Monthly Investment Update
September 2024

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Performance Update

It was an extremely volatile month for global stock markets, with mixed returns. The S&P 500, FTSE100, and Euro Stoxx rose by 0.10%, 0.87%, and 1.51%, respectively, whereas the FTSE 250, Emerging Markets and Nikkei 225 (Japan) fell by 1.96%, 0.66%, and 0.18%. Bonds rose, with UK Gilts and UK Corporate Bonds rising by 0.96% and 0.60%, respectively. Our portfolios rose between 0.09% and 0.71%, except for the Fourth Industrial Revolution portfolio, which fell 1.04% as technology companies suffered.

Global stock markets tumbled on the first Monday of August, with the Nikkei plummeting 13% amid fears the United States could be heading for recession. At the same time, the Bank of Japan unexpectedly raised interest rates, upsetting the balance in financial markets. The news happened during August, which is prone to larger-than-average volatility since trading volumes are lower due to the holiday season.

Subsequently, markets recovered after a series of better economic data and remain on their upward trends. However, we must remain mindful that the Goldilocks scenario we have discussed previously could easily be upset with inflation not falling enough, meaning that interest rates cannot be cut enough to stop a deterioration in economic growth.

Inflation fell in the UK due to the decline in service inflation (not the price we pay for goods in the shops but at hairdressers, etc.) being much more significant than expected. The service inflation rate fell from 5.7% to 5.2%, well below the forecast of 5.6%. Interest rates fell on the 1st of August from 5.25% to 5%, although they may only get cut once more this year.

Bonds rallied over the month, anticipating the 1st interest rate cut in the US this month. Gilts are still showing a loss of more than 23% over the last three years but have risen over 7% over the previous 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. Gold also hit a new all-time high, buoyed by stock market volatility and the first cuts in interest rates.

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	0.49	5.54	10.68
Cautious	0.41	5.45	11.78
Balanced	0.39	5.91	13.69
Adventurous	0.04	5.26	15.62
Dynamic Equity	0.09	5.59	19.36
Income Generating	0.71	7.95	13.85
Fourth Industrial Revolution	-1.04	1.20	14.24
Retirement Investment Solution 1	0.29	6.00	12.98
Retirement Investment Solution 2	0.24	5.89	13.92
Retirement Investment Solution 3	0.20	5.79	14.77

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.08.2024.

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

Dynamic Equity portfolio

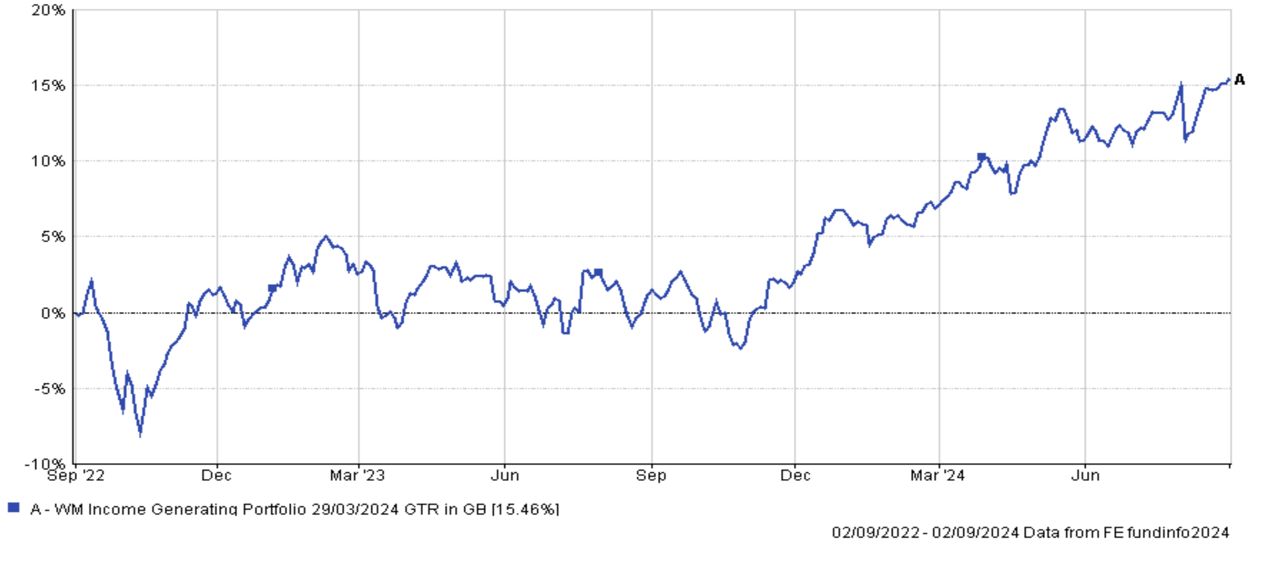
Again, the portfolio remained the same, with India, Japan, USA and technology remaining high on the momentum scale. The portfolio has outperformed its benchmark by over 6% over the last 12 months.

