It´s All About Asset Allocation

July 2025, Newsletter#104

It's a fact that the post-Liberation Day recovery has been so relentless, and the TACO theory has spread so widely, that market sentiment has become excessively optimistic. Another fact is that the markets have been governed this first half of the year by tweets, bombs, and threats. The classic data that used to move the market (CPI, Debt, Unemployment, and a long etcetera) have taken a backseat. However, on **July 15th, a traditional and classic data, US CPI, could turn the current honeymoon period upside down.**

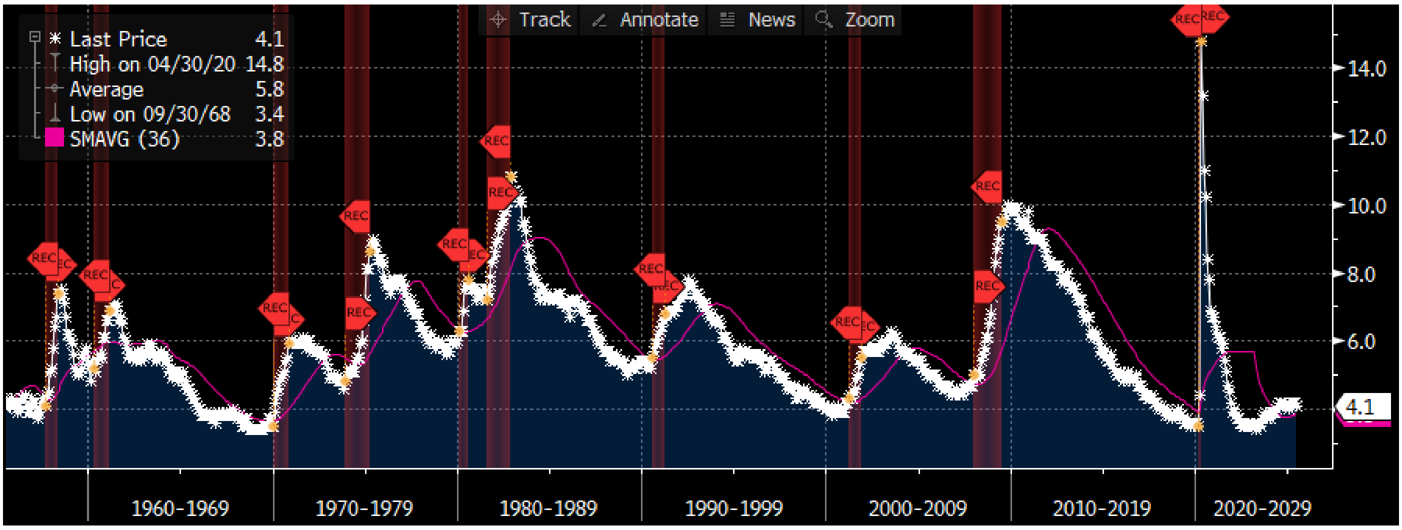
The low inflation rate in the US in May (2.4%) could be just a mirage, and optimistic mantra that "tariffs won't be reflected in consumer prices" may prove painfully premature. Most of the additional tariffs were paid on May and June, when US customs received payments of $16.5 billion and $6.1 billion, respectively. Their **impact will most likely be felt in the June CPI report, due on July 15.**

Additionally, the June inflation figure will be driven by the sharp depreciation of the US dollar, the sudden rise in oil prices, and supply chain disruptions due to the war with Iran. The Cleveland Fed Inflation Nowcast estimates inflation at 2.6% and the core CPI at 3%. Given these figures, or even bigger surprises, it would be logical for the Federal Reserve to **lower expectations for a September rate cut** to give it room to maneuver if inflation continues to rise through the summer, a possibility we consider more than likely, even if it's not priced in by the market.

Jay Powell achieved a soft and difficult landing in 2023 and 2024. With an unemployment rate of 4.1%, inflation near the 2% target, and a "near-normal" balance sheet, the Fed chairman will want to savor his moment and proclaim "mission accomplished." J. Powell is about to leave the Federal Reserve as a brave and competent official. He won't risk this legacy to appease a bully or rescue the stock market from a typical and needed correction, especially if, as we believe, inflation accelerates with the data released on the 15th.

Another fact that has gone unnoticed is the slow but progressive deterioration of the American labor market despite last week's positive data.

