Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

July 2024

Contents:

Performance Update

There was a significant divergence in returns from global stock markets, with the S&P 500 growing by 4.12% in June, whereas the Euro Stoxx and FTSE 100 fell by 3.86% and 0.76%, respectively. Bonds rose, with UK Gilts and Overseas Government Bonds rising by 1.00% and 0.75%. Our portfolios rose between 0.49% and 3.60%.

US stock markets continued their upward trajectory, with the S&P 500 and Nasdaq 100 reaching record highs in June. This was fuelled by strong returns from leading technology companies such as Apple, Microsoft, and Amazon. The Dynamic Equity portfolio, which benefited from this momentum in technology and US equities, has shown exceptional growth, increasing by 22.01% in the last 12 months.

There are calls for Joe Biden to step down in the Presidential race after the first “head-to-head” with Trump. Following the televised debate, Biden now only has a 20% chance of being elected President again, with Trump having a 60% probability of being the next President. The S&P 500 rose 22.95% in the 12 months after Trump was elected President in November 2016. US equities appear to be increasing this time in anticipation of him returning to the office.

UK inflation has finally returned to the central bank’s 2% target. Despite this, the Bank of England voted to keep interest rates at 5.25%, probably because they did not want to influence the election. An August interest rate cut is now very likely. UK Bonds rose in value during June despite no interest rate cut. The fall in inflation means that interest rates will probably be cut more than expected, with the consensus prediction that they will now be under 4% by January 2026.

While the run-up to the UK election has not affected any UK markets, the surprise snap election in France has brought France closer to having its first “far-right” government since World War II. This caused the French stock market (CAC 40) to fall 6.84% in June. London is now Europe’s largest stock market again after France overtook it in November 2022.

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

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	1.17	3.99	10.10
Cautious	1.23	5.20	11.14
Balanced	1.40	7.54	13.31
Adventurous	2.38	10.49	16.95
Dynamic Equity	3.32	14.15	22.01
Income Generating	0.49	4.78	11.35
Fourth Industrial Revolution	3.60	7.29	15.63
Retirement Investment Solution 1	2.02	7.81	13.07
Retirement Investment Solution 2	2.24	8.86	14.42
Retirement Investment Solution 3	2.45	9.80	15.65

Please note that these figures do not include the platform or Watson Moore’s fees.*All figures are sourced from Financial Express to 30.06.2024.

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	✓

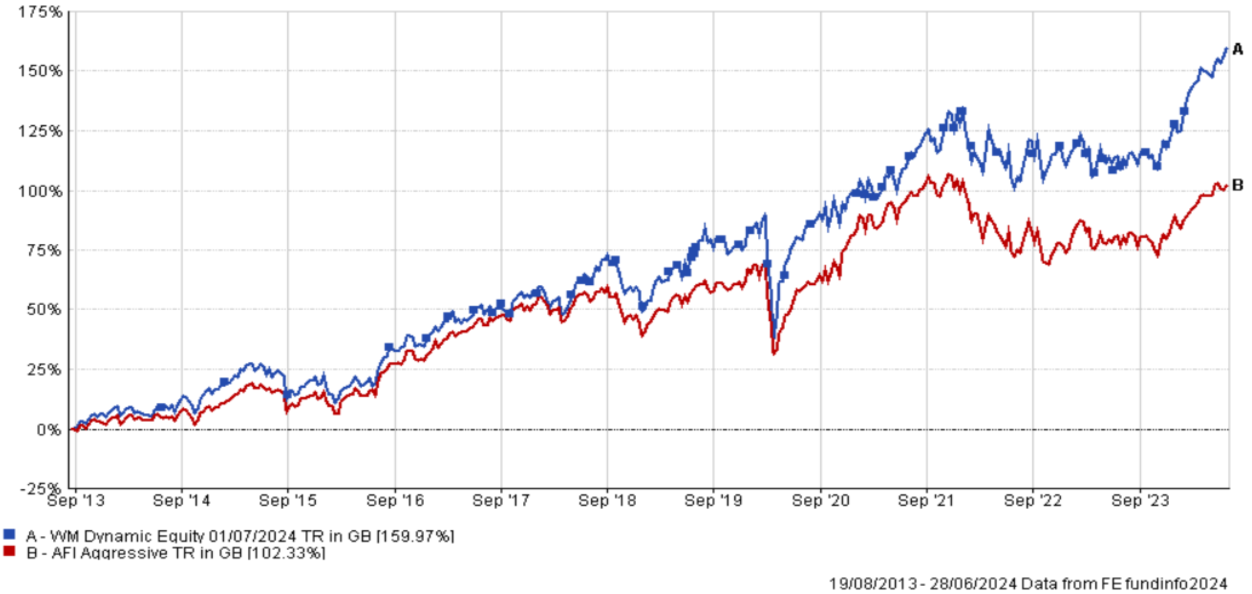
Of the leading 23 markets we monitor, 22 are above trend. There were no changes last month.

