Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

May 2024

Contents:

Performance Update

Stock markets suffered falls last month, except for the FTSE 100, which rose 2.72%. The Euro Stoxx, Nikkei 225, and S&P 500 fell by 1.82%, 3.23%, and 7.69%, respectively. Bonds also fell, with UK Gilts and Corporate Bonds falling by 2.38% and 1.51%, respectively. Our portfolios fell between 0.86% and 3.94%, except for the Income Generating portfolio, which gained 0.07%.

Global stock markets (except the FTSE 100 and 250) gave up some of their recent gains after many had broken to new all-time highs. We must remember that they cannot go up every month! The main reason for the falls is the realisation that interest rates will likely stay higher for longer. The US Federal Reserve was expected to cut interest rates four times this year, but now the most that can be expected are two cuts, with some economists even talking about them having to raise interest rates. This is because the economy is still performing well, and inflation is starting to look "sticky" and not falling as expected.

The FTSE 100 bucked the trend as the UK is expected to cut interest rates sooner than expected. This has led to a weaker sterling, and as around 70% of the FTSE 100's earnings are in foreign currency, this will lead to higher future sterling profits. In addition, the index has a high commodity bias and thus benefits from stronger oil and other commodity prices.

The price of many commodities (including copper, nickel, and natural gas) advanced higher last month, which could lead to future inflationary pressures. However, agricultural commodities have not risen, helping reduce food price inflation.

The yield on UK 10-year gilts reversed their previous falls. Having fallen to as low as 3.9% in March, it is now back at 4.3%. This tells us that UK interest rates will not be cut as aggressively as previously thought. We should pencil in two or three cuts this year, the first being this summer. However, UK interest rates will be cut sooner and more times than the US, ensuring that sterling remains weak against the dollar and thus boosting returns from the FTSE 100.

The performance of the portfolios over the last one month, six months and one year are shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	-0.86	8.15	7.24
Cautious	-1.04	9.59	9.24
Balanced	-0.92	11.73	10.73
Adventurous	-1.34	14.26	13.06
Dynamic Equity	-1.90	18.59	15.80
Income Generating	0.07	12.49	7.45
Fourth Industrial Revolution	-3.94	18.87	17.31
Retirement Investment Solution 1	-1.28	10.61	9.55
Retirement Investment Solution 2	-1.40	11.85	10.47
Retirement Investment Solution 3	-1.51	12.97	11.31

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.04.2024.

Trend Following Signals

The table below shows whether the asset class has a positive trend (✓) or a negative trend (x). A positive trend is when the market is above the average price over the previous 200 days. The portfolios will have more exposure to those asset classes in a positive trend and less (if any) to those in a negative trend. These are the main asset classes we monitor:

Asset Class	Trend Signal		Trend Signal
Global Equity	✓	Emerging Market Equity	✓
UK Equity	✓	Commodities	x
Europe ex UK Equity	✓	UK Corporate Bonds	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	✓	UK Index-Linked Bonds	✓
Pacific Equity	✓	Global Bonds	✓
Gold	✓	UK Gilts	✓
Global Property	✓	Emerging Market Bonds	✓
Global Infrastructure	✓	Overseas Corporate Bonds	✓

Of the leading 23 markets we monitor, 22 are above trend.

Cautious, Balanced and Adventurous portfolios

No changes were made to the portfolios, which remain fully invested in equities and bonds. All three portfolios are significantly outperforming their peers.

Dynamic Equity portfolio

There were no changes again to the portfolio, with the best-performing asset classes continuing to display the strongest momentum.

Foundation portfolio

No changes were made again, meaning every asset class other than commodities is above trend. The Foundation portfolio didn't fall as much as others over the last month, again showing its strong defensive characteristics.

Income Generating portfolio

This was the only portfolio that moved higher, largely due to the good returns from UK equities, as the portfolio has a large weighting to the UK due to the relatively high levels of dividends paid by UK companies. UK equities advanced higher due to the fact that the UK has a much higher weighting towards commodity companies. These types of companies have performed relatively well as the price of many commodities has moved higher over the last few months. The portfolio's yield stands at 3.31%, which will become very enticing when interest rates start to be cut. This could be a very profitable time for the portfolio.

