Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

October 2024

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Performance Update

It was a mixed month for global stock markets, with the S&P 500 and Euro Stoxx rising by 2.14% and 1.03%, respectively. However, due to the strength of sterling, the returns were reduced to 0.70% and -0.20% when converted into pounds. The FTSE 100 and Nikkei 225 fell 1.54% and 1.63%. Our portfolios ranged between +0.37% and -1.04%.

Bonds had a mixed month as well but barely moved overall, with UK Corporate Bonds rising by 0.22% and UK Gilts falling by 0.09%. There were very few surprises in economic data. As expected, the European Central Bank and the US Federal Reserve both cut interest rates, although the US cut rates by 0.5% when usually they make cuts of 0.25% at a time. Bonds rise when economic data leans towards interest rates being cut more than expected.

Sterling rose 1.44% against the US Dollar in September and has risen by almost 5% this year so far. This year, Sterling has risen against most currencies and is the world's best-performing major currency. This has been driven by the expectation that the Bank of England will cut rates more slowly than their peers. This is great news when booking our summer holidays for 2025, but it is proving to be a headwind for our portfolios as they have a large amount of money invested overseas. If sterling rises, then our overseas investments will fall correspondingly.

A higher exchange rate helps lower the cost of goods imported to the UK, including energy, as oil is traded in dollars across international markets. Therefore, we should expect interest rates in the UK to still fall this year and next, but slower than in the US or Europe. Inflation in the UK held steady at 2.2% and was unchanged from the previous month.

We, therefore, continue to be in favourable investment conditions, with inflation remaining close to target, interest rates falling, and global growth remaining positive. The strongest stock market returns usually occur in the run-up to Christmas, and we could be in for a strong "Santa rally".

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	0.20	2.44	11.01
Cautious	0.33	2.51	12.41
Balanced	0.37	2.84	14.50
Adventurous	0.04	2.02	16.30
Dynamic Equity	-0.26	1.81	19.65
Income Generating	-0.30	4.44	14.12
Fourth Industrial Revolution	-1.04	-0.93	15.72
Retirement Investment Solution 1	0.12	2.47	13.18
Retirement Investment Solution 2	0.05	2.31	14.13
Retirement Investment Solution 3	-0.02	2.17	14.99

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.09.2024.

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	x	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, 21 are above trend.

Cautious, Balanced and Adventurous portfolios

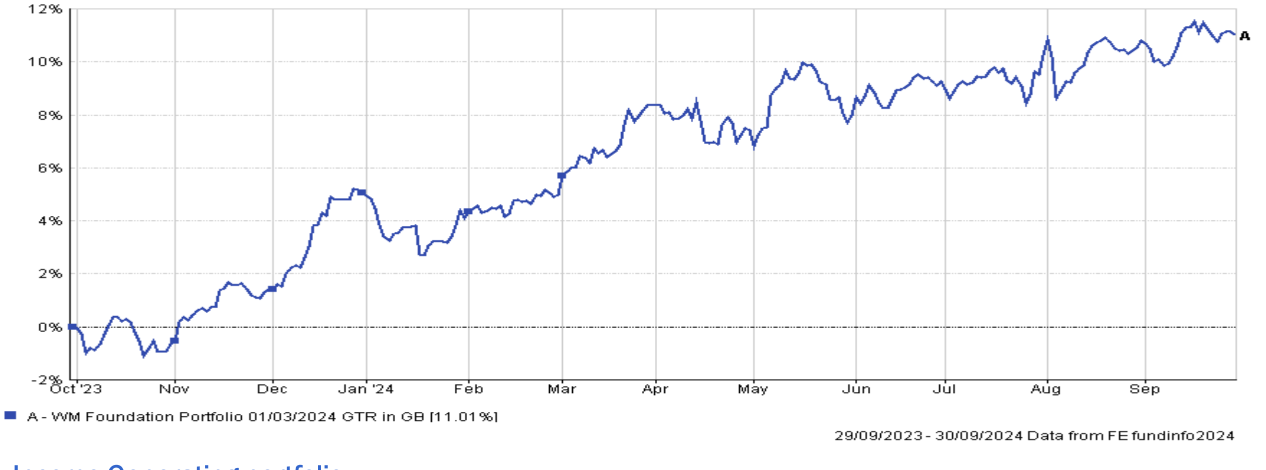
Japanese equities fell below trend for the first time in 10 months, and exposure was reduced in each portfolio. All of the other main equity markets remain above trend. Emerging market bonds replaced UK corporate bonds in the Adventurous and Balanced portfolios.