Cautious, Balanced and Adventurous portfolios

The portfolios remain fully invested in equities and bonds and are benefitting from this positioning as all three portfolios are significantly outperforming their peers. European equities moved down the momentum scale and were replaced in the Adventurous and Balanced portfolios with North American equities. UK corporate bonds also replaced overseas government bonds in these two portfolios. The Cautious portfolio remained unchanged.

Dynamic Equity portfolio

European equities fell down the momentum scale and were replaced by North American equities. The Portfolio is accelerating higher and benefitting from the momentum investment philosophy, a core part of the portfolio. The chart below shows how the Dynamic Equity portfolio has performed against its benchmark since launch, and you can see how the recent performance has extended its lead:



Foundation portfolio

No changes were made again, meaning every asset class other than commodities is above trend. The Foundation portfolio is fully invested in equities and bonds and has benefitted from this over the last year, rising by over 10%. We remain in a period of strong returns from most asset classes.

Income Generating portfolio

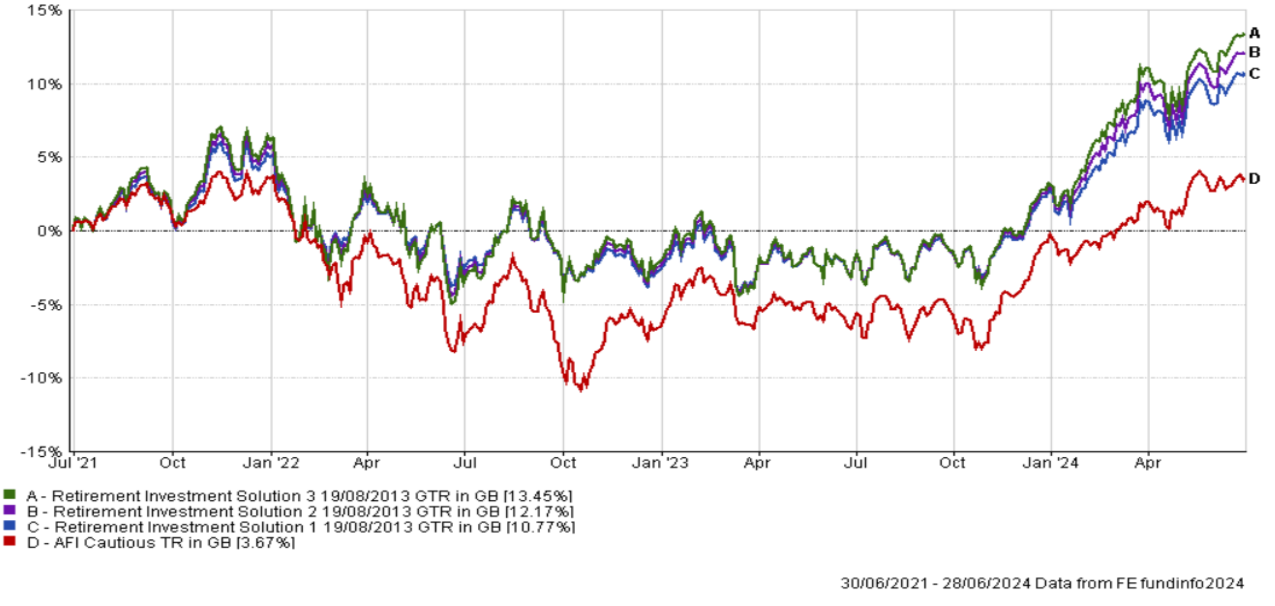
The portfolio has less invested in US equities than our other portfolios as they tend to pay lower dividends. This is why the portfolio underperformed this month. However, despite interest rates remaining high, the portfolio has risen by over 11% during the last year. The portfolio's yield stands at 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