Fourth Industrial Revolution portfolio

The portfolio fell the most out of the portfolios but is still up 17.31% over the last year. High-growth sectors, which form the underlying assets of the portfolio, would prefer interest rates to be lower. The fact that interest rates are less likely to be cut in the USA this year meant that all but one of the underlying funds within the portfolio fell. The L&G Battery Value-Chain fund bucked the trend, growing 2.13% in April. This is compared to the iShares Automation & Robotics fund, which fell 6.07%. The portfolio remains highly diversified, investing in over 2,500 individual companies.

Retirement Investment Solutions

The Retirement Investment Solutions are a range of investment solutions that are designed to be defensive during difficult investment times but also benefit when we have a consistent upward trend in asset classes. The chart below shows how the three solutions have performed against an index of "Cautious" portfolios, the AFI Cautious Index. The AFI Cautious Index is made up of typical lower-risk portfolios that financial advisers invest their clients into and is thus a good comparator to the Retirement Investment Solutions.

As you can see, the Retirement Investment Solutions rose higher during the positive period of 2021 and did not fall as much as the AFI Cautious Index during the difficult period of 2022. When asset classes started to advance higher in November 2023, the Solutions captured more of the upside than the average portfolio. We are extremely pleased with how the Solutions have performed and they are doing exactly what they should be doing.

Summary of Portfolios

April saw a fall in most global stock markets, especially those that have a high weighting towards technology. The abandonment of the belief that interest rates would fall quickly from this summer is particularly bad news for high-growth companies as much of their value derives from the profits they will earn in the future. These as-yet unearned profits are worth less to an investor today if inflation and interest rates remain high. I might pay 80p for the promise of £1 in 10 years' time if I expect low inflation and interest rates, but only 60p if I expect higher inflation and interest rates.

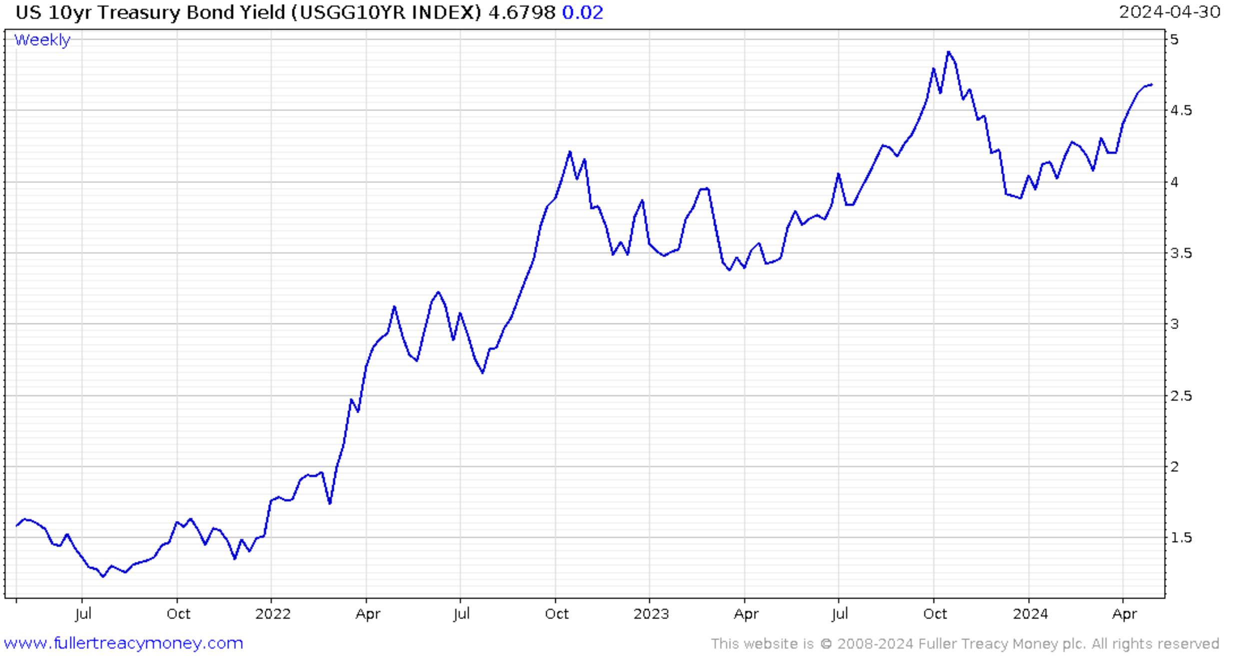
The good news, however, is that global stock markets remain on strong upward trends. The "Trend Following" portfolios remain fully invested in equities, gold, and bonds and have benefited from their strong performance during 2024. The "Momentum" part of the portfolios has also benefited from having more money invested in the asset classes and regions that are continuing to perform the best.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at bond yields, the FTSE 100 and commodities.

