Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
June 2024

Contents:

Performance Update

Stock markets bounced back from April's falls, except for the Nikkei 225, which fell 1.30%. The Euro Stoxx, FTSE 100, and S&P 500 rose by 2.91%, 2.08%, and 3.18%, respectively. Bonds fell, with UK Gilts and Overseas Government Bonds falling by 0.21% and 0.41%, respectively. Our portfolios rose between 0.54% and 1.65%.

Last month was dominated by politics, as Rishi Sunak announced a surprise early election, hoping the recent "better" economic data would sway voters. Sceptics point out that if he had waited, then the economic data would have been much worse. You can conclude that this is the best it will get!

US politics was dominated by the personality of Donald Trump and by the decisions of 12 jurors who found him guilty on all 34 counts of false accounting. Sentencing is scheduled for July 11, just before the Republican Convention designed to formally appoint Mr Trump as their candidate. Trump is still favourite ahead of Biden to be the next President, so the decision has not affected his chances.

UK inflation showed a relatively sharp decline, falling from 3.2% to 2.3%. This is the lowest level in almost three years but higher than economists predicted. This caused UK Gilts to fall as the decision to cut UK interest rates might be delayed. The International Monetary Fund (IMF) predicts that UK interest rates will be cut to 3.5% by the end of next year.

Average UK house prices increased by 1.8% in the 12 months to March, representing a recovery in prices after falling by 0.2% in the 12 months to February. Rental prices increased by 8.9% from 12 months to April, showing how difficult it has been for some.

While many major stock markets rose, we saw negative returns from Brazil, Japan, and India. One of the biggest gainers, though, was the FTSE 250, which rose by 4.19%. The UK is beginning to outperform after years of underperformance.

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	0.54	6.52	8.93
Cautious	0.77	7.75	10.40
Balanced	1.06	9.73	12.60
Adventurous	1.22	11.88	16.14
Dynamic Equity	1.65	15.23	20.40
Income Generating	0.93	9.17	10.88
Fourth Industrial Revolution	1.55	11.33	12.39
Retirement Investment Solution 1	1.08	9.22	11.69
Retirement Investment Solution 2	1.18	10.18	12.99
Retirement Investment Solution 3	1.27	11.05	14.18

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.05.2024.

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. There were no changes last month.

Cautious, Balanced and Adventurous portfolios

Like last time, 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

Like last time, there were no changes 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 has more invested in bonds than the other portfolios, which is why it rose the least.

Income Generating portfolio

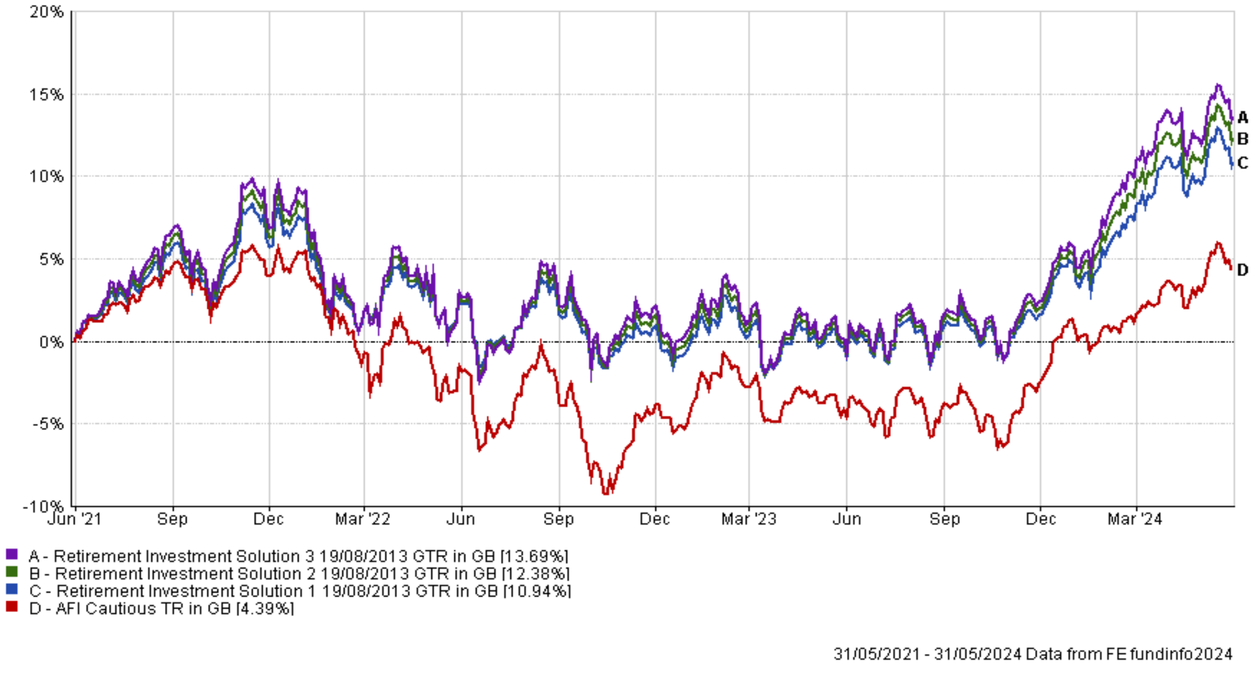
The portfolio advanced, benefitting from its exposure to UK equities. The best-performing underlying fund was the Unicorn UK Income fund, which rose 4.79% last month due to its exposure to smaller UK companies. We also saw the two infrastructure funds perform well after a long time of underperforming. Bonds, however, generally fell, and this provided a headwind to the portfolio. The portfolio's yield stands at 3.32%, 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 rose 1.55%, with the iShares Global Clean Energy fund growing 10.66% in May. The Fund has been the worst-performing underlying holding over the last year. By contrast, the L&G Cyber Security fund fell by 4.48%. Later this month, the portfolio will be rebalanced so that more money is invested in the best two performing underlying funds and less in the worst two. The L&G Global Technology fund remains one of the best-performing funds and, therefore, will continue to have the most money invested in it. However, the iShares Automation & Robotics fund is likely to be replaced by the L&G Artificial Intelligence fund, which has started to perform really well. The L&G Global Clean Energy fund remains a bad performer, so the allocation to it will remain low. The L&G Battery Value Chain fund also remains one of the worst performers but is close to being replaced by the iShares Healthcare Innovation fund. We will update you with what happens in the next investment update.

