It´s All About Asset Allocation

January 2024, Newsletter#90

2023 ended much better than was anticipated in Autumn, and even more when we take into account that we have been living with an elephant in the room: the presumed delayed impact of the strict monetary policy carried out in the last year. **Thus we can affirm that our fLAB funds set an excellent performance in the year**

	EUR	USD
fLAB Core	9.69%	11.35%
fLAB Satellite	4.64%	6.59%

clean shares 2023 performance

After a very long journey in the desert, cash was once again a valid alternative for the most cautious investors. Risk-On was facing many troubles as investors were transferring cash massively to money markets. **The truth is that the bullish rally experienced in the Equity markets has caught numerous investors off guard.**

In 2023 first half, the global equity markets climbed a wall of worry defying all the fears that have plagued investors during this time. It has to be recognized there were plenty of them: In January, they said the economy was about to fall into recession. In February, inflation was not going to decline fast enough. In March, the banking system was going to collapse. In April, the Fed was going to tighten too much. In May, the rally was too narrow and in June, hawks in circles again (maybe they never left…). As long as bears remained plentiful, the market was able to continue to rise. In spite of, or perhaps because of the pessimism, the market staged one of its best first halves on record.

After summer, the typical seasonal correction together with the rise in the 10-year US Treasury IRR to 5% (October 23), hurt Equity, which seemed excessively expensive in absolute and relative terms, not only against cash (Treasury Bills) but also in relation to long-term bonds. The S&P 500 Earnings Yield fell below the 10-year T-Note yield for the first time since 2009. In other words, stocks were more expensive than bonds for the first time in 14 years.

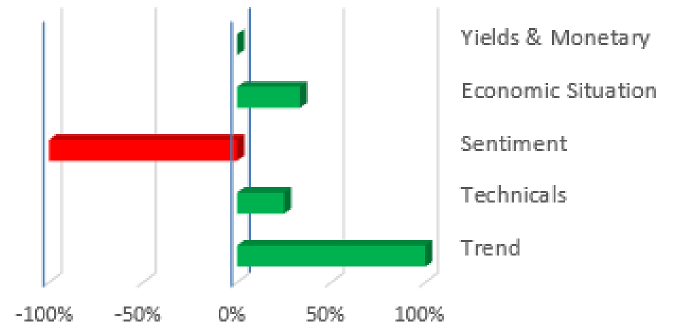
And what happened then? The classic one: **while investors were making their clever hedging plans and brainy Risk-Off strategies, the market did what it always does: blow them up**. And so, from the end of October to the end of the year, at the moment of greatest pessimism, the stock markets rebounded an average of 15% and fLAB Core and fLAB Satellite took advantage of it very well.

So, at this stage, **what will 2024 markets bring us? To be honest, I have no idea**. While Bank of America and Deutsche Bank expect to see the S&P above 5000 and Goldman are also optimistic, their colleagues at JPMorgan expect declines of 12%. As always when these types of predictions are made, I like to return to my classics. And in that area Ned Davis gives us a an unbeatable choice: **Being Right or Making Money**. As you know, vanity is something very common in our business, both in fund managers, traders and analysts and we often forget that the important thing is not to be right and that your forecasts come true. The only important issue is to generate money for your client or your managed portfolios. Therefore, at fLAB **we don´t pay attention to forecasts and we just systematically follow a series of monthly indicators** for our Asset Allocation, which like the fickle principles of the great Groucho Marx, change throughout the year.

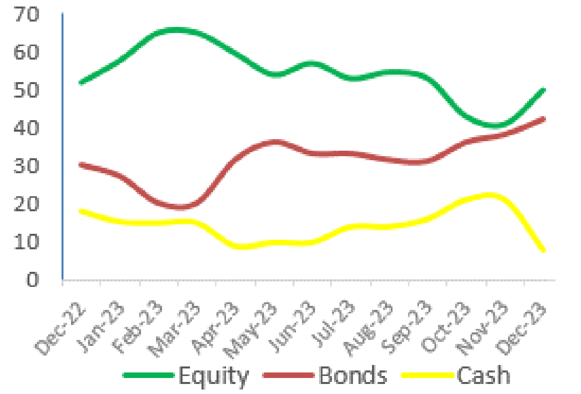
Today, at fLAB Core portfolio we assign 56% to Stock Markets – 40% Bonds – 4% Cash. It is curious how the set of indicators vary. Thus, this month, after last 2 months rally, the most negative are those of Sentiment, that is, be careful with excesses. Also noteworthy is that after almost the entire year favouring Bonds, the set of Monetary and Interest Rate indicators have advanced to Neutral.

fLAB Core Asset Allocation Model	Jan-24	Benchmark
Stocks	56%	55%
Bonds	40%	35%
Cash	4%	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

	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, we begin 2024 with 50% in a highly diversified, low-risk fixed income portfolio with a duration of around 4 and 25% in uncorrelated assets, where gold ETFs and various tactical positions stand out in some equity themes where we see value. The rest, short term investments in bills and cash.

To end my musings about the curious craft of forecasting and the different types of investors, I want to finish with William Bernstein, who gives us a quite accurate vision: "There are two types of investors, be they large or small: those who don't know where the market is headed, and those who don't know that they don't know. Then again, there is a third type of investor—the investment professional, who indeed knows that he or she doesn't know, but whose livelihood depends upon appearing to know."

Have a great year ahead, surely much better if you add some fLAB fUNDS to your portfolios