Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
August 2024

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Performance Update

It was a mixed month for global stock markets, with the S&P 500, Nasdaq 100, and Euro Stoxx falling by 0.39%, 5.87%, and 0.01%, respectively, whereas the FTSE 100, FTSE 250, and Nikkei 225 (Japan) rose by 2.53%, 6.69%, and 3.94%. Bonds rose, with UK Gilts and Overseas Government Bonds rising by 1.26% and 1.18%, respectively. Our portfolios ranged between -1.10% and +2.50%.

US stock markets gave up some of their recent strong returns as technology companies pulled back somewhat. This is a typical pattern in which some investors lock in their profits from their best investments. Usually, this provides a buying opportunity for investors who have missed out on recent gains, and they buy the 'dip'. This causes the market to rise again and continue its upward trend.

The month was dominated by political news. Labour won the election, and the expected future political stability has helped UK stock markets advance. In the US, the attempted assassination of Trump helped his chances of winning the election, and US stock markets rose. However, Biden finally stepped down, and bookmakers cut the odds of Trump winning. US stock markets then fell. There was a 70% chance of Trump winning after the attempted assassination, but this dropped to 55% at the end of July.

There is a "growing sense of confidence" that the US Central Bank will cut interest rates next month as inflation continues to cool. The debate is whether they will achieve the "soft landing" in which the previous interest rate rises bring inflation back to target without causing a recession. Some analysts believe they have waited too long before the first cut, and economic data will deteriorate over the next few months, leading to a recession. This is not the expected outcome, however.

Bonds rallied over the month, anticipating the 1st interest rate cuts in the US and UK. Gilts are still showing a loss of more than 23% over the last three years but have risen nearly 6% over the last year. This is a period in which returns from bonds should be strong. Our trend-following strategies have helped the portfolios miss most of the significant bond losses, and they are now benefitting from the recent advances.

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	0.94	5.90	9.87
Cautious	0.80	6.65	10.89
Balanced	0.55	8.04	12.65
Adventurous	-0.35	9.04	14.80
Dynamic Equity	-1.10	10.75	18.42
Income Generating	2.50	7.78	11.72
Fourth Industrial Revolution	-0.06	6.99	13.63
Retirement Investment Solution 1	0.46	8.16	12.09
Retirement Investment Solution 2	0.18	8.58	13.02
Retirement Investment Solution 3	-0.06	8.96	13.87

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.07.2024.

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. In the Adventurous and Balanced portfolios, emerging market bonds replaced UK corporate bonds. The Cautious portfolio remained unchanged.

Dynamic Equity portfolio

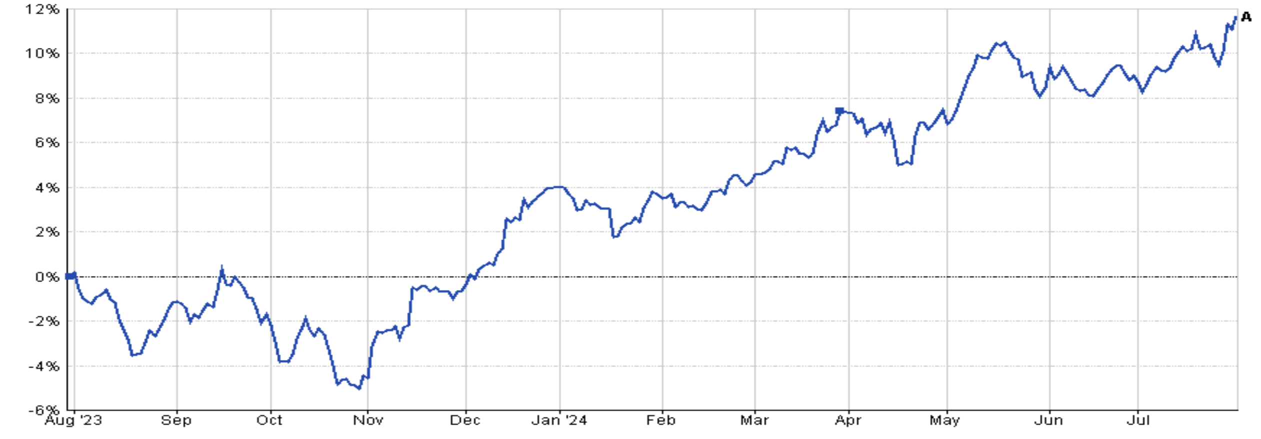
No changes were made to the portfolio. Despite last month's fall, the portfolio has grown 134% in the past ten years. This means that an investment of £10,000 ten years ago would now be worth £23,440. This is particularly pleasing when we consider that we have endured Brexit, COVID-19, a war in Europe, and a spike in inflation over this period!