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 has been updated from last month to show how the three solutions have performed against an index of "Cautious" portfolios, the AFI Cautious Index. The AFI Cautious Index comprises 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. They 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

The event that seemingly caught the world off guard last month was the announcement of a UK general election. Cabinet ministers had been kept in the dark, with the assumption being that the election would be held in November. The announcement came alongside better economic news, with inflation falling to 2.3%. It is expected to come in even lower next month, just as we approach election day. Another reason for the early election could be the announcement that the UK public finances were worse than expected. This will make it extremely difficult for any tax cut announcements later in the year. None of this has made a difference with the bookies, as they predict that Labour has a 90% chance of an overall majority.

Despite all the political news, global stock markets remain on an upward trend. The S&P 500, Nasdaq 100, FTSE 100, German DAX and the Indian Nifty 50 all broke to new highs last month before falling back a little. Our trend-following portfolios are benefitting as all of the stock markets that they can invest in are above trend and thus are fully invested in equities. Bonds also remain on upward trends even though they have fallen recently. This continues to be a favourable time to invest.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at whether the early election announcement has affected UK bonds, equities and Sterling.

AIM up 6.96% in May

The FTSE AIM 100 index represents some of the smallest UK companies that are available to invest in on the UK stock market. As they are smaller companies, they are very sensitive to interest rates going up and we have seen the stock market fall considerably when interest rates started to go up in 2022. They are also sensitive to the sentiment of the UK economy, and last month, we saw the index continue to extend its recovery by going up 6.96%. You can only deduce that the early election has been positive for this market.

The FTSE 100 surges higher.

Last month, we wrote, *"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."* Subsequently, the FTSE 100 surged higher, approaching 8500 before a little profit-taking set in. Again, the announcement of the early election has not broken the upward trend of the FTSE 100.

Sterling moves higher.

Sterling is approaching the previous barrier at around the 1.175 level against the Euro. Similar to the FTSE 100, it could surge higher if it breaks this barrier. Again, the early election announcement has not changed the upward bias for Sterling.

Gilt yields remain in a short-term upward bias

The chart below shows the yield the UK Government must pay to borrow for 5 years. You can see the Liz Truss spike in 2022, followed by the second advancement that nearly hit 5% last year. After falling back to 3.5%, 2024 has seen a steady trend higher. May saw a dip back to the 4% level but ended at around the same level it started the month.