Foundation portfolio

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

Income Generating portfolio

The portfolio benefitted from the UK's decision to cut interest rates as well as the almost certain US rate cut this month. You can see how the portfolio initially fell in August but subsequently recovered to hit a new high.



Fourth Industrial Revolution portfolio

The portfolio has risen 64% 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 continued to be extreme, with the iShares Digitalisation fund rising 3.31%, whilst the Herald Investment Trust fell 4.64%. 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. 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. Over the last year, their performance has been outstanding:

Summary of Portfolios

Global stock markets remain on an upward trend, although we experienced a sudden and sharp decline last month, which was reversed just as quickly. Whilst the volatility can be partly attributed to the lower trading volumes during the holiday season, it does remind us how important a "soft landing" is for our wealth, in which inflation cools enough to allow Central Banks to cut interest rates whilst economic growth remains positive. Economic data has allowed the UK to cut interest rates, and the US is expected to follow this month; further cuts are expected.

Considering how COVID-19 shocked the global economy and how the Ukraine war accelerated the rise in inflation, we appear to be in a position where the global economy remains robust, benefitting from technological breakthroughs, which help increase productivity and the profits of the companies we invest in. However, August is a warning to us all that markets can fall quickly on one piece of unexpected bad news.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the recent volatility witnessed in August.

Japan's Nikkei 225– big crash and recovery.

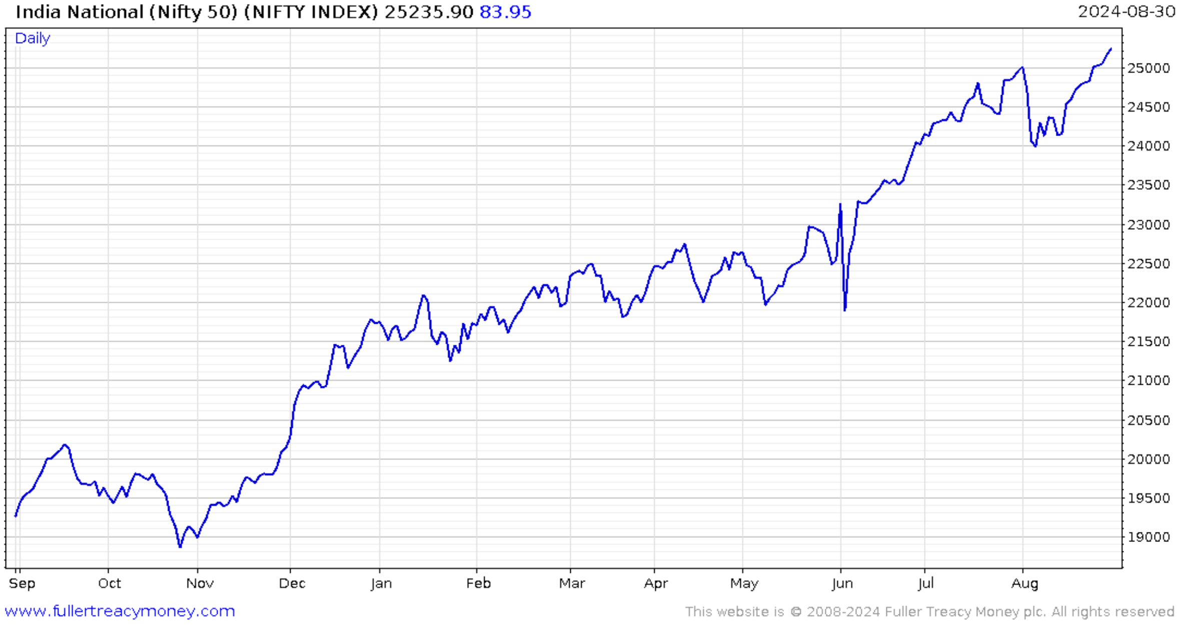
August was dominated by the flash crash in Japanese stock markets and the effect that this had on other asset classes. The Bank of Japan unexpectedly raised interest rates, and this caused much uncertainty as to how the equilibrium in world markets could be affected. However, the volatility was short-lived, and from the chart below, you can see how significant the crash was and how many traders sitting on the beach must have been panicking before the recovery happened.

Nasdaq 100 – big fall and recovery

In the last investment update, we looked at how the Nasdaq 100 had remained on an upward trend but has suffered significant pullbacks occasionally. The chart below shows how the Nasdaq 100 was already suffering from a pullback before the August falls. What is encouraging is that the low hit in August remains above the previous low, indicating that the upward trend pattern remains.