Thus, we must be alert to the more than perfect correlation between two facts: unemployment and recessions in the US.
History shows that when Unemployment (currently 4.1%) crosses its 3-year Moving Average (3.8%) upwards: Recession Assured. Of the last 10 times this event has occurred in the last 50 years, **Recession has happened every single time.**
I tried to check it out on Bloomberg, and honestly, it's a bit scary (the shaded vertical area marks recessionary periods):

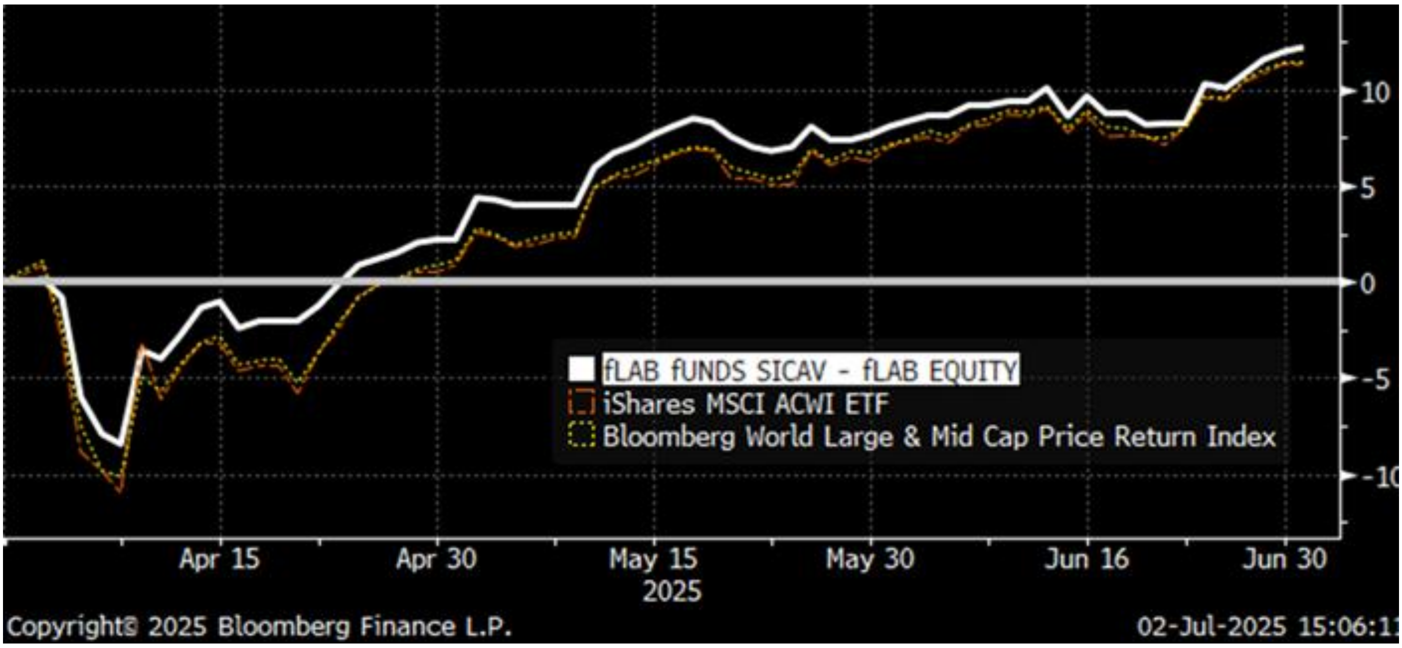


The most optimistic say, "This time it's different." Yes, it's possible, but we already know that forecasting is very difficult, especially if it's about the future!

So, without wishing to be pessimistic, and given the dangerous curves ahead, you can already guess our positioning: more **cautious** in our mixed fund, fLAB Core, and greater attention to more **defensive factors** in our pure equity fund, fLAB Equity.

On the other hand, we couldn't be happier with the performance of our two funds:

- **fLAB Equity:** We couldn't have launched the fund in a more difficult situation: March 31st, just a few days before Liberation Day. However, after the initial plunge, our selection of global stocks based on factors, sector-neutral, and Active Risk under control, has been fantastic, and we've achieved our goal. The Clean class has increased by 12.01% in its three months of existence and is **already outperforming its benchmark, the MSCI ACWI**. Let's see if you're up for it and make fLAB Equity your Global Stock Market favorite fund.