US Interest Rates – may not fall this year

Interest rates are likely to stay higher for longer and not fall as much as previously expected. The chart below shows the yield (income) that you would receive from the US Government if you purchased a 10-year bond. As you can see 2024 has seen the yield advance much higher. The equivalent yield from UK Government bonds is 4.3%, meaning that it is likely that UK interest rates will be cut before US interest rates.

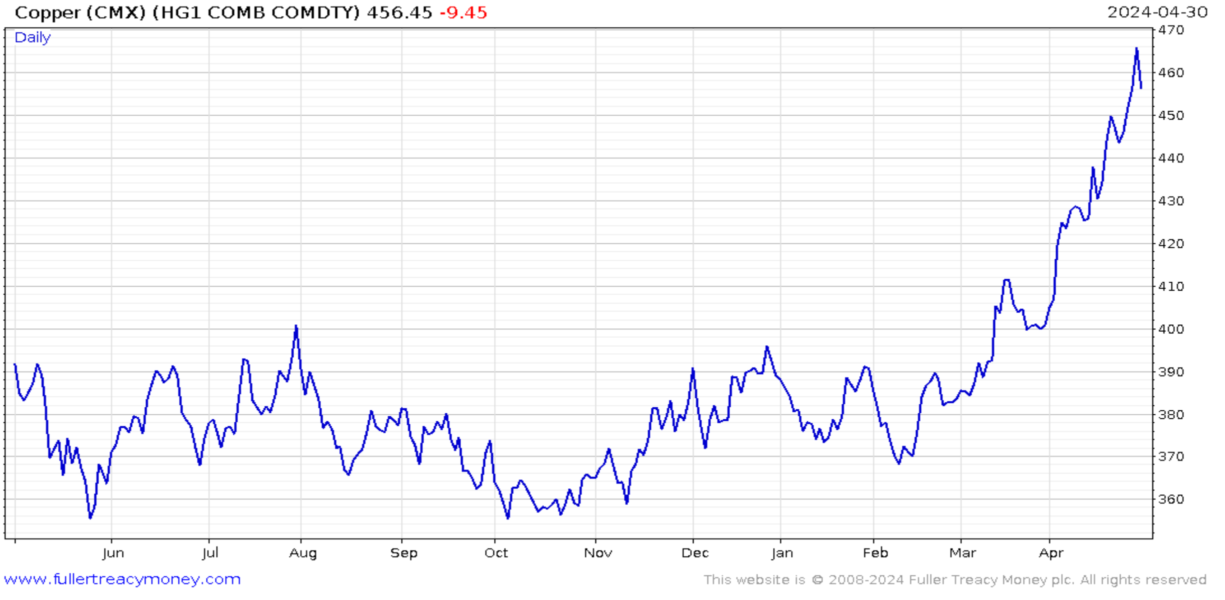


The FTSE 100 finally breaks into a new all-time high.

