Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

December 2024

Contents:

Performance Update

It was a good month for most global stock markets, with the S&P 500, FTSE 100 and FTSE 250 rising by 5.87%, 2.61% and 2.10%, respectively. The Euro Stoxx barely moved, and the Nikkei 225 fell 2.22%. The Portfolios had a great month, rising between 1.98% and 6.47%. They outperformed due to having more money invested in the US.

The big news last month was Trump's resounding victory. This has led to a "Trump Bounce" in global stock markets. It is well known that President Trump watches the stock market and uses the S&P 500 as a barometer for the success of his policies. If the market increases, he will feel confident he is doing the right thing. If it goes down, he will be encouraged to change policy.

The US stock market is significantly outperforming as the trade tariffs that Trump proposes are likely to negatively impact the Chinese and European economies the most in the short term. If the tariffs long term prompt a global economic slowdown, then stock markets worldwide (including the US) will be impacted. We await to see how Trump will use tariffs and whether this is a negotiating tactic. It is increasingly likely that there will be a negotiated treaty in Ukraine, which could provide a boost to global stock markets.

UK Inflation rose to 2.3% in October, from 1.7% in September and is now back above the Bank of England target. The rise was larger than experts had predicted. This comes after the Bank of England cut interest rates to 4.75%. The latest inflation figures will probably mean that interest rates will stay higher for longer. Rates are now expected to be 4% by the end of 2025, but with higher taxes from the budget and higher Government spending over the next few years, predicting the future of interest rates will be extremely difficult.

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	2.08	5.11	11.95
Cautious	2.55	5.43	13.60
Balanced	2.78	5.89	16.16
Adventurous	3.16	6.63	19.30
Dynamic Equity	3.39	7.66	24.05
Income Generating	1.98	4.65	14.25
Fourth Industrial Revolution	6.47	10.29	22.73
Retirement Investment Solution 1	2.67	6.22	16.01
Retirement Investment Solution 2	2.79	6.43	17.26
Retirement Investment Solution 3	2.90	6.62	18.39

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.11.2024.

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	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	✓
Global Property	✓	Emerging Market Bonds	✓
Global Infrastructure	✓	Overseas Corporate Bonds	✓

Of the leading 23 markets we monitor, 20 are above trend, with UK Gilts and equities moving above trend this month.

Cautious, Balanced and Adventurous portfolios

UK equities moved back above trend, and exposure was increased in the Balanced and Cautious portfolios. In addition, UK Gilts moved back above trend and exposure was added to the Cautious portfolio. The Adventurous portfolio remained unchanged.

Dynamic Equity portfolio

The portfolio is performing exceptionally well, up 24.05% over the last year and benefitted from the Trump bounce last month. 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. Currently, the portfolio is significantly overweight US equities. The iShares North American Equity fund grew by 6.58% last month and was our best underlying holding. Gold miners, however, gave up most of last month's gains, showing how the momentum investment philosophy can sometimes be volatile. The Dynamic Equity portfolio has outperformed the benchmark by over 7%, which is impressive.

Foundation portfolio

Exposure to UK equities and UK Gilts was increased, as both asset classes moved above trend. Both were reduced in the previous month. The UK will be more volatile as we digest the new Government's policies; therefore, we could buy and sell these asset classes more often until a new trend is formed.

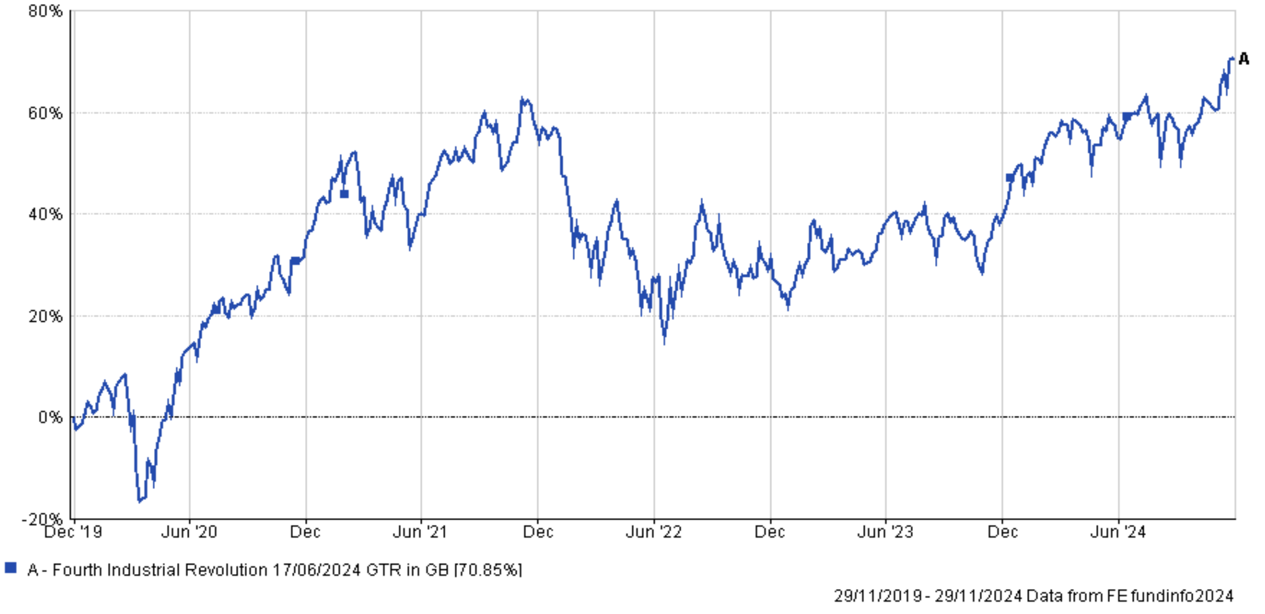
Income Generating portfolio

The portfolio experienced a strong month as bonds rebounded.

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 initially caused the expectation that UK interest rates would not be cut as much and as fast. However, Trump's victory has helped with the expectation that interest rates could be cut much sooner, and this helped bonds rebound.

Fourth Industrial Revolution portfolio

After suffering a challenging and volatile three years, Trump's victory provided the catalyst for the Portfolio to hit a new all-time high. The chart below shows how well the Portfolio performed immediately after the shock of Covid locking down the economy, how it then gave up a lot of the Covid gains as interest rates rose, and how it is now once again on a strong upward trend:



Retirement Investment Solutions

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. In addition, bonds performed well last month, which helped boost the returns from the lower-risk assets held within the Solutions.

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. Trump's victory has helped accentuate this, with US equities performing much better in anticipation of tax cuts and other equity markets (most notably Europe and China) suffering from the fear of Trump's potential trade tariffs.

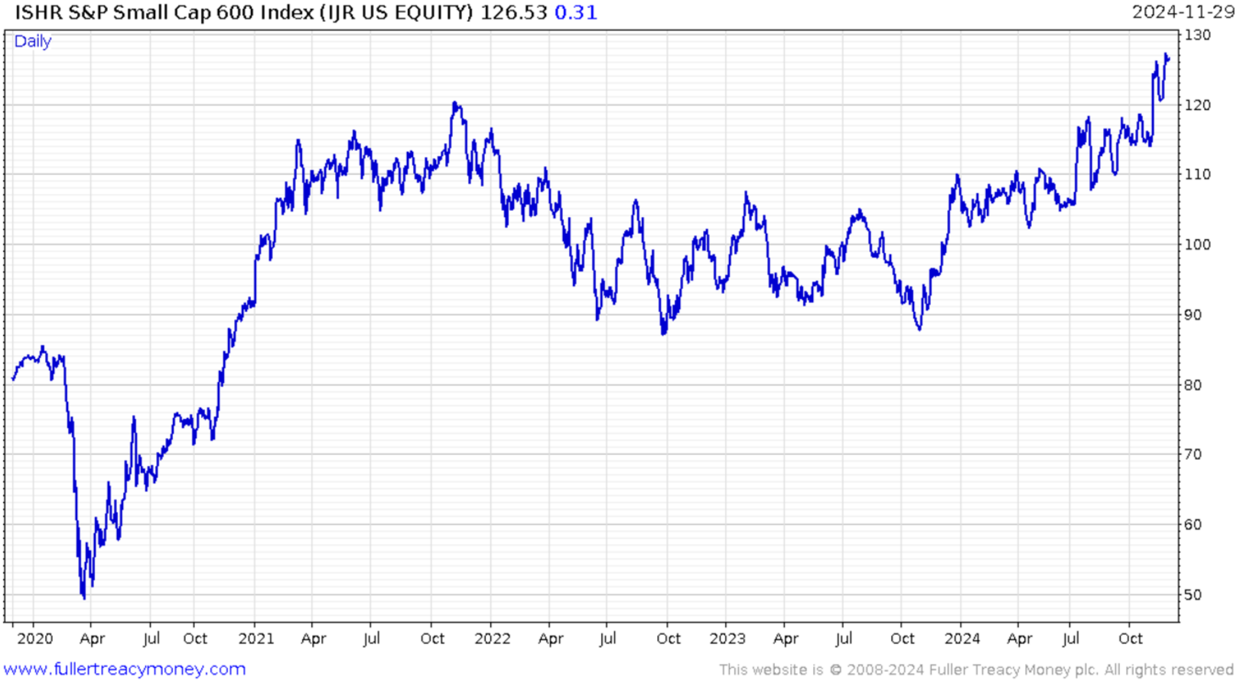
The UK continues to digest the impact of the UK budget, and this is causing much volatility in the value of UK assets.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the “Trump Bounce” and how President Trump’s victory has affected markets.

US smaller companies hit a new all-time high.

The chart below shows the value of the US Smaller Companies index and is a bellwether of how the US economy is performing. The index had just started to hit the previous highs seen in 2021 and the Trump victory gave the index the boost to break into a new all-time high. The expectation is that Trump will cut taxes, and this will help boost the economy and increase the profits of smaller US companies that are more aligned with the fortune of the US economy.



US Interest Rates– perhaps will fall more as a result of Trump.

The line below shows the yield you could get if you lent the US Government money for the next 10 years. The higher the level, the higher the expectation of where interest rates will be over the next ten years. As you can see, interest rate expectations were rising quickly in the immediate run-up to the election. However, they have begun to turn down again. It is early days, but the trade tariffs that Trump has talked about imposing immediately may just be a negotiation tactic and will not be as bad as first feared. In addition, he may also try to start cutting the US deficit and Government borrowing, which would help bring down bond yields.

The Dollar – is strengthening again.

Anticipated tax cuts could lead to a higher growing economy and a much better place to invest than other regions. The US Dollar, therefore, appreciated due to Trump's victory but only by a few per cent. This helped increase the value of the US equity portion that we hold within our portfolios.

Tesla (Musk) is the biggest winner

Elon Musk is being rewarded for helping Trump win. He has been tasked with leading the new Department of Government Efficiency. Trump has said he will help "drive large-scale structural reform and create an entrepreneurial approach to government never seen before". Musk will probably help push through legislation that allows driverless cars on all roads, and this has boosted the share price of Tesla. In addition, Musk's Space X company could be freed from all the regulations and given more money from NASA to launch satellites. Musk's dream of colonising Mars is one step closer!

