Symposium. We take that as a relatively positive assessment of the near term economic outlook, where recession is no longer the base case scenario. Powell expects growth to slow, but with inflation still running above the 2.0% target, policy remains on a tightening bias.

With the T-Note yield near 16-year high, it's worth to analyze the possible ramifications of higher rates on the stock market over the next several months to a few years. For the intermediate term, it has to be noted that higher yields have created downside pressure for equities but have not derailed the cyclical bull market for stocks. The latest run-up of the 10-year yield above its

regression trend line so far has only been sufficient to push the indicator out of the bullish zone for equities and into the neutral zone; however, it has not been as violent as those in 2022, 2015, 2012, 2010, or 2008. The risk of a policy mistake remains one of our chief concerns heading into 2024. For the long term, the two conclusions are that: short-term bonds offer the best alternative to stocks in decades and, the influence of higher interest rates on corporate financial statements has only just begun. Despite higher rates, U.S. financial conditions remain favorable for markets and economic growth. Corporate credit spreads remain narrow and correlate with continued capex growth for the balance of this year. The impact on consumer spending, however, bears watching as some pressure points have started to emerge. Of course, we're not out of the woods yet and we still think there's a decent probability for U.S. recession in 2024. As we all know, there is an elephant in the room…the delayed impact of the past year's tight monetary policy which have yet to be felt.

Our Global Flexible Fund, fLAB Core H-USD, shows an outstanding return of 6.77% on August 31st.

In September, our Asset Allocation model reduces 2% stocks in favor of cash. Although sentiment indicators for stocks have improved, with excessive optimism relieved, those related to the economic situation and the technical picture have slightly deteriorated.



The MSCI ACWI retreated 2.24% (in local currency terms). The worst performers have been the emerging markets and Pacific ex Japan (which fell more than 6%) dragged down by China, as investors get more concerned about its growing economic slowdown and its possible contagion throughout the world. Europe has underperformed the global benchmark, on worsening economic outlook while the U.S has outperformed on a slew economic data suggesting a recession is not imminent. As a response, we have downgraded Europe from overweight to neutral. In the U.S., growth sectors outpaced value ones. Energy, has been the best performing sector this summer and the only one to register profits in August. Our Crude Futures and Commodity model have turned bullish, supporting an overweight exposure. Technical improvement, valuations, and the interest rate environment also support the change. Global and U.S. growth remain our top concerns for this economically sensitive sector. The continued resiliency of the economy will be key for this.

The bond market has not lagged behind in terms of relevance. The main 10-year bond references have experienced a back and forth movement that has impacted equities and bond returns within the month. Bond yields have come a long way in a short period of time. Ten-year Treasury yields have backed up 100 bp from their April lows, mainly due to higher real yields on changes in growth expectations. As the soft landing narrative has gained traction, real yields have risen. An increase in the supply of Treasuries also likely contributed to the latter. Despite the risk of higher yields ahead, in the short term bonds are looking more attractive and are now oversold. We enter September keeping our fixed income exposure at 31% and its duration at 9.90 (3.40 for the overall fund).

Our Relative Return Fund, fLAB Satellite H-USD, has withstood quite well the August market's pullback, posting 2.78% YTD.

The compartment is investing 51% in a low risk, low duration diversified fixed income portfolio plus 20% in some uncorrelated and tactical positions, being the rest in cash. It has been very tough to obtain gains in this framework (which stocks and bond yields inversely correlated), since neither the classic safe haven (gold) nor the most innovative (such as crypto assets) have played a decorrelated role. As we have explained, energy has been the only global sector that has avoided losses (supported by a rise in crude oil) but the global commodity index (CRB) has not run the same good path. Our equity multistrategy allocation (12%) has performed in line with the global equity benchmark and the global bond portfolio (with a duration of 4.21) has not been immune to the widespread rebound in bond yields and weak bond performance (public and corporate) over the past month. For the time being, we continue to lean defensive within credit in view of an economic slowdown. We will remain flexible in terms of risk exposure and duration (2.15 for the overall fund) trying to take advantage of the opportunities arising from an uncertain

framework, given investor's changing interest rate expectations.

10 Year Ranking LIPPER LEADERS

	Total Return	Consistent Return	Preservation	Expense Ratio
fLAB fUNDS Sicav- fLAB Core A EUR	4	4	4	5
fLAB fUNDS Sicav- fLAB Core H-SGD	5	4	2	4
fLAB fUNDS Sicav- fLAB Core H-USD	5	4	2	4
fLAB fUNDS Sicav- fLAB Satellite A EUR	3	4	5	3
fLAB fUNDS Sicav- fLAB Satellite H-USD	5	5	3	3