Last month, the portfolio was 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 remained one of the two best-performing funds and, therefore, continued to have the most money invested in it. However, the additional allocation in the iShares Automation & Robotics fund was moved to the Herald Investment Trust, which has started to perform well. The L&G Global Clean Energy fund remained a relatively bad performer, so its allocation remained low. The L&G Battery Value Chain fund had its allocation increased as it marginally performed better than the L&G Cyber Security fund, which had its allocation reduced. Overall, the "Momentum" screen applied to this Portfolio is performing exceptionally well and has helped the portfolio grow by 15.63% over the last year.

Retirement Investment Solutions

The Retirement Investment Solutions are a range of investment solutions designed to be defensive during difficult investment times but also benefit when we have a consistent upward trend in asset classes. Each portfolio has an allocation to the Dynamic Equity portfolio and has thus benefitted from the Dynamic Equity's portfolios outstanding performance. 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 an excellent comparator to the Retirement Investment Solutions.



As you can see, the Retirement Investment Solutions are accelerating higher and outperforming a typical "cautious" portfolio.

Summary of Portfolios

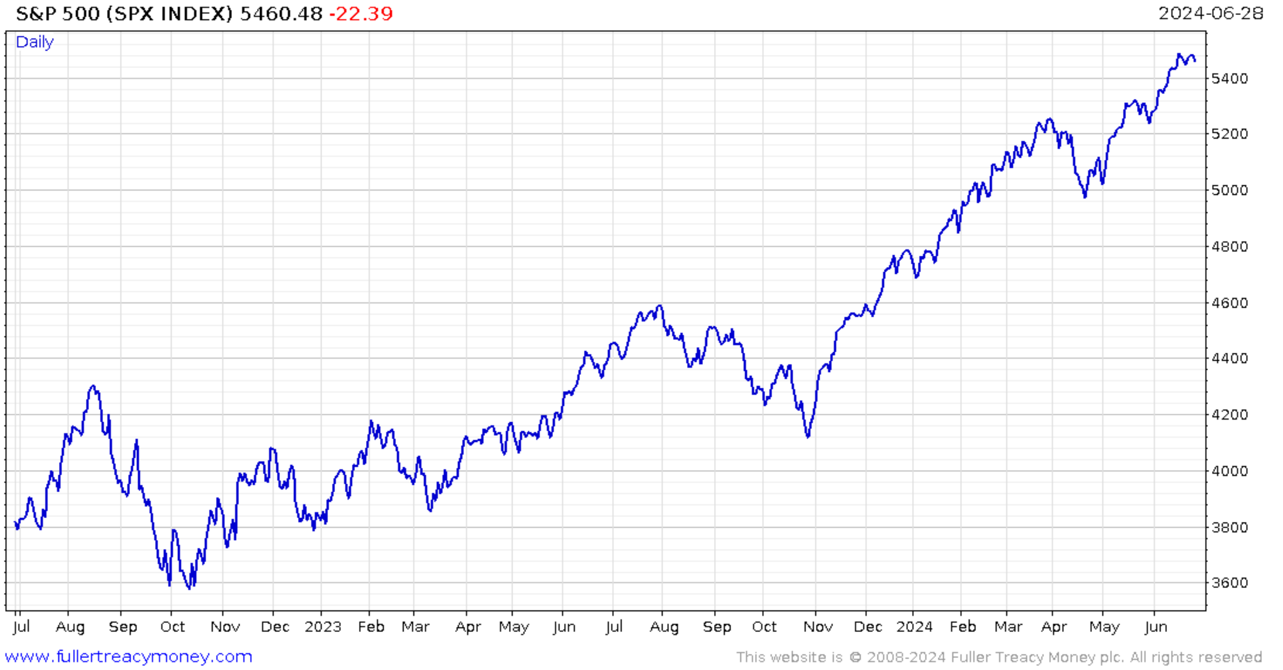
Global stock markets remain on an upward trend, with the S&P 500 and Nasdaq 100, breaking to new all-time highs last month. Our trend-following portfolios are benefitting as all of the stock markets that they can invest in are above trend and thus are fully invested in equities. Bonds also remain on upward trends. 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 three of the fastest-growing stock markets. Because they have the strongest "Momentum", the Dynamic Equity portfolio has additional exposure to them, thus contributing to its recent outstanding performance.