8000 seemed to be a barrier for the FTSE 100, but last month, it breached higher. As with many other markets, once it hits a new all-time high, it tends to attract even more investors and surge higher. We have seen the FTSE 100 move to 8144 and it could breach 8500 shortly. Expectations of interest rate cuts in the UK, a weaker pound and an improved economic outlook have all contributed to the recent good performance.

Copper- accelerates higher.

The price of copper has risen over 15% during the last two months. Copper is a fundamental raw material used as an input in many industries and products. When the price increases, it can signal that the global economy is performing well. The recent price rise is also signalling that inflation remains stickier than previously thought, causing the cuts in interest rates to be delayed.



Cocoa accelerates higher – cancel easter next year!

Cocoa prices spiked in the late 1970s due to two consecutive seasons of poor crops. This time, extreme weather events and crop diseases have significantly reduced the supply from Ghana and the Ivory Coast, the two central cocoa-producing nations. Expect to see smaller chocolate bars in the future or ones with less cocoa in them.

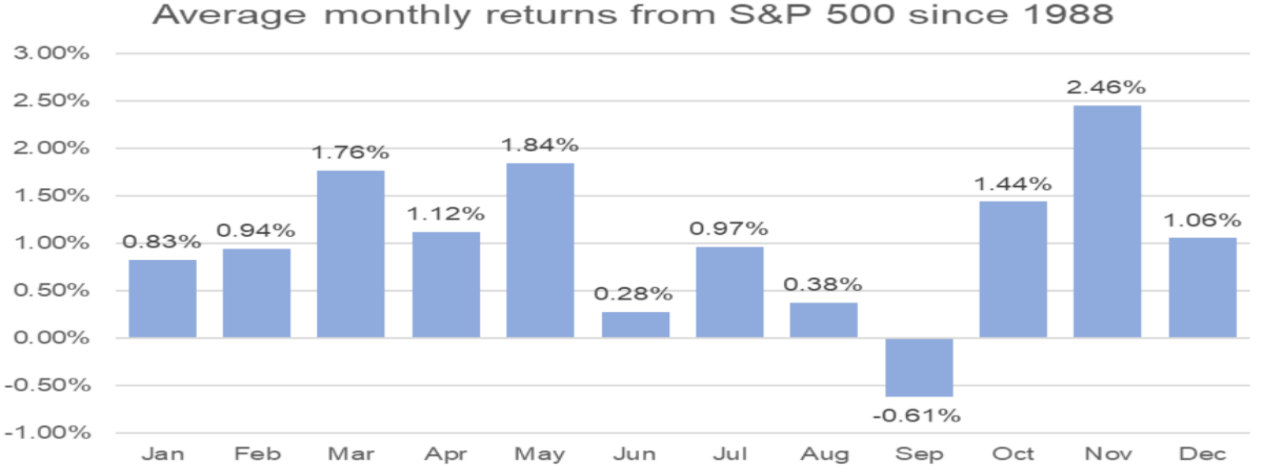
In Summary

Stock markets remain on upward trends but have come off their recent highs, except for the FTSE 100. The good news is that the global economy remains robust. However, this has caused the expectation that interest rates will stay higher for longer due to inflation proving to be stickier. Proof of stickier inflation can be seen when analysing the recent increases in the prices of many commodities.

Sell in May?

