



## It's All About Asset Allocation

**December 2025, Newsletter#108**

Few musical works begin with a chord as striking and unforgettable as Bach's Toccata and Fugue in D minor. It immediately captures your attention: from the very first note, **you know something significant is about to unfold.**

The emergence of artificial intelligence in the markets has followed a very similar pattern. Since the launch of the first large-scale generative models, we have witnessed an immediate impact: collective enthusiasm, sharp revaluations of companies exposed to the new religion and a dominant narrative proclaiming near-instant transformation of the entire economy.

At fLAB Funds, we follow this phenomenon with great interest but also with the perspective that experience provides: history shows that markets often anticipate benefits far faster than they materialize in reality.

And remember: **not everyone who plays fast becomes Bach, and not every company that mentions "AI" will multiply its EBITDA.**

Let's look at the various stages in Bach's work and their similarities to the situation in the financial markets:



### **1) The Toccata: speed before harmony (2023 and first half of 2024)**

The toccata is a musical form built on virtuosity and speed. Its purpose is to impress; it focuses more on movement than on structural depth.

This phase accurately describes the initial period across much of the AI-related stock universe:

- Rapid price increases based more on announcements than on results.
- Business models still incomplete, with valuations pricing in extremely optimistic scenarios.
- A proliferation of corporate messaging where the main value proposition is simply the word "AI."

The **narrative moved incredibly fast**; the underlying economics moved much slower.

## 2) The Fugue: a theme multiplied (second half of 2024 to today)

In Bach's fugue, the same theme is repeated again and again across different voices. The sound gains power, even though the essential melody remains the same.

Something similar has occurred in the markets:

- Dozens of players defining themselves as "AI-first": from new ETFs and SPVs to startups and corporates of all sizes, sector-specific software, healthcare, legaltech, marketing and, as in any other area, a lot of charlatans appearing as experts;
  - Entire sectors reformulating their narratives under the same label;
- Thematic investment vehicles grouping very different businesses under a single narrative.
  - Appearance of first symptoms: circularity, doubts about amortization rate, demand to monetize.

This created the impression of unstoppable change, when in reality it has been **massive repetition of a single thesis**.

As fund managers, our job is not to amplify this polyphony, but to discern which voices are genuine and which merely echo the market. While the euphoria is no longer blind, the polyphony is still "playing": many voices repeating the same theme.

## 3) Density: when the theme gets lost (probably 2H 2026)

Every fugue reaches a point of maximum complexity, where it is difficult to follow the main thread. In markets, this corresponds to a progressive disconnect between valuations and cash flows:

- Multiples and financial ratios lose historical reference points.
  - Narrative fully replaces fundamental analysis.
- The idea that "this time is different" becomes normalized.

This is also when **risk asymmetry increases**: less room for positive surprises and much more for disappointments. Our reading is that, likely, during the second half of 2026, we will find ourselves in this phase.

## 4) Resolution

As with any musical work, the fugue resolves...(those last chords in Bach's composition, so brilliant)

In markets, resolution comes when business realities catch up with expectations:

- Monetization proves slower than promised.
- Margins are compressed by rising competition.
- Investment costs weigh more heavily than anticipated.

## Epilogue: fLAB's Approach

For this reason, in both fLAB Equity and the equity portion of fLAB Core, we believe AI is a genuine revolution, but:

- Not every player will be a winner.
- The highest returns will not always come from the most visible names.
- Discipline in valuation and factor investing is more necessary than ever.

In fact, bubbles always sound like a toccata: fast, bright, and deafening. Patient investing, however, requires listening to the entire fugue and waiting for the harmony to settle.

(And, for what it's worth, I've always been more of a Ramones fan).

I almost forgot. **The returns of our clean share classes as of December 1st, in a great year of profitability for our funds:**

fLAB Core Clean

EUR 5.80%

USD 7.75%

fLAB Equity Clean

EUR 20.36%

USD 22.74%