Foundation portfolio

No changes were made again, meaning every asset class other than commodities is above trend. The Foundation portfolio is now fully invested in equities and bonds and has benefitted from this. We remain in a period of strong returns from most asset classes. The portfolio has not only performed well recently but also fell significantly less in the difficult periods than its benchmark over the last five years.

Income Generating portfolio

The portfolio is benefitting from having a higher allocation to UK equities, and from bonds advancing in anticipation of interest rate cuts. The return last month was an impressive 2.5%, and you can see how, since November 2023, the portfolio has advanced in a very steady and positive way:



31/07/2023 - 31/07/2024 Data from FE fundinfo2024

Fourth Industrial Revolution portfolio

The portfolio has risen 58% over the last five years, but it has achieved this in a volatile way, which has to be expected as this is a high-risk portfolio. Last month, the returns from the best and worst underlying funds within the portfolio were extreme, with the AXA Framlington Biotech fund rising 5.24%, whilst the L&G Technology fund fell 6.36%. This demonstrates why it is essential to have diversification when investing in a higher-risk investment strategy. There are over 2,500 companies that the portfolio invests in across a broad spectrum of sectors. The portfolio offers exposure to some of the fastest-growing sectors in the world.

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 Foundation portfolio and thus benefitted from the Foundation's strong performance. We are delighted by how the Solutions are performing, having fallen less than their benchmarks during the difficult times, ensuring that more money remained invested for the recent good times.

Summary of Portfolios

Global stock markets remain on an upward trend, although last month saw US equities fall while UK equities rose. Our momentum investment strategy currently has the US, India, and Japan high up on the momentum scale, but UK smaller companies are climbing quickly, which could mean a higher allocation to them shortly.

Despite all the political news last month, including the assassination attempt, the most important factor affecting our wealth is the current anticipation of a soft landing in the US, in which previous interest rate rises, cool inflation enough to allow interest rate cuts to occur this year. The "soft landing" occurs if this is achieved whilst economic growth remains positive.

Asset Class Review

This section will give you an insight into our current thinking. This month, we analyse three stock markets and examine what is happening to bonds.

Nasdaq 100– remains on an upward trend but pulled back.

Last month was a reminder that stock markets do not go up in straight lines. The chart below shows that from the beginning of 2023, the Nasdaq 100 has remained on an upward trend but has suffered three pullbacks. The latest one was relatively steep. The psychology behind this is that on an upward trend, investors want to lock in their profit at similar times and thus sell. This causes the pullback. However, others who have missed out on the gains see the pullback as an opportunity to take a position, and thus, the market rallies again. The same happens when a market is on a downward trend but in reverse. This pattern has happened since stock markets began.

FTSE 250– Upward Trend continues

Whilst the Nasdaq 100 pulled back, the FTSE 250 rallied. You can see how the FTSE 250 had fallen significantly up until November 2023 and was one of the most unloved stock markets in the world. Since then, we have seen it rally with only minor pullbacks. It appears that now could be the time when this stock market "catches up" and becomes one of the best performers.

India – a step pattern.

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 is following a step pattern in which it advances significantly higher (we are going through this phase now) before moving sideways for a period. It then takes the next step higher. Whilst the Nasdaq 100 has seen some investors lock in some of their profits with a sharp pullback, a stepping pattern is a sign that investors do not want to do this and instead hold their positions as they believe the market will move much higher over the long term.

Bond yields falling

One catalyst for the FTSE 250's excellent performance could be the fact that interest rates are expected to fall further than expected. The chart below shows the yield (income) that you would receive if you lent money to the UK Government over the next ten years. You can see how it fell below 4% last month, meaning that UK interest rates are expected to be lower on average over the next ten years. This will mean that fixed-rate mortgages will start to come down.