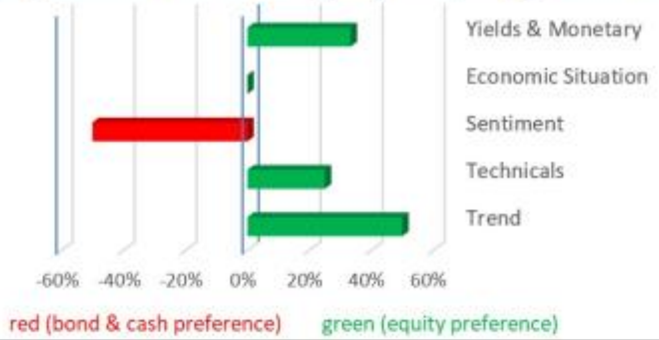
It's interesting to see the positions that have contributed the most Alpha this quarter:

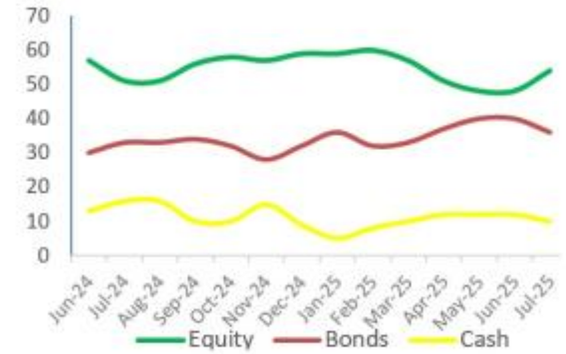
Contribution to fLAB Equity from the TOP 20 Over & Under Weights vs ACWI (March 31st -June 30th 2025)							
	Total above/below ACWI =		2,24				
TOP 20 overweights vs ACWI		2Q Perf	Contribution	TOP 20 underweights vs ACWI		2Q Perf	Contribution
NVIDIA Corp	2,17%	45,78	0,99	Amazon.com Inc	-2,69%	15,31	-0,41
Ameriprise Financial Inc	1,67%	10,62	0,18	Apple Inc	-1,97%	-7,52	0,15
Microsoft Corp	1,40%	32,75	0,46	Alphabet Inc	-1,34%	14,10	-0,19
NetApp Inc	1,36%	22,13	0,30	Broadcom Inc	-1,30%	65,02	-0,85
TJX Cos Inc/The	1,33%	1,71	0,02	Tesla Inc	-1,20%	22,57	-0,27
Cisco Systems Inc	1,31%	13,23	0,17	Eli Lilly & Co	-0,88%	-5,43	0,05
Boston Scientific Corp	1,20%	6,47	0,08	Berkshire Hathaway Inc	-0,77%	-8,79	0,07
Motorola Solutions Inc	1,19%	-3,71	-0,04	UnitedHealth Group Inc	-0,60%	-40,01	0,24
Alphabet Inc	1,18%	13,68	0,16	Meta Platforms Inc	-0,52%	28,16	-0,15
Netflix Inc	1,16%	43,60	0,51	Procter & Gamble Co/The	-0,49%	-5,92	0,03
Cognizant Technology Solutions Co	1,14%	2,39	0,03	Johnson & Johnson	-0,46%	-7,11	0,03
Cencora Inc	1,10%	8,03	0,09	AbbVie Inc	-0,42%	-10,59	0,04
Republic Services Inc	1,09%	2,08	0,02	Bank of America Corp	-0,40%	14,05	-0,06
Autodesk Inc	1,06%	18,25	0,19	Salesforce Inc	-0,39%	1,94	-0,01
Raymond James Financial Inc	1,04%	10,81	0,11	ASML Holding NV	-0,37%	12,16	-0,05
Deere & Co	0,93%	8,68	0,08	Oracle Corp	-0,35%	56,96	-0,20
Capital One Financial Corp	0,89%	19,05	0,17	Coca-Cola Co/The	-0,35%	-0,51	0,00
OMV AG	0,82%	8,02	0,07	Chevron Corp	-0,33%	-13,35	0,04
Stryker Corp	0,81%	6,51	0,05	Novo Nordisk A/S	-0,33%	-6,43	0,02
Vinci SA	0,79%	10,94	0,09	Accenture PLC	-0,30%	-3,72	0,01
	23,61%		3,72		-15,46%		-1,48

• **fLAB Core:** Our flexible mixed fund, which just turned 16, has shown a more moderate position in recent years. Its USD Clean Share ends the semester at +2.27%, and we face the second half with this asset allocation. Obviously we´ll be following July 15th data very closely in order to change to a more conservative approach.

fLAB Core Asset Allocation Model	Jul-25	Benchmark
Stocks	54%	55%
Bonds	36%	35%
Cash	10%	10%

Equity vs. Bonds Relative Strength by Betalphing 5 Indicators





Equity Regional Allocation vs MSCI World AC			
Emerg Markets & Europe	OW	US, Japan & UK	UW
Benchmark (US 63%, Eur 12%, Emerg Mk 10.5%, Jap 5.5%, UK 3.5%, Pacific 2.8%, Can 2.7)			

US Sector Allocation			
Consumer Dixcretionary	OW	Materials & Energy	UW

Government Bond Allocation vs Barclays Global Government Bond Index			
US	OW	Japan	UW
Benchmark (US 55%, Eurozone 25%, Japan 14%, UK 6%)			