India – a new all-time high.

Whilst other stock markets have not yet moved back above the previous highs after the August volatility, India has just powered ahead again and has hit a new all-time high. 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. There are no signs of this momentum stopping.



Gold – all-time highs

Gold is enjoying the volatility in stock markets, as well as falling interest rates. Higher stock market volatility makes gold a "safe haven", so investors move money into an asset class that is less correlated to equities. In addition, gold pays no interest, so when interest rates are high, the opportunity cost of holding gold is high, i.e. you could get 6% per annum interest in the bank or zero interest from gold. The opposite is also true, and as interest rates fall, gold becomes more attractive.

In Summary

Global stock markets remain on upward trends. However, we experienced significant volatility in August due to weaker economic data. Lower trading volumes in August accentuated the decline before better economic data reversed it. We expect to see further interest rate cuts over the next year, 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.

Benchmark Review

Introduction

A benchmark can establish a baseline against which a portfolio's performance is measured. It can be helpful as a point of reference for you and our firm. Once an appropriate benchmark is established, it enables the assessment of how well the portfolio(s) you are invested in is performing.

It is essential to ensure that any benchmarks used are relevant to the portfolios in question, e.g. taking into account the investment objectives, the portfolio, and the types of investment held. Many of our benchmarks were set up at the outset for the portfolios and are less relevant today. In addition, we now have many years of history and data to analyse which benchmarks are most suitable. We recently reviewed the benchmarks and found that they consisted of a broad mixture and there are benchmarks that provide a better comparison against the performance of the portfolios managed by our peers.

The FE Adviser Fund Index

The FE Adviser Fund index (AFI) is a set of three risk-graded indices designed to provide a benchmark against which the investment community can compare fund portfolio performance against those managed by a cross-section of financial advice firms. The FE AFI Panel is a representative group of the UK's leading financial advice firms. Each firm selects a portfolio of funds for each risk level according to the skills and expertise of their organisation. The portfolios that the Panelists submit must have a maximum of 10 holdings, which are weighted by the panellist. FE aggregates each Panelist's portfolios to obtain an overall list of constituents and weightings. Allowing for similar selections by different Panelists, each index would have between 50-100 constituent funds.

Having reviewed the AFI methodology and relevant data, we believe that the three benchmarks are suitable for our range of portfolios for the following reasons:

- It compares the performance of our portfolios against our peer group
- The peer group are some of the leading UK financial advice firms and are therefore, direct competitors to us.
- The volatility of the portfolios and the recommended benchmarks are relatively similar over the long term and differentiate enough at different periods, which reflects the trend following properties of our investment philosophy.
- Having one group of benchmarks is much simpler.

These are the new benchmarks we are now using:

Portfolio	Benchmark
Adventurous	AFI Aggressive
Balanced	AFI Balanced
Cautious	AFI Cautious
Dynamic Equity	AFI Aggressive
Fourth Industrial Revolution	AFI Aggressive
Foundation	AFI Cautious
Income Generating	AFI Balanced
Retirement Investment Solution 1	AFI Cautious
Retirement Investment Solution 2	AFI Cautious
Retirement Investment Solution 3	AFI Balanced

Benchmark Review Continued

Performance

The Benchmarks we have selected are tough to beat, and we are pleased that when assessing the performance of our portfolios over the last ten discrete calendar years, our portfolios have outperformed 57% of the time.

In addition, the objective for many of our portfolios is to protect your wealth during the bad times so that you have more invested for the good times. Effectively, for the trend-following portfolios, we are trying not to lose as much as our benchmarks when stock markets (or bond markets) fall significantly. When comparing the performance during the COVID-19 Crash in 2020 and the bond market crash in 2021/22, all the trend-following portfolios fell significantly less and helped protect our client's portfolios during these difficult periods.

The Dynamic Equity portfolio is the most popular portfolio, and, as a firm, our clients have invested the most money into it. The Portfolio was launched in August 2013 and is classified as a higher-risk portfolio, with the benchmark being the AFI Aggressive Index. Since launch, we are pleased to report that it has significantly outperformed as follows:

Summary

After reviewing our benchmarks, we now have a challenging and fair set for us to compare the performance of our portfolios. We are delighted to see that the portfolios have been outperforming both in terms of overall growth and in terms of protecting our client's wealth during difficult times.

Final Comment

Whilst we experienced a dramatic set of political events in July, August saw a dramatic amount of volatility in stock markets. However, the so-called soft landing has helped ensure that stock markets have continued in their upward trends despite the early August falls.

However, we must expect further volatility as August showed that even one set of disappointing economic numbers could cause a sharp fall in equities. The portfolios are currently navigating the investment trends very well and are outperforming.

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