In Summary

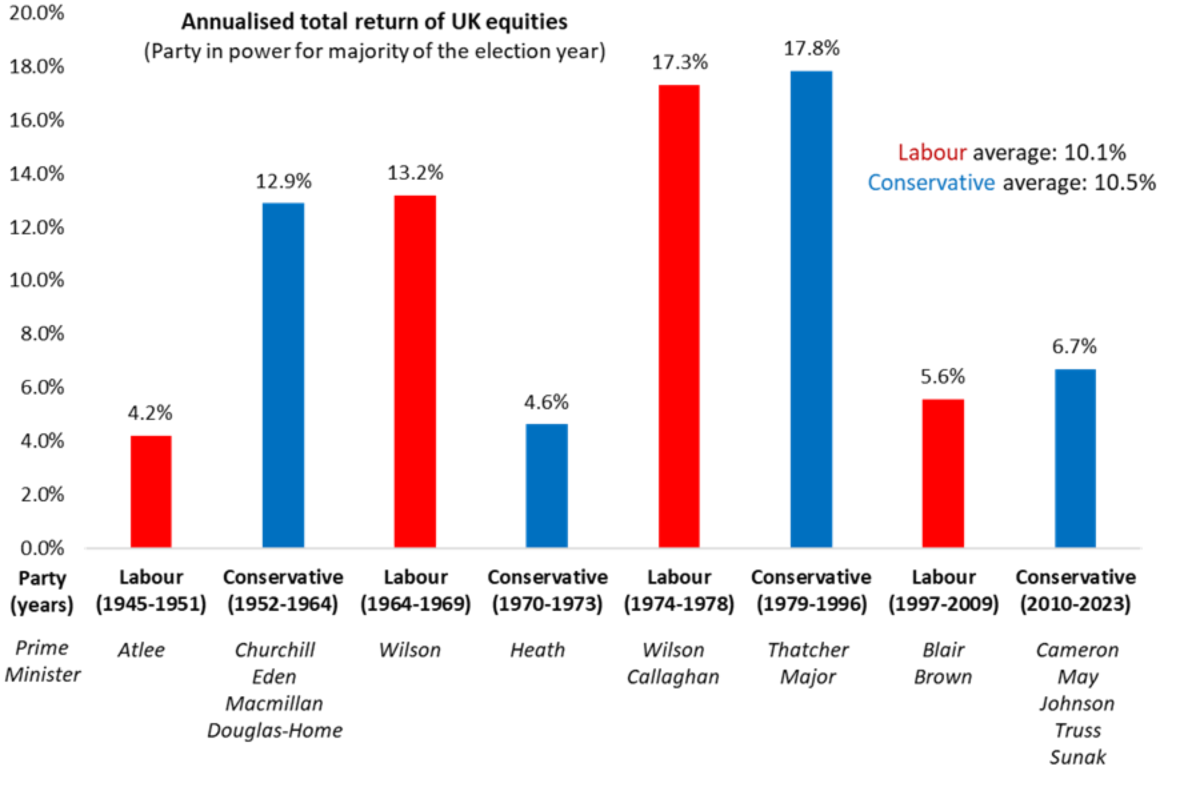
Global stock markets remain on upward trends. However, we have experienced pullbacks in some, whilst others have continued to advance. We expect to see interest rate cuts over the next couple of months, and the catalyst for further stock market rises is the so-called "soft landing," in which inflation continues to cool, interest rates are cut, and the economy continues to grow.

Politics and your Wealth

Since the General election, we have been asked in most of our client meetings about the implications of a Labour Government and how they will affect our investments. While we can only guess what changes will be made to taxation, we know that whichever party is in power makes little/no difference to the returns from UK stock markets. We must give thanks to 7iM for their article (in italics below) giving us the data to back up this fact:

Buried among the deep dissections of swamp politics, we also got a few questions about UK politics and whether we could shine any light on what the flavour of government has meant for UK investment markets over the years.

Rather than go by Prime Minister, we went by party – after all, it feels a bit weird to compare Liz Truss' 49 days in the role to Margret Thatcher's 12 years. Since the Second World War ended, Labour has been in government for 30 years and the Conservatives for 49 years. And looking at annualised returns of the FTSE 100 throughout each government's time in office, it's pretty much the same. 10.1% for Labour, and 10.5% for the Conservatives:



Source: Barclays Equity-Gilt Study/7IM/Factset

*So, what can we learn? Basically, the economic background is **everything**.*

- *The lucrative (but volatile) post-war boom helped Churchill, Eden, Macmillan and Douglas-Home… and then carried on helping Harold Wilson.*
- *The high inflation of the '70s dictated the market returns under Wilson and Callaghan… and also the first years of Thatcher.*
- *Global crises and responses were the story of Blair and Brown… much the same as they have since Cameron took office.*

Stick Winston in office through the dot-com bust or put Blair at the helm in the 1950s… and not much would change. It really doesn't matter where we look at the data – the lesson is always that politics and portfolios don't really interact.

Once again, thank you, 7iM, for the article

Final Comment

Some investment updates are challenging to write as very little happens during the month, particularly in the summer. However, July 2024 proved to be full of dramatic events, with the most dramatic being the attempted assassination of Donald Trump. It does feel that Hollywood is scripting the American Presidential election. Whilst stock markets would prefer Trump to win, the most important factor affecting our wealth is the relationship between inflation, interest rates and economic growth. A so-called soft landing is the expected outcome and has helped ensure that stock markets have trended higher recently. However, some analysts doubt we will have a soft landing because interest rates have stayed higher for much longer than expected, which could cause a recession.

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