Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

November 2024

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Performance Update

It was a difficult month for global stock markets, with the S&P 500, FTSE 100, FTSE 250 and Euro Stoxx falling by 0.91%, 1.45%, 2.92% and 3.18%, respectively. However, due to the weakness of sterling, the S&P 500 gained 3.39% when converted into pounds, and the Euro Stoxx trimmed its loss to 1.73%. The Portfolios ranged between +2.02% and -0.72%. They outperformed due to having more money invested in the US.

Last month's most significant news was the UK Budget, which raised taxes by £40 billion. The budget's sheer size surprised many despite the government working to manage expectations. The fallout has been that sterling weakened a little (good for our invested wealth), and UK Gilts fell by 2.33% in response to the fact that the budget could be inflationary and cause interest rates in the UK to remain higher than in other countries. Prior to the budget, interest rates were expected to fall to 3.8% over the next year, but they are now anticipated to fall to 4.1%. We are not in the same position as the disastrous Liz Truss budget in 2022, but investors remain wary.

At the time of writing, the US election is tough to call, with Trump slightly ahead. However, we have two candidates who represent opposite ends of the political spectrum, with the election decided by a limited number of swing voters in a small number of states. Perhaps the one consistent feature between both is that there is no plan to bring down US Government debt, which could cause economic problems in the medium to long term. In the short term, a Trump victory would probably boost stock markets as taxes would be cut, but it is unlikely to have the same impact as when he first became President.

It is no surprise that amongst all this uncertainty, Gold hit a new all-time high, with the price of Gold growing by 28.7% in sterling terms over the last year.

If we ignore the headline news, we remain in favourable investment conditions, with inflation remaining close to target, interest rates falling globally, 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	0.17	3.50	11.94
Cautious	0.01	3.60	13.53
Balanced	0.28	4.09	16.30
Adventurous	1.21	4.63	19.58
Dynamic Equity	2.02	5.85	25.56
Income Generating	-0.72	3.63	16.60
Fourth Industrial Revolution	1.95	5.14	24.98
Retirement Investment Solution 1	0.77	4.53	15.68
Retirement Investment Solution 2	0.98	4.72	17.18
Retirement Investment Solution 3	1.16	4.89	18.55

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.10.2024.

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	x	Commodities	x
Europe ex UK Equity	x	UK Corporate Bonds	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	x	UK Index-Linked Bonds	x
Pacific Equity	✓	Global Bonds	✓
Gold	✓	UK Gilts	x
Global Property	✓	Emerging Market Bonds	✓
Global Infrastructure	✓	Overseas Corporate Bonds	✓

Of the leading 23 markets we monitor, 18 are above trend.

Cautious, Balanced and Adventurous portfolios

UK and European equities fell below trend, and exposure was reduced in the Balanced and Cautious portfolios. In addition, UK Gilts and Index Linked Gilts went below trend and were removed from the same two portfolios. The Adventurous portfolio remained unchanged.

Dynamic Equity portfolio

The portfolio is performing exceptionally well, up 25.56% over the last year. This is mainly a result of the "momentum" investment philosophy, ensuring that more money is invested in the asset classes that are performing the best. A great example of this has been the recent switch to Gold miners, which rose 6.8% over the last month. They replaced Japanese equities, which fell by 2.4% last month. While equities have performed well over the previous year, the Dynamic Equity portfolio has outperformed the benchmark by over 7%, which is impressive.

Foundation portfolio

Exposure to UK and European equities was reduced, as was the exposure to UK bonds. Whilst we do not know how these asset classes will perform going forward, we do know that holding UK equities and bonds is much riskier now than previously due to the uncertainty surrounding the budget. Therefore, the Foundation portfolio reduces risk during difficult periods to minimise losses if some asset classes fall significantly. This can be demonstrated over the last three years with the maximum loss you could have endured within the Foundation portfolio at just 7.70%, compared to the benchmark at 13.84%. This was achieved by cutting bond exposure when they started to fall significantly in 2022.

Income Generating portfolio

Most global stock markets, as well as bond markets, fell over the last month, and this negatively impacted the portfolio. The Income Generating portfolio has a lower exposure to US equities than the other portfolios as it does not employ a "momentum" investment philosophy. Despite this, the portfolio has outperformed its benchmark over the last year.

Whilst interest rates have been cut and are expected to be cut further, the amount and speed of the cuts are the important factors that will affect the portfolio. The UK's budget has caused the expectation that UK interest rates will not be cut as much and as fast. This negatively impacted the portfolio as it has a higher weighting to UK asset classes than the other portfolios.