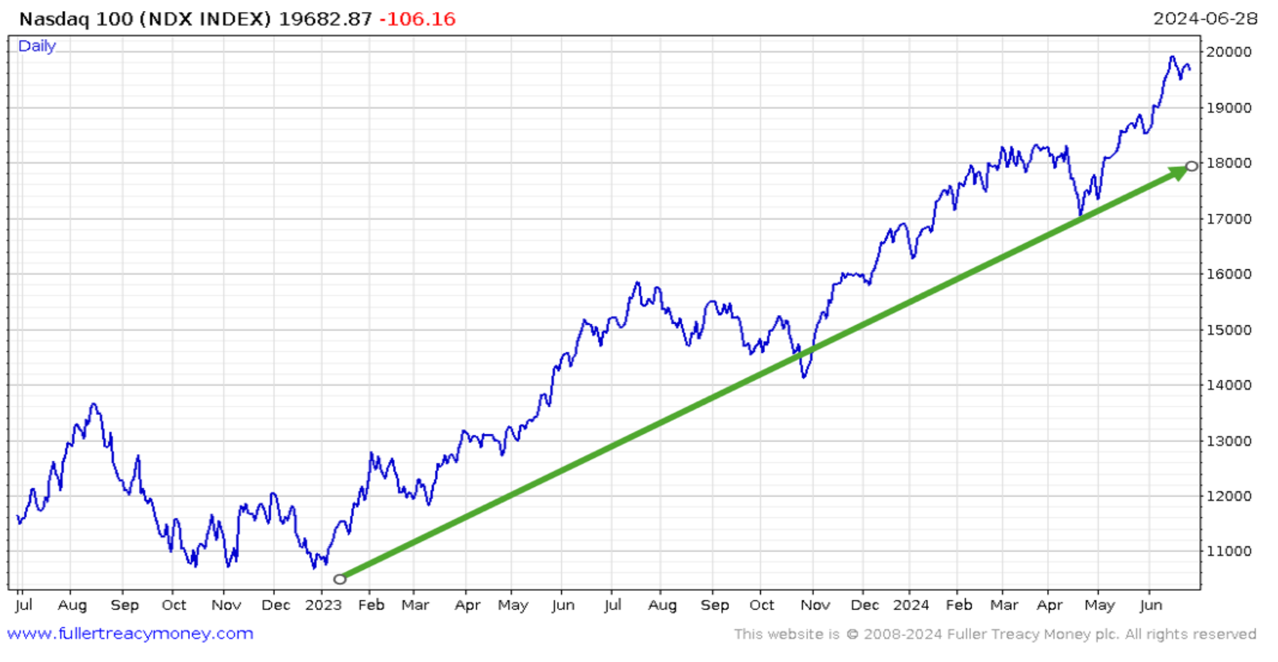
S&P 500 – the world's most important stock market

The S&P 500 contains 500 of the largest companies based in the USA. Companies such as Microsoft, Apple, Nvidia, Amazon and Berkshire Hathaway make up some of the top ten holdings. The stock market fell to 4200 in October 2023 and below the 2022 peak. However, since then, it has grown by 19.55% in sterling terms and remains one of the world's fastest-growing stock markets.