In Summary

Rishi Sunak's announcement of an early General Election and almost certain win for Labour has not delivered any shocks to UK markets. This is perhaps the least important election as we believe there is little room for tax cuts or higher Government expenditure in the short term. If any Government tries anything dramatically different, then the markets could punish the UK, similar to what happened to Liz Truss.

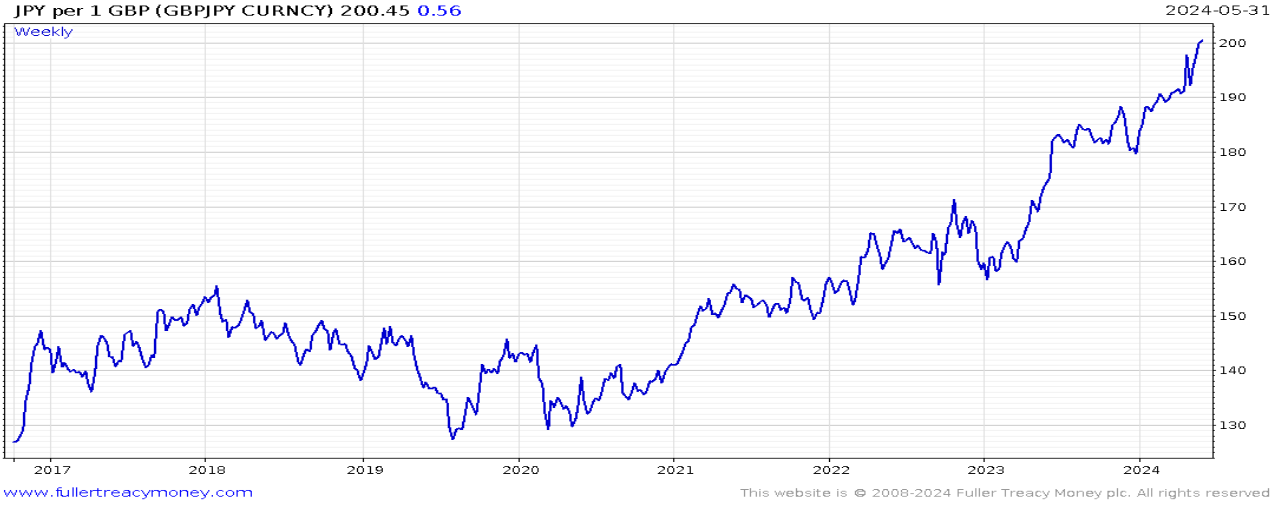
The Best Holiday Destination 2024 is....

Back in 2007, £100 bought you over $200. Today, you will need over £155 to receive $200, making the cost of spending time in the USA over 55% more expensive. Since 2015, Europe has become 20% more expensive, meaning the cost of the majority of our holidays has increased significantly. One of the main catalysts was Brexit, which caused Sterling to depreciate significantly. However, Sterling is starting to strengthen a little as economists believe that the Bank of England will delay cutting interest rates, and they will remain higher than other countries, thus making it more attractive to hold Sterling than other currencies (as you get more interest). This means you will get slightly more Euros and Dollars this year than last.

However, since Brexit, Sterling has not weakened against every currency, and we have found two countries whose currencies have fallen significantly, meaning that you will get more for your money if you visit them now. Whilst they are not regular holiday destinations for UK travellers, if they have ever been on your bucket list, then now may be a good time to consider going.

Whilst **Sweden** has always been high up in the "quality of life" league tables, the Swedish Krona has depreciated significantly since 2016. If you travel to Sweden, you will get 25% more Krona for your money than in 2016. The chart below shows how Sterling has appreciated over time but is lower than last year:

Since 2021, the Japanese Yen has depreciated by over 40% against Sterling, making visiting the country extremely attractive. In fact, in February 2024, **Japan** recorded a record month of visitors at 2.79 million. The chart below shows how Sterling has appreciated against the Yen:



In Summary

Sterling has generally been weak against most currencies since Brexit but has slowly begun to recover. However, there are other countries whose currencies have performed worse than ours, and now appears to be a great time to visit Sweden and Japan.

Final Comment

Global equity and bond markets remain on upward trends despite last month's losses for bonds. Inflation is falling but not as quickly as expected. This is why bonds have struggled over the last two months. However, inflation is not falling as quickly due to the fact that economic growth and data are coming in much stronger than expected, and this is, in turn, expected to boost company profits and, therefore, their share prices.

Whilst the headlines will be dominated by our General Election, with a pattering of Trump in between, any outcome is unlikely to derail the direction of the economy and therefore hopefully our portfolios will continue to deliver some good returns.

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