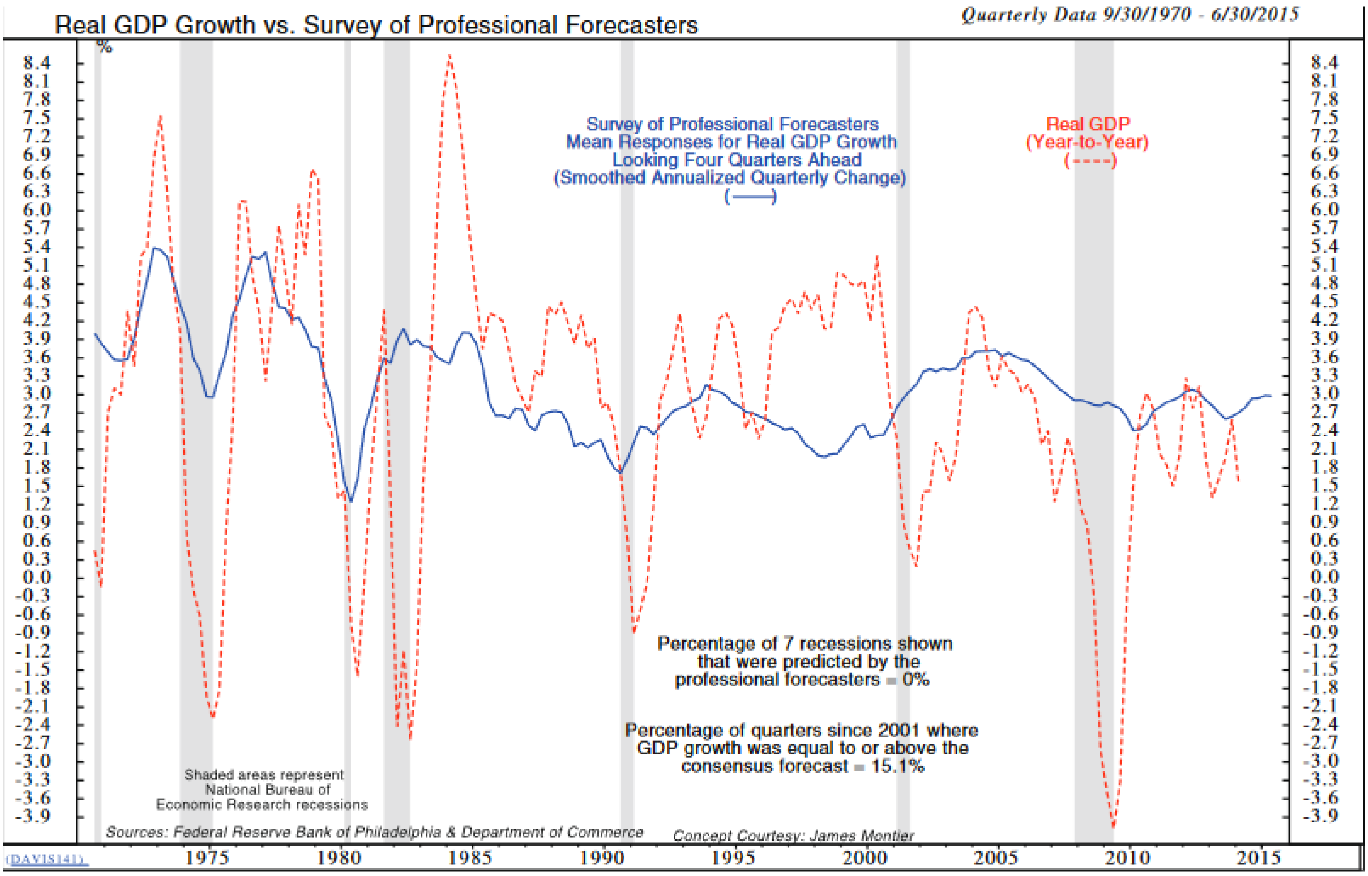
fLAB

It´s All About Asset Allocation

April 2024, Newsletter#93

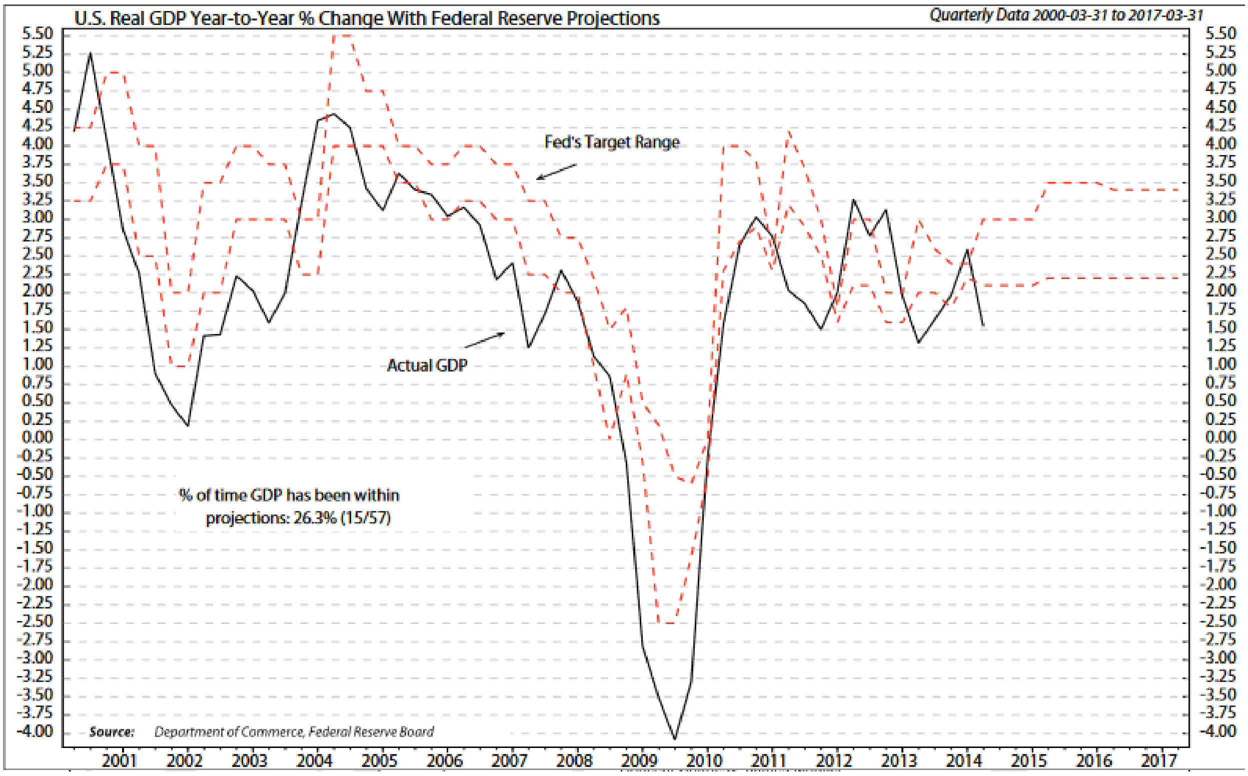
As the legendary Ned Davis points out in his excellent book `*Being Right or Making Money*´, perhaps **the biggest myth in financial markets is that experts have expertise or that forecasters can forecast.** The reality is that flipping a coin would produce a better record. Therefore, relying on consensus economic forecasts to provide guidance for investment strategy is almost certain to fail over the long run.

What is Mr Davis evidence? Consider forecasts from the Survey of Professional Forecasters released by the Federal Reserve Bank of Philadelphia (solid blue line). The dashed red line shows real GDP. The chart shows seven recessions (shaded zones) since 1970. As a group, professional economic forecasters did not correctly call a single one of these recessions. In fact, they have never predicted a recession period.