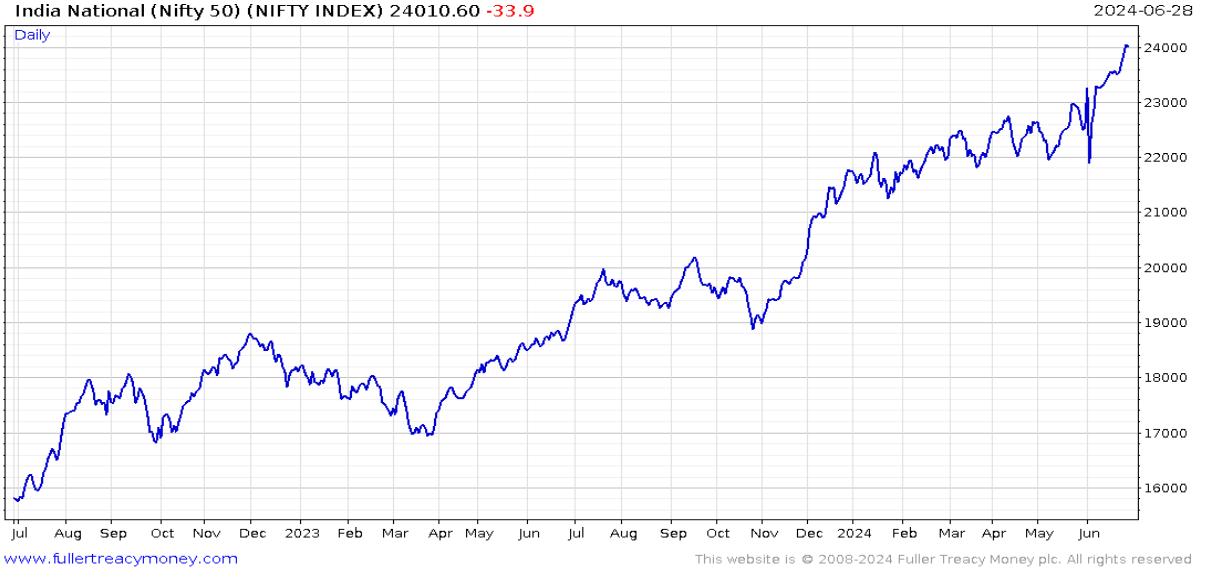
Nasdaq 100 – technology growing even faster

The Nasdaq 100 has historically been a technology-laden stock market. It has outperformed the S&P 500 by nearly 7% per annum over the last ten years due to technology companies such as Tesla and Nvidia growing significantly. You can see how the stock market has almost gone up in a straight 45-degree line since 2023, making it the perfect investment.



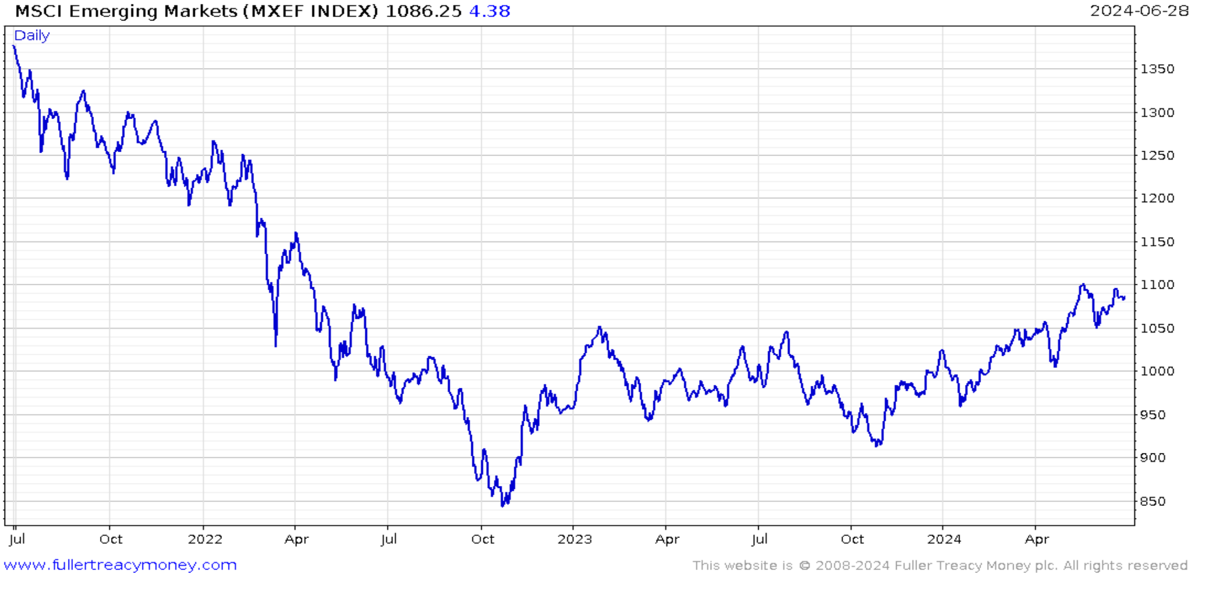
India – overcame election jitters and is now surging ahead again.

Since April 2023, the India Nifty 50 has been one of the world's best-performing stock markets and has remained high on the momentum scale over the last year. India just had an election, with the ruling party failing to win an outright majority, which caused much volatility in the stock market. However, the ruling party has formed a coalition, and its business-friendly policies are expected to continue, ensuring that the stock market has continued with its strong upward momentum.