Dynamic Equity portfolio

Gold miners replaced Japanese equities as Japan fell down on the momentum scale. The price of gold has increased in sterling terms by over 20% this year. The price of gold miners usually outperforms when the gold price is rising, but this year, it hasn't. It could be a good entry point for gold miners as they are due for a catch-up.

Foundation portfolio

Exposure to Japanese equities was cut, but every other equity market remains above trend, so the portfolio remains significantly invested in equities. Bonds remain fully invested, and the exposure to gold is helping boost performance. The portfolio has performed in a steady and positive way over the last year:



Income Generating portfolio

UK equities fell this month, which negatively impacted the portfolio. However, it has benefitted over the last year from the global trend of decreasing interest rates, and we expect favourable conditions for this portfolio for the rest of this year and next.

Fourth Industrial Revolution portfolio

Last month, the returns from the best and worst underlying funds within the portfolio continued to be extreme, with the L&G Battery-Value Chain fund rising 2.85%, whilst the AXA Framlington Biotech fund fell 6.99%. 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. This month, exposure to Japanese equities was reduced, but the portfolios still have significant exposure to equities as most stock markets remain above trend.

Summary of Portfolios

Global stock markets remain on upward trends, although Japanese equities fell below trend for the first time in ten months. The one negative has been the strength of sterling, proving to be a headwind for returns. Sterling is strengthening due to the fact that interest rates in the UK are not expected to be cut as fast as others. Therefore, money is flowing into the UK as investors are expecting a higher rate of interest for their cash. This is causing sterling to appreciate.

We are still experiencing stock market volatility, but September's interest rate cuts have helped propel some stock markets to new all-time highs. We are still in the "soft landing" phase, in which inflation cools enough to allow Central Banks to cut interest rates whilst economic growth remains positive.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the markets making new all-time or recovery highs.

S&P 500– new all-time high.

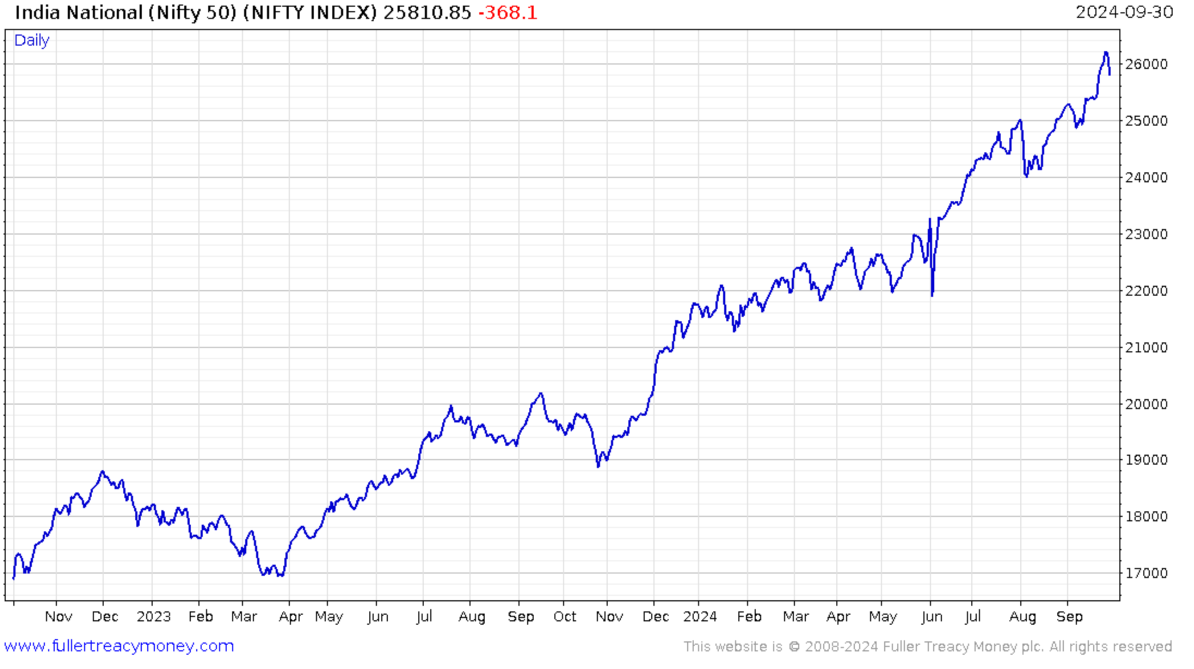
The world's most important stock market advanced to a new all-time high and remains one of the fastest-growing stock markets we monitor. Since November 2023, we have experienced a rapid advance, but you can see that it has become more volatile recently. This can signify some traders banking profits and trying to time the market top. However, sentiment remains extremely good, and the upward trend pattern continues.