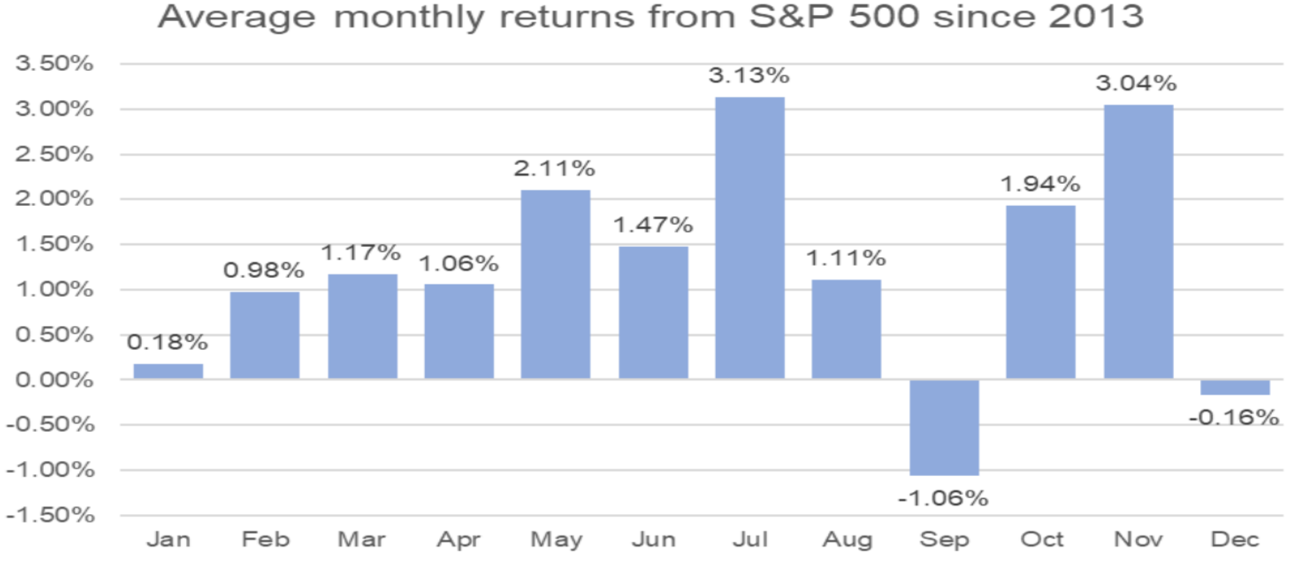
The old stock market adage, "sell in May and go away, come back St Ledger's day", has been a remarkable forecaster of stock market returns. The notion was that the upper class dominated stock markets, and while they were busy enjoying the summer, attending sporting events and on their summer retreats, liquidity would be thin. An absence of buyers would meet anyone trying to sell, and prices would fall. It is better to wait until the world's oldest classic flat race, the St Leger, has taken place at Doncaster Racecourse in mid-September and business returns to normal before venturing into the market.

It isn't just the FTSE 100 that has benefited from a Santa Rally, as most global stock markets have similar seasonal statistics, showing stronger returns in the winter than the summer months. The chart below shows the average monthly return for each calendar month from the S&P 500 since 1988, and you can see the effects of the summer months, with September being the only negative month. Interestingly, May is the second-highest month:



The wisdom behind the adage dates back to when markets did slow down over the summer, but today, stock markets don't slow down, as you can trade from your phone and laptop. In addition, computer algorithms are trading all day and every day without any human interaction. Therefore, the summer holiday and sporting events are no longer a barrier to trading. We believe that the sell-in-May strategy gets less and less relevant with every passing year.

When analysing the data, it has worked over the long term, but since 2013, the seasonal pattern appears to have broken down somewhat. September is still a negative month, though:



We are currently experiencing a strong upward trend in global stock markets, and therefore, we prefer investing in upward trends rather than by months of the year. Of course, there is still every possibility that we get a correction over the summer, as markets cannot continue to go up in a straight line, but they could also continue this upward trend for many, many more months.

**All figures have been produced by Financial Express and are available upon request*

Final Comment

Central Banks appear to have managed the recent spike in inflation exceptionally well, raising interest rates enough to produce an economic slowdown (and thus lower inflation) but not enough to cause a significant recession. Stock markets surged higher during this environment but have come off their highs due to the fact that stickier inflation will mean that interest rates will only be cut modestly this year (if at all).

Global equity and bond markets remain on upward trends despite the losses last month, and we could see the summer months continue with the positive returns experienced in 2024 so far.

Watson Moore Independent Financial Advisers Limited
Essex House
Station Road
Upminster
Essex
RM14 2SJ

Tel: 01708 250624

Email: chrismoore@watsonmooreifa.com

www.watsonmooreifa.com