Emerging markets – ready to catch up?

We have looked at three stock markets with outstanding recent performance, but it is worth comparing how emerging markets have performed. Despite India's strong performance, China's woeful performance has dragged emerging markets down. However, we are beginning to see tentative signs of recovery, and it might not be long before emerging markets lead the momentum race.



In Summary

The Dynamic Equity portfolio has performed outstandingly over the last year, and much of this has been due to investing more money in the US, technology, and India. Every month, the Dynamic Equity portfolio assesses the relative performance of different stock markets, and more money is allocated to those with the highest momentum score. Emerging markets (except India) have not featured for a long time, but this could be about to change as they are beginning to recover after significant losses.

Possible Tax Changes

We are writing this before the result of the election, but assuming Labour come into power, we have identified three tax changes that they may bring in. These changes, yet to be discussed in the mainstream media, are aimed at increasing tax revenue without placing additional burdens on working people.

1/ Abolishment of ISAs.

ISAs were introduced by Gordon Brown in April 1999 and replaced Personal Equity Plans (PEPs). If you had invested the maximum at the outset, you could have contributed over £325,000. The problem with their success is that they are now shielding vast amounts of wealth from tax, with the wealthy benefitting the most. The Resolution Foundation estimates you could raise £6.7 billion in additional tax by abolishing ISAs. Their most recent report was entitled "Ineffective Savings Accounts", and they conclude that ISAs are a "poorly targeted policy and overwhelmingly benefit the better off". We believe Labour may introduce a cap on ISAs at, say, £100,000 or replace them with a more targeted savings vehicle, akin to a pension but with access for younger savers.

2/ Taxing Main Residence Capital Gains.

If you sell your primary residence, the gain is entirely tax-free. This is the most generous tax advantage in the UK, as we have seen house price growth above the inflation rate over many decades. According to Nationwide, a house purchased in Southeast England for £250,000 in January 2000 would be worth £860,287 today. The Resolution Foundation produced a report in December 2021 looking at taxing the "unequal and unearned huge gains in housing wealth." If a 1% profit tax were imposed, the house described above would receive a tax bill of £6,102. A profit tax on individuals downsizing their property could be implemented, with the proceeds going into lowering stamp duty for first-time buyers and providing more generous tax breaks to save for a house deposit.

3/ Forcing Individuals to Take a Pension Income.

There has been much debate and changes to the taxation of pensions over the last few decades. The most recent is abolishing the Lifetime Allowance, which removed the additional tax payable for individuals with significant pension funds. Labour has vowed to reintroduce it. Other pension tax changes being discussed are reducing the amount that you can pay into a pension as well as the tax relief available for higher-rate taxpayers.

One change that would raise a high level of tax but not annoy pensioners too much is to force individuals to take a minimum income from their pensions at the State pension age. The current general advice for many individuals with significant wealth is to spend their ISAs and savings first, leaving their pensions untouched. This is because pensions are exempt from Inheritance Tax. If, instead, at the age of 67, every pension is forced to provide an income of 3% of the value each year, then significant tax could be raised whilst giving the individual an income.

In Summary

Tax revenues in the UK as a share of GDP have increased over the last Parliament. Much of this is down to the excess spending during Covid-19. Labour will be in a difficult position of wanting to increase spending but having much less room to raise the main tax rates. Therefore, they may consider raising taxes by implementing "stealth" taxes more akin to Gordon Brown's tax rises.

The three tax rises above are just guesses at what might happen, but all appear to be options that Labour will look at. The Resolution Foundation has produced interesting reports on each proposed tax change above. Please get in touch with us if you want us to send you a link to the reports. As always, we will be here to advise on how to position and adjust your wealth when changes to taxation are made.

Final Comment

2024 is a year for elections, but global equity markets remain on upward trends and appear happy with the probable outcomes. The one outlier is the shock announcement of an early French election, which has caused the French stock market to fall, demonstrating how political uncertainty can cause volatility in stock markets.

The momentum in global stock markets remains with technology companies and US and Indian equities, which shows no sign of abating. It has been a very profitable period for investing, particularly in portfolios that are applying trend following and momentum within their investment philosophy.

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