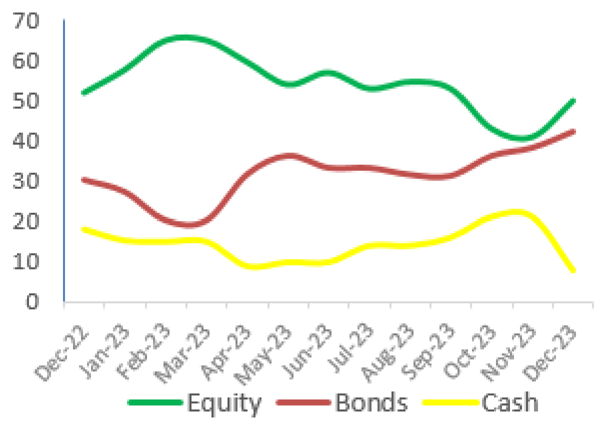
fLAB

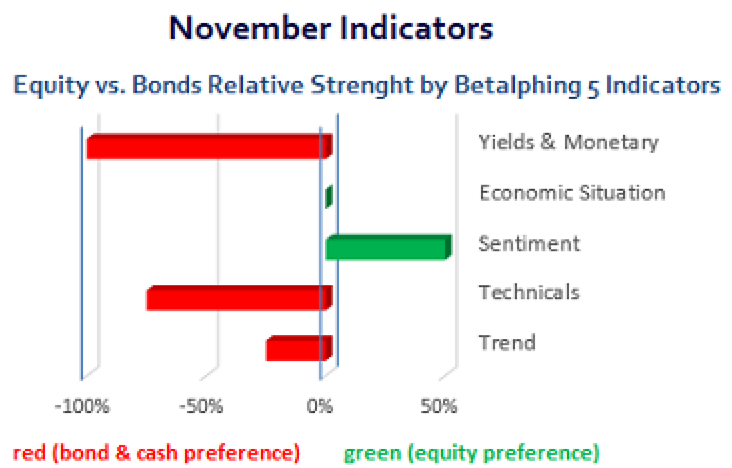
It´s All About Asset Allocation

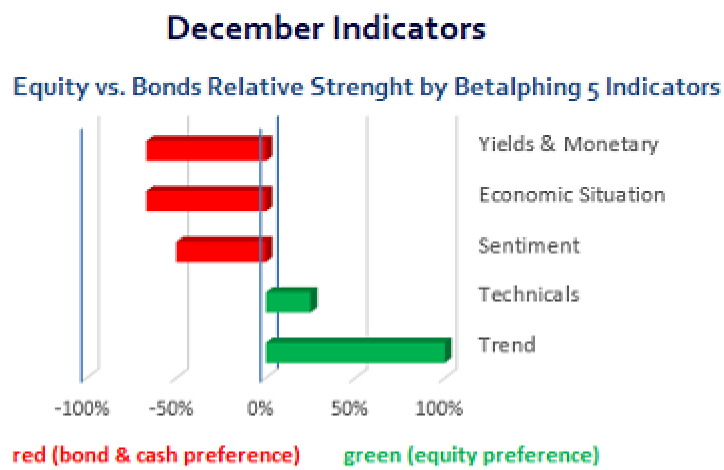
December 2023, Newsletter#89

From November 1st to today (December 11th), the MSCI World in Local Currency has risen 9.25% while the 10-year Govies index is almost 4% up. **The perfect definition of an outstanding rally!** Our indicators show us that fLAB Core's allocation in Equity rises to 50%, Bonds to 42% and we are barely left with 8% in cash. From an absolute level point of view, it does not represent a drastic change since we only rose 9% and 4% respectively from our allocation in November.



What is very interesting is knowing how we got there. **And the indicators have made a remarkable turnaround.**



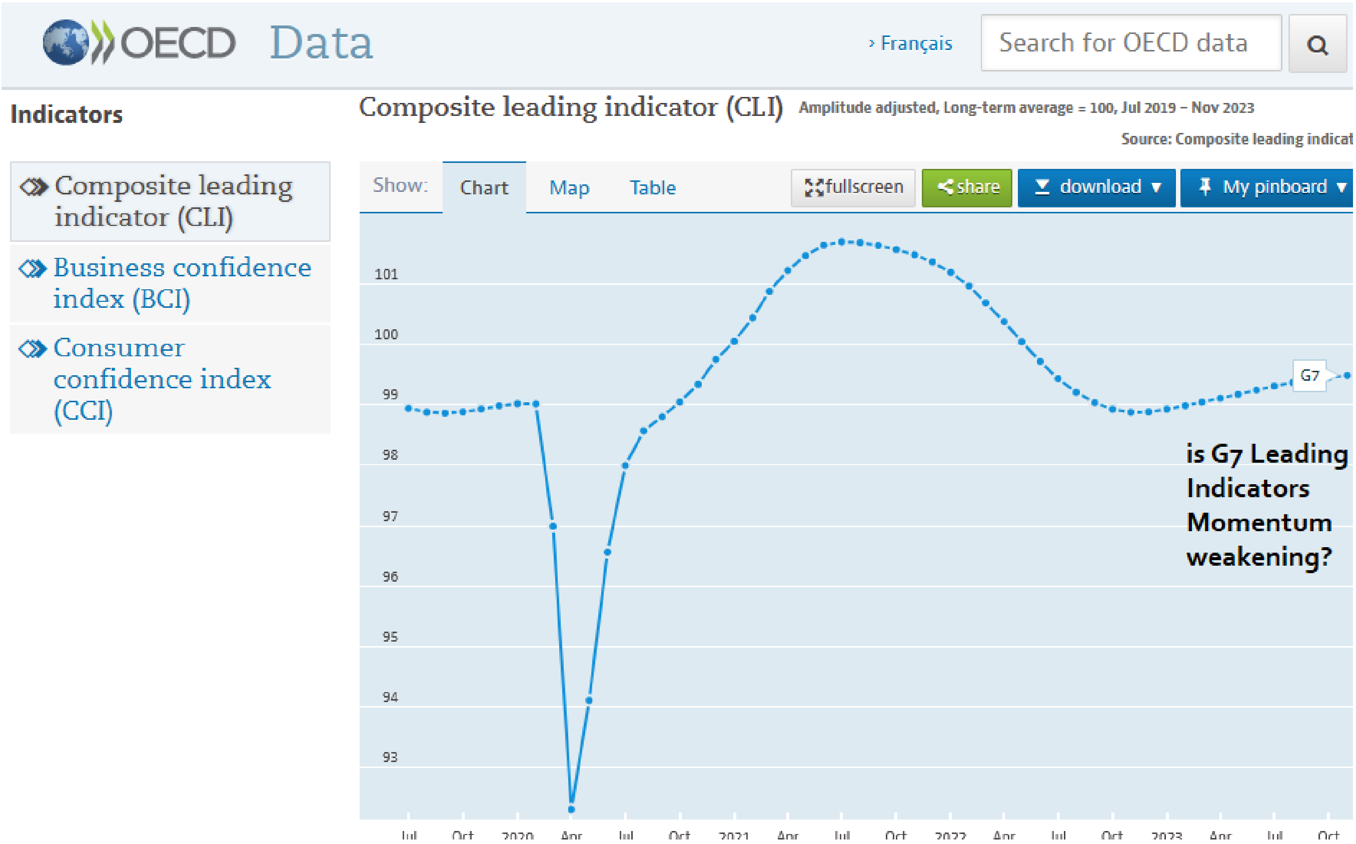


Each month, our Betalphing methodology, which is based on the analysis of a multitude of indicators that are grouped and summarized in the 5 large groups indicated here, tells us the percentage that we should invest in Equity/Bonds/Cash. The model itself eliminates noise, and the changes are usually smooth. In fact, the increases in Equity and Bonds this month are slightly higher in percentage than other months, but not strange either.

What is almost historic in our model, which this year will be 15 years old and which was born as a Ned Davis Research model, but which we now develop in-house, **is that its components have changed as practically never before in relation to the former month**:

Thus, the Trend indicator has become 100% favorable to Equity, from a slightly favorable position to Bonds. The purely technical indicators, from mostly supporting Bonds, have gone slightly to Equity. Of course, the Sentiment that favored Equity now favors Bonds. In turn, monetary conditions and yields are no longer so clearly favorable to Bonds and the economic situation that was neutral now favors Bonds. What a mess, right?

I will not bore you with the breakdown of each and every one of the indicators of each of the 5 groups, but I do want to mention one that has caught my attention and that I think is important to mention today:
This is **one of the Economic Situation main indicators: the Momentum of the G7 Leading Indicators**. What we do is analyze the 6-month Momentum of this leading indicator. You can follow it here: https://data.oecd.org/leadind/composite-leading-indicator-cli.htm



When that Momentum is positive, the G7 economy is doing well, equity obtains better results than investment in bonds, such as can be seen in this summary from 1985:

When G7 Leading Indicator Momentum	World Equity Yearly Return	World Bonds Yearly Return
Positive: Favor Stocks	11.8%	5.3%
Negative: Favor Bonds	5.2%	8.7%

Well, as I was saying, we observe with concern how **these Global Leading Indicators begin to falter** and said Momentum is approaching a dangerous zone meaning that it could be possible that the much vaunted World Recession that did not occur in 2023, will occur in 2024, with its negative implication for Equity investments.

Returning to fLAB funds, fLAB Core H-USD shows a 8.85% YTD return (Dec 11th) while fLAB Satellite H-USD a good 4.72%.

At fLAB Core, we have unwound sector bets favoring Energy and are taking some overweight to Industrials and Communications Services. Geographically, we maintain our overweight to the USA and our underweight to the Pacific and the UK. What may surprise you is that in the Govies area we have bet, for the first time since...well I forgot, an overweight in British Gilts while we remain underweight in JGB's

Equity Regional Allocation vs MSCI World AC			
US	*OW*	*Pacific ExJapan, UK*	*UW*
Benchmark (US 57%, Eur 13.4%, Emerg Mk 12%, Jap 7.1%, UK 4.3%, Pacific 3.3%, Can 2.9%)			
US Sector Allocation			
Industrials & Comm Services	*OW*		*UW*
Government Bond Allocation vs Barclays Global Government Bond Index			
UK	*OW*	*Japan*	*UW*
Benchmark (US 48%, Eurozone 25%, Japan 21%, UK 6%)			

At fLAB Satellite, its recent good performance relieves us from a difficult start to the year. What is also true is that our main benchmark, the risk-free interest rate, taken as an average of the 3months Treasury Bills of the G7, could not break 4% and is beginning to exhaust its upward path: that is always good for a portfolio like our Satellite fund has.

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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-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