Well, and what about the experts at the Federal Reserve, the BCE and so on? They are supposed to be independent. They have a lot of money to spend on research, all the available information and a full professional staff. They expand their projections

from a year or so to five years ahead. As we can see in the following graph, the Fed was actually correct (actual GDP fell within the Fed's wide range) just 26.3 percent of the time!
Try to replicate this success rate in your job...



Anyhow, the main difference between following financial gurus advice or FED officials guidance, is that while the first ones write tweets, blogs and appear in TV, the FED officials simply mark the Monetary Policy and Financial Conditions, so you´d better not fight the FED (whatever their success rate is).

Therefore, if FED officials now declare **that there is no hurry to cut rates and the find appropriate to reduce the overall number of rate cuts or push them further into the future**, just believe them. At the end of the day, they can change their view whenever needed, as they are simply advanced Groucho fans: `Those are my principles, and if you don't like them... well, I have others..´

My bet, if any, is that CPI is very far from being really under control and surprises could perfectly come from the upside. If this happens we could even expect what we suggested in a previous newsletter and see how Central Banks as a whole, abandon the 2% target, and let CPIs float around 3% for some years. Anyway, that 2% target is just a wish and although I tried hard I didn´t find it written in stone.

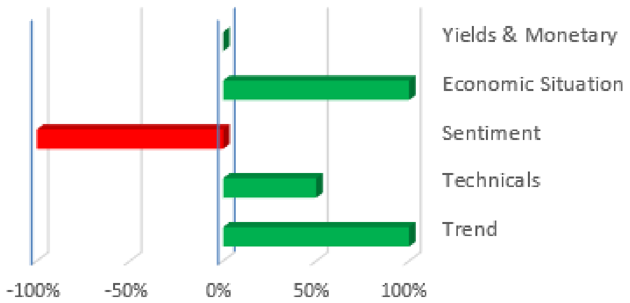
Our Global Flexible Fund, fLAB Core H-USD, has performed very well in this first 2024 quarter: 4.74%.

In April, our Asset Allocation slightly increases stocks against bonds, positioning as follows: 65% stocks, 30% bonds and 5% in cash.
Our main concern is Market Sentiment. If we take a look to our Betalphing 5 Types of Indicators, Sentiment Indicators show Overbought Stocks and allocates fully into Bonds. But except Yield and Monetary Indicators which are neutral, all the others, Economic Situation, Technical and Trend Indicators clearly favour Stocks.

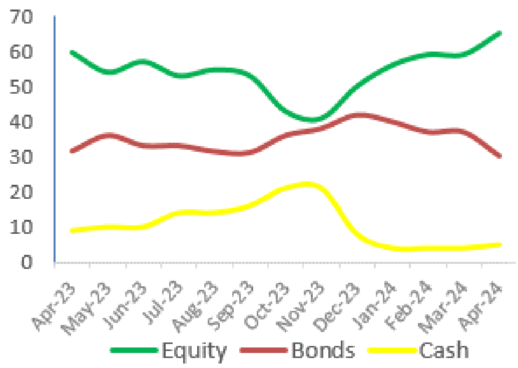
fLAB Core Asset Allocation Model

	Apr-24	Benchmark
Stocks	65%	55%
Bonds	30%	35%
Cash	5%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators



red (bond & cash preference) green (equity preference)



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

Comm Serv	OW	Materials & Cons Staples	UW

Government Bond Allocation vs Barclays Global Government Bond Index

UK & Eurozone	OW	US & Japan	UW

Benchmark (US 48%, Eurozone 25%, Japan 21%, UK 6%)

fLAB Satellite H-USD is -0.30% in the first quarter. With almost 75% of the fund invested in Fixed Income and Short Term Instruments, these months have been a little bit disappointing as the Bloomberg Aggregate Bond Index slipped 0.8%. Sticky inflation, strong economic growth, and the repricing of when and how many times the Fed is going to cut short-term interest rates soured investors on bonds. Good performance from Gold, Commodities, and some equity ETFs bets (India, AI, Infrastructure) have contributed positively to the portfolio. We keep our investment policy unchanged with a 4% to 6% target in the year.