China– significant change in trend

China has been one of the worst-performing stock markets in the world. However, the Government announced additional stimulus for the economy, including intervening in the stock market to arrest its decline. The reaction has been impressive, and the stock market is now on an upward trend. The Chinese government appears willing to continue intervening if it does not get the desired results.

India – another new all-time high.

India continues to power ahead 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 has periods in which it trends sideways before exploding higher. We had a sideways period between mid-2020 and the beginning of 2024, but it has advanced over 30% since then. We are in a perfect economic and political environment for gold - inflation is falling, interest rates are being cut, and there is much political uncertainty across the globe.

In Summary

Global stock markets remain on upward trends, with the US and India leading the way and moving to all-time highs. Gold is a perfect example of how a market can range sideways for years before exploding higher. China is an excellent example of how stock markets can suddenly bounce higher after years of decline. 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.   This could be a perfect year-end in terms of positive performance.

Where next for Interest Rates?

The Bank of England kept interest rates at 5% in September after previously cutting them from 5.25%. They are expected to be cut a further 0.25% this year. Inflation falling to 2.2%, and only slightly ahead of the Bank of England's 2% target, has been the catalyst, although some measures of inflation remain elevated. Some experts predict interest rates will come down to 3.5% by the end of 2025, but what are the markets telling us? The chart below shows the yield available from buying UK government bonds for ten years. It is an excellent indicator of the direction of longer-term interest rates. You can see how the yield appears to have peaked in 2023 but has only drifted slowly down since, standing now at 3.97%. We can conclude that interest rate cuts will not be dramatic and will be done extremely slowly in the UK.

However, the UK appears slightly out of sync with the US, as the chart below shows that the 10-year yield in US Government Bonds has drifted down quicker and stands at nearly 0.25% less than the UK. This highlights that the US cut interest rates by a surprise 0.5% in August. This helped boost the returns from stock markets since the cut, as the Goldilocks scenario, in which inflation is brought under control, interest rates are cut, and global growth remains steady, is still the most likely scenario.

The fact that interest rates and yields are lower in the US has started to affect the sterling/dollar exchange rate, with sterling rising by almost 5% against the dollar since January. This is making the cost of visiting the US cheaper, and some of our US imports less expensive and thus deflationary.

We can conclude that:
- Mortgage rates in the UK will drift slowly downwards, and we are seeing 5-year fixed rates below 4%.
- Interest on our cash savings will also fall slightly, but not dramatically.
- Inflation in the UK should remain near the Bank of England target.
- The global economy will remain relatively robust.
- We have the catalysts in place for some good investment returns for the remainder of the year.

Final Comment

The so-called soft landing has helped some stock markets reach new all-time highs, which is especially encouraging as we enter a period in which stock markets seasonally perform better, culminating hopefully in a “Santa rally”. Interest rates are being cut globally, and now the important considerations are how fast they will be cut, how far they will fall, and which countries will cut the most. The UK appears to be in a slower lane than others; hence, sterling is rising, proving to be a headwind for our portfolios.

Whilst the forthcoming budget will no doubt bring higher taxes in the UK, the news is unlikely to affect the performance of global stock markets, which generally remain on upward trends and are navigating the global problems that we are currently experiencing.

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