Fourth Industrial Revolution portfolio

The result of the US election will probably affect the individual components of the portfolio quite dramatically. The main underlying fund currently being affected is the iShares Global Clean Energy fund, which fell 7.22% last month and is down 43.22% over the previous year. Trump is pro-oil and anti-clean energy, whereas Kamala Harris is the opposite. The good news is that the portfolio has a momentum overlay, with the two worst-performing underlying funds only having a 5% allocation to them. The iShares Global Clean Energy fund has had a 5% weighting for some time, so whilst it has proved to be a headwind to performance, the impact has been reduced. If Trump wins, then we would expect some of the other underlying holdings to perform exceptionally well.

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 UK and European equities and UK bonds was reduced. The Solutions are performing exceptionally well as they all have exposure to the Dynamic Equity portfolio, which has grown by over 25% over the last year.

Summary of Portfolios

The portfolios have been overweight US equities over the last year due to employing a momentum investment strategy. While global stock markets have performed well, US equities have performed much better, which has helped the portfolios perform exceptionally well.

Whilst politics dominate the news, we must remember that the global economy remains in the "soft landing" phase, in which inflation cools enough to allow Central Banks to cut interest rates whilst economic growth remains positive. Last month saw economic data come in stronger than expected, and the reaction to this was that interest rates will not fall as far and as fast globally. This is not great news for bonds, but higher growth and some interest rate cuts are good news for stock markets. The additional potentially good news for UK investors is that if the UK budget causes a Liz Truss style loss of confidence in the UK, then sterling should fall in value, which would boost the portfolios.

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Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the UK and how the budget has affected stock markets.

AIM 100 – UK smaller companies remain unloved.

The AIM 100 stock market (blue line) represents some of the smallest UK companies. There was much speculation that the budget would remove the tax advantages of investing in AIM shares (they are outside of your estate for Inheritance Tax after holding them for 2 years), but Rachel Reeves imposed a 20% tax on them instead of the full 40% Inheritance Tax rate. This caused the index to spike higher by 4%, but as you can see from the chart below, when you compare the performance of the US smallest companies (green line), you can see how they both fell when interest rates were rising, but the green line recovered whereas the AIM 100 has not. This demonstrates how unloved the UK remains.

UK Interest Rates– will not fall as much as expected.

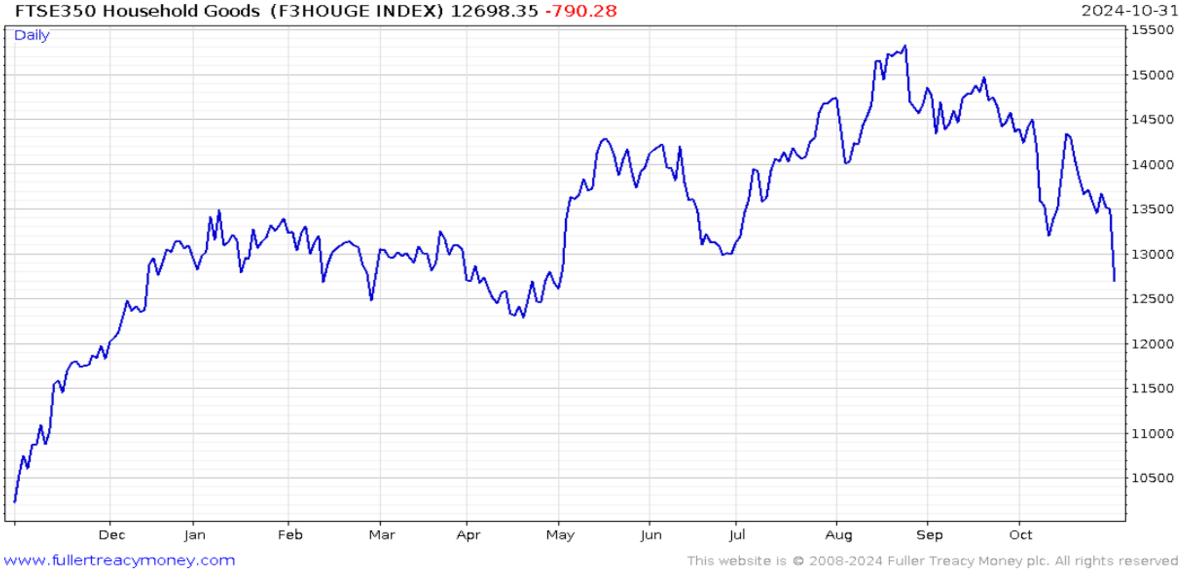
The blue line shows the yield you could receive if you lent the UK Government money for 10 years. It currently stands at 4.44% and has increased over the last few months from 3.78%. This is important as it predicts the future of interest rates, with the recent rise indicating that interest rates will not fall as fast and as far as previously expected. The green line shows the same yield for US Government Bonds, and you can see they were highly correlated. However, the gap between the two has grown in the run-up to the budget and the subsequent budget announcement. This could be a sign that international investors are concerned about the UK economy, the recent public sector pay rises, and the inflationary impact of the recent budget.

Sterling – has risen under Labour but has fallen recently.

Sterling initially enjoyed the stability of the new Government, rising significantly against the US Dollar. However, in the run-up to the budget, sterling began to fall. In the immediate aftermath of the budget sterling moved higher, as interest rates in the UK are set to remain higher than in the US. In the last few days of the month, though, sterling has fallen as investors remain wary of investing in the UK as the outlook for the UK economy is not exactly world-beating.

UK housing – not a great forecast

The FTSE 350 Household Goods index is a great indicator of how the UK's housebuilders are performing as it includes Bellway, Barratts, Persimmon and Taylor Wimpy in its top 10 holdings. For a Government that says it wants to build a million homes, the chart below shows that it isn't doing enough to incentivise the sector. The forecast that the budget could lead to higher inflation and, therefore, interest rates will not be cut as much has not helped the industry.



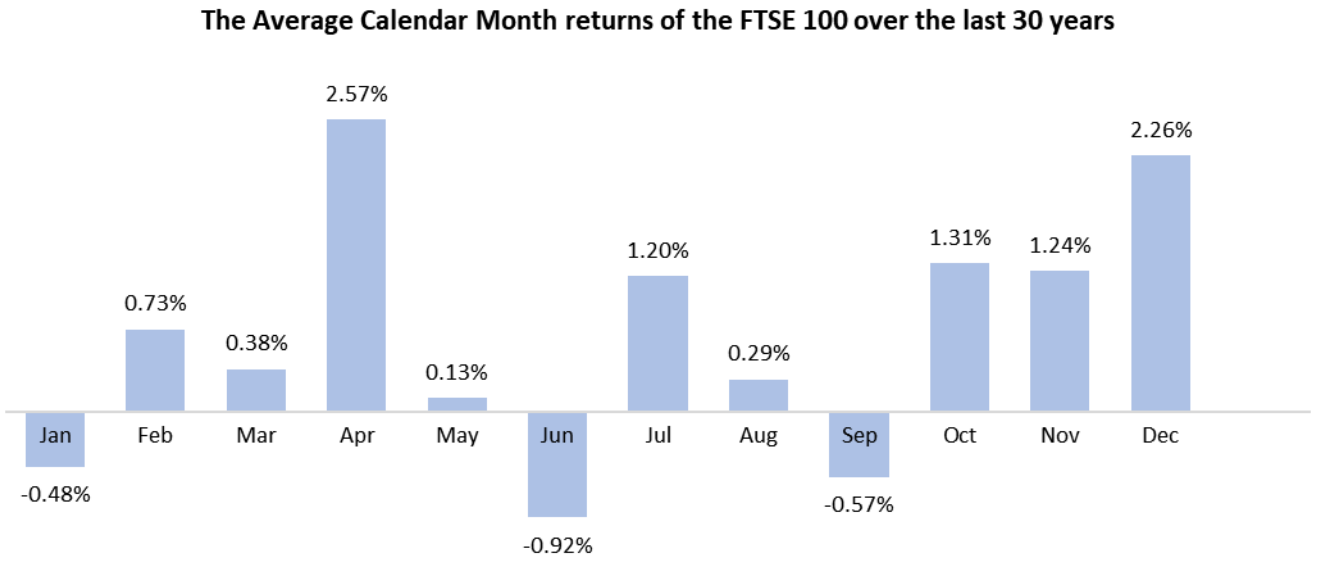
In Summary

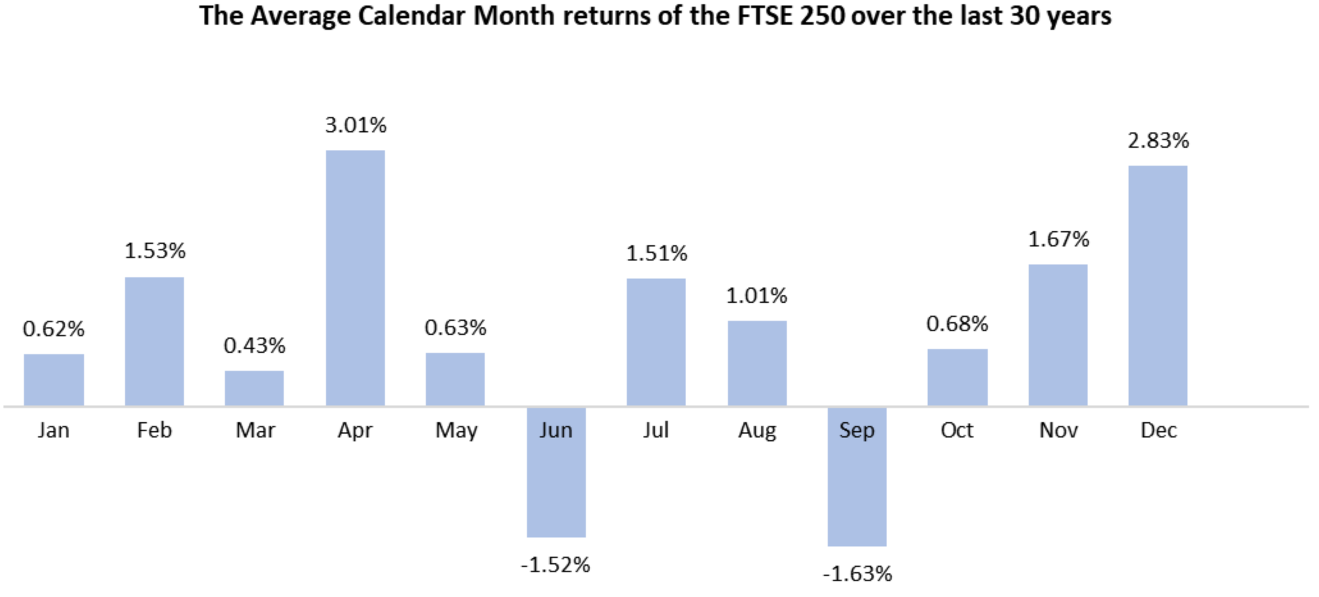
The budget imposed the highest tax take for 30 years, with the £40 billion Rachel Reeves aims to raise primarily being squeezed out of the corporate sector. She also announced huge investments, with government spending rising sharply over the next three years. Markets are a little wary that the budget will lead to higher inflation; therefore, the Bank of England would need to manage this with higher interest rates. The good news is that there has been no Liz Truss meltdown.

The Santa Rally

A 'Santa Rally' is a term used for when stock markets post positive results in the run-up to Christmas and the New Year. We experienced a strong rally last year, with the S&P 500 growing by 9.1% in November and 4.5% in December, so we weren't disappointed! Looking at the average data for the FTSE 100, FTSE 250, S&P 500 and MSCI Emerging Markets over the last 30 years, you can see that the charts all show a strong period between October and May and a weaker period during the summer. April seems to be the best month in general, followed by December. Recently, November has been much better than December, with the last negative November for the S&P 500 back in 2011.

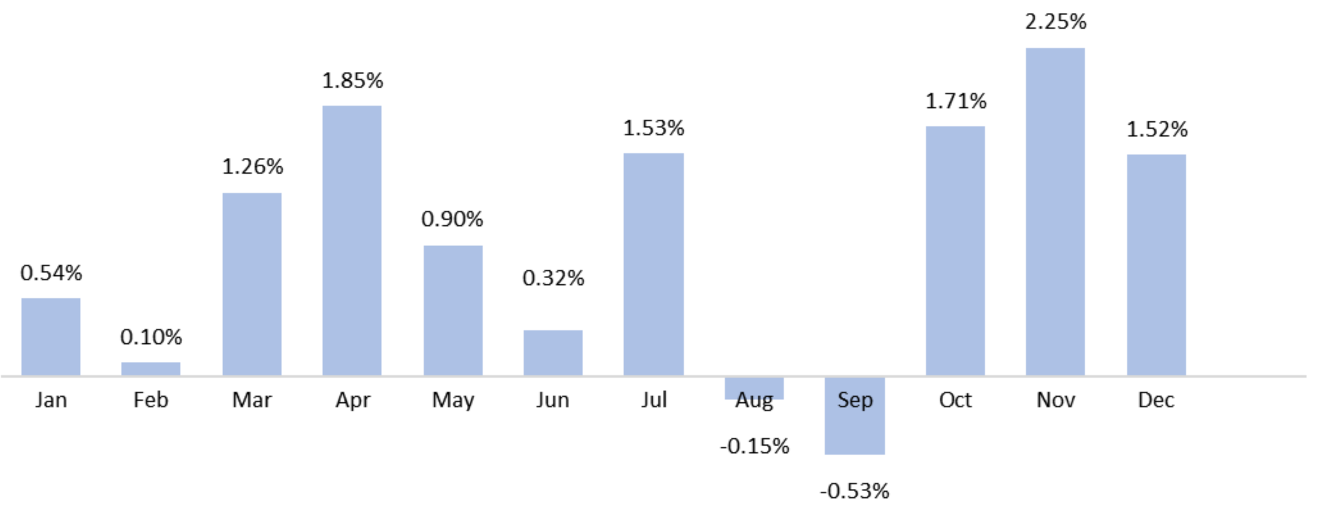
The charts below show the average monthly return for each market, each calendar month, and you can see the effects of the Santa Rally:



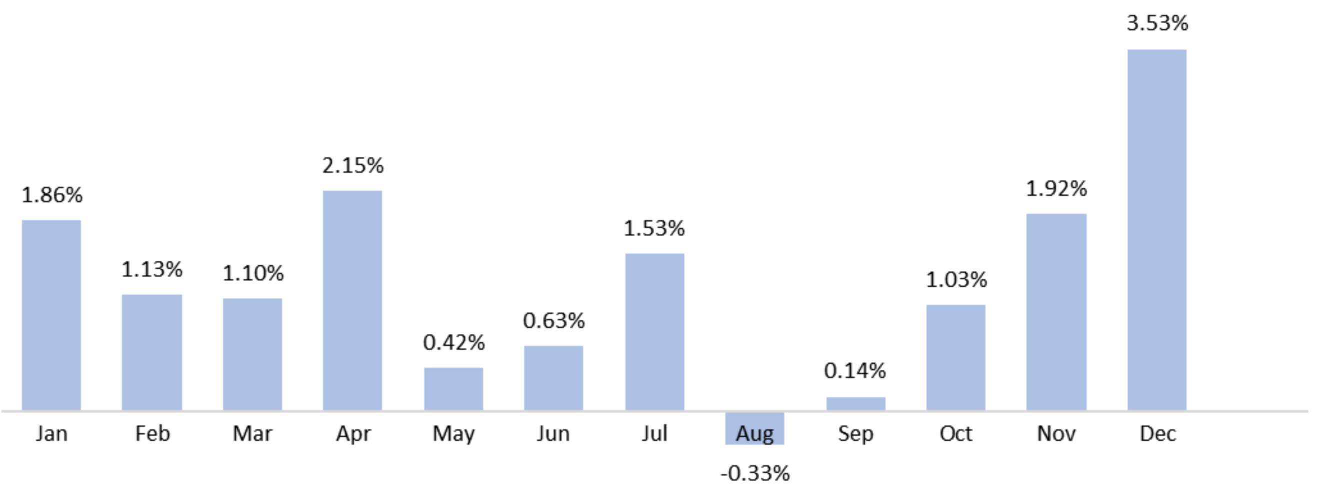


The Santa Rally (continued)

The Average Calendar Month returns of S&P 500 over the last 30 years



The Average Calendar Month returns of MSCI Emerging Markets over the last 30 years



While you can get a broad idea of when a Santa Rally might start by looking at historical data, each year's Santa Rally will be different. It might start early, it might start late, or it might not start at all. You can only know for sure if a Santa Rally has taken place once it is already over. This year, stock markets have moved significantly higher despite a volatile August. Whilst the US election and wars could affect the Santa Rally this year, it is looking extremely promising for another strong end to the year.

Whatever the reason for the Santa Rally, and whenever it occurs, we know that historically, the last few months of the year have been an excellent time for investing money.

Final Comment

Despite all the negative headline news, global stock markets have performed extremely well so far in 2024, which is especially encouraging as we enter a period in which stock markets seasonally perform better, culminating hopefully in a "Santa Rally".

The UK economy has so far navigated Rachel Reeve's first budget without any dramatic swings in the value of asset classes. UK bonds fell a bit; sterling gave up some of its recent gains, and UK equities remain unloved. Trump is the slight favourite to become the next US President, and if he does indeed win, then US stock markets should advance in the short term. However, whoever is the next President will probably have to address the US debt problem at some stage of their term. If this is not addressed properly, this could be the catalyst for the next global recession. In the meantime, the global economy is enjoying the prospect of further interest rate cuts, stable inflation and sustainable economic growth.

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