



It's All About Asset Allocation

November 2023, Newsletter#88

After last Wednesday's FOMC decision, Powell continued to emphasize that the Fed will proceed carefully. Powell has sounded more measured in recent speeches. Future rate hikes and how long they will remain restrictive will be based on "the totality of the incoming data, the evolving outlook, and the balance of risks." **The incoming data is likely to be softer, the outlook uncertain, and the risks more balanced.**

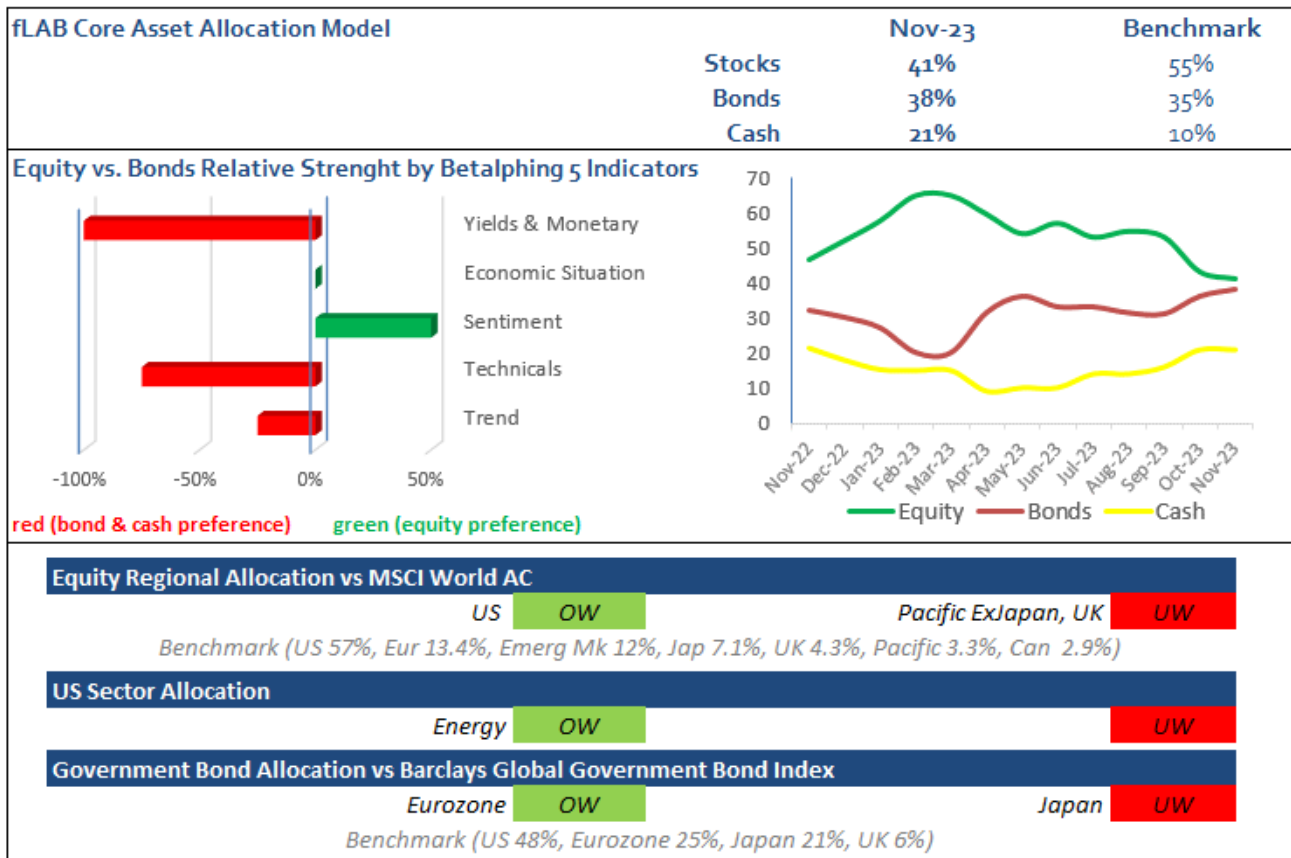
FED decision **eclipsed other important issues**: One was the US Treasury's refunding details, revealing a clear shift toward shorter dated maturities, perhaps the result of a sharp rise in the term premium in recent weeks. Most of the increase will be in the 2-5 year range. Issuance is likely to hold at those levels next quarter. Another was the Manufacturing ISM report, which fell 2.3 points to 46.7%, below expectations of 49.2%. Employment suffered its biggest drop in over a year. And last was ADP report, which showed an increase of 113,000 jobs, below forecasts of 130,000, with slower wage growth. **These are some of our reasons for being reluctant to further reduce our bond exposure and duration.**

It's been also quite a weird year in Equity. Throughout 2023, we have been highlighting unusual market developments, from the strongest first seven months in 26 years to the highest bond yields in 16 years. Breadth has been volatile, bouncing from one of the narrowest markets on record in May to one of the broadest advances in years in July, and a quick return to poor breadth in October. **The gyrations created another rare combination of events.** The S&P 500 rallied for five consecutive months from March through July, followed by three straight down months for only the fourth time since December 1925 (1,175 months) ... so yes, really weird. As with many other studies, history shows a resumption of the uptrend has been more common than a continuation of the recent downtrend. We respect the historical messages, **but we also follow the conclusions of our Betalping models. Our modest reduction in equity exposure is a balance between the two.**

Historical studies are averages, but each contains its own fundamentals.
Here are three that we are watching this cycle:

- First, will the **disinflation** tailwind continue? The headline CPI has been below its six-month average since August 2022, but as of September they both sat at 3.7% as inflation has bumped higher and the six-month average has come down. A continued move toward the Fed's 2% target would allow the FOMC to pause its tightening cycle or even cut rates.
- Second, can bond **yields** go down? Our main Stock-Bond indicators favour Bonds by large. We certainly need lower bond yields would in order to provide less competition for stocks and reduce interest expense for companies.
- Last, how severe will downward **earnings revisions** be? Analysts did not need to cut Q3 S&P 500 earnings estimates much. They have trimmed Q3 consensus estimates by 0.8% points since July. Since October, they have already slashed Q4 estimates by 2.6% points. Modest revisions would allow the nascent earnings recovery to build into 2024

Our Global Flexible Fund, fLAB Core H-USD, has not been immune to the equity and bond selloff and has retreated 1.78% in October. The fund was showing a positive return of 2.21% at month end and much better (+4.09%) after this big November first days recovery. Our Asset Allocation model reduces stocks just a bit (-2%) in favour of bonds.



Our Relative Return Fund, fLAB Satellite H-USD, is doing great this year, and has lost only 0.31% in such a tough month, accumulating 1.71% at the end of October. We have more than recovered this loss in these first November days.

If you want to receive the full portfolio of both funds, please do not hesitate and send me an email



10 Year Ranking



	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