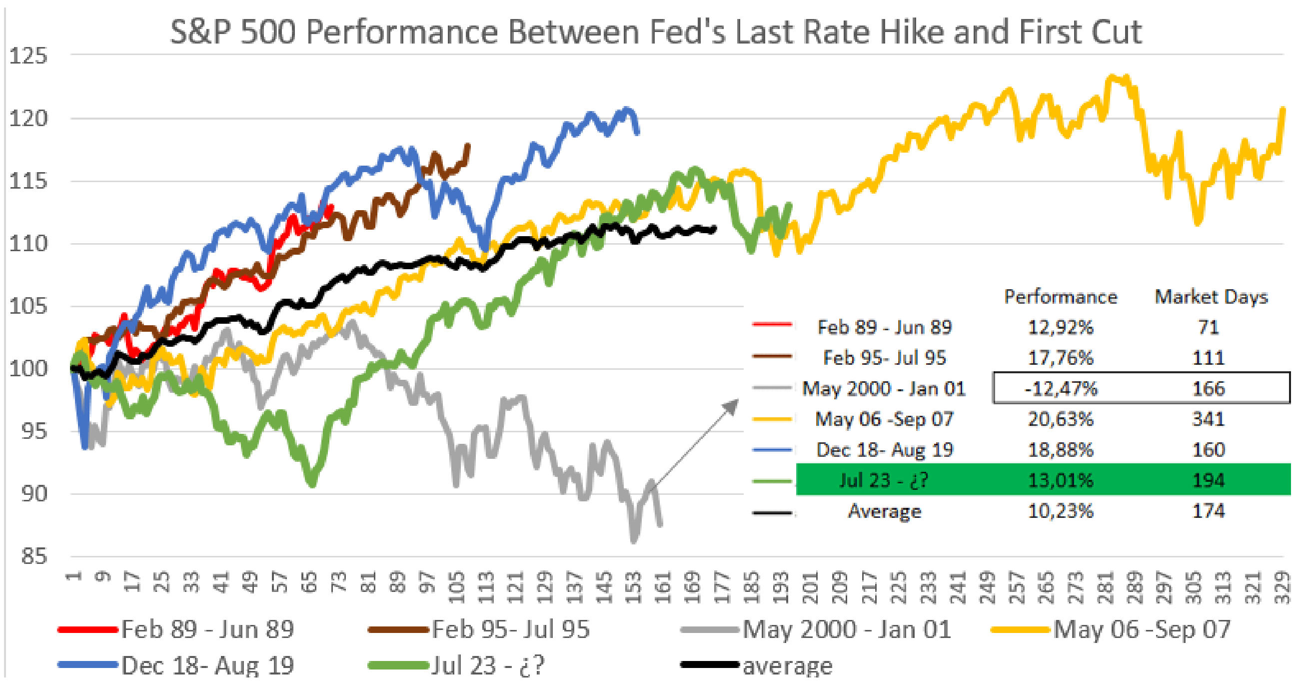
It´s All About Asset Allocation

May 2024, Newsletter#94

If we take a step back from the noise often invading our daily activities, we will percieve how the equity market is satisfactorily progressing. Indeed, it is true that we frequently have doubts about a few usual suspects, namely, and in that order: sticky inflation, the uneven economic recovery, the crushing cost of global debt, the disaster of the wars in Ukraine and Gaza and the huge dependence on the 7 magnificent stocks. However, if we manage to take some perspective and focus on the market, we can see that the current situation is positive and more than similar to others already experienced previously.



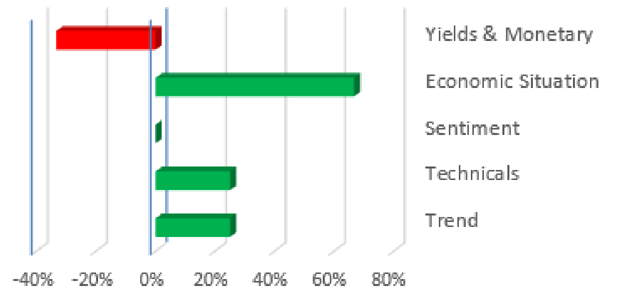
Thus, recovering and updating a graph that we posted three months ago, we can see that the behavior **(green line)** of the market (the S&P 500) since the last rate increase by the FED in July of last year is very similar to those from other occasions. So, after 194 business days since last rise, the S&P 500 is up by 13.01%, which is very similar to the average (10.23%) of the index behaviour in those periods that go from the last rise to the first cut, and even more to the occasion **(yellow line)** in which the FED was 'on standby' the longest until its first cut (May 2006 to September 2007).

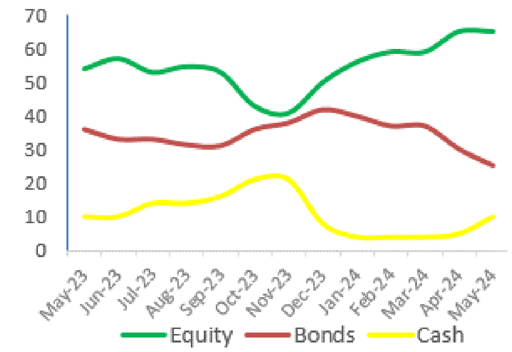
That is to say, as long **as the current economic growth is maintained, the market mood can continue to be more than acceptable** and even more if we take into account the good pace of results already published in the Q1. If we look at the graph carefully, we can see that on other occasions, the waiting time between rate events was much shorter but positive (1989, 1995 and 2019) and on only one occasion it was negative **(grey line 2000-2001)** but that was the only period studied where the market was affected by the beginning of a secular bear market and a global economic recession, which is by no means the current scenario.

Therefore, and despite the poor performance of the indices in April, and not knowing for sure when the next downward interest rate cycle will begin, we continue to allocate 65% to the stock market, while we reduce the allocation to Government Bonds to 25%. On another newsletter we have already analyzed the **convenience of this new cycle being a slow one**, that is, less than 5 cuts in a year, since this detail probably tells us that the health of the economy is still thriving and does not need excessive doping by central banks. Another question is whether it will be the FED or rather the ECB or the BoE who this time will lead the bearish cycle and the effect we can expect on currencies.

fLAB Core Asset Allocation Model	May-24	Benchmark
Stocks	65%	55%
Bonds	25%	35%
Cash	10%	10%

Equity vs. Bonds Relative Strenght by Betalphing 5 Indicators





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

Equity Regional Allocation vs MSCI World AC

EuroZone & Emerging Mkts	*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

Health Care, Financials	*OW*		*UW*

Government Bond Allocation vs Barclays Global Government Bond Index

UK & Eurozone	*OW*	*Japan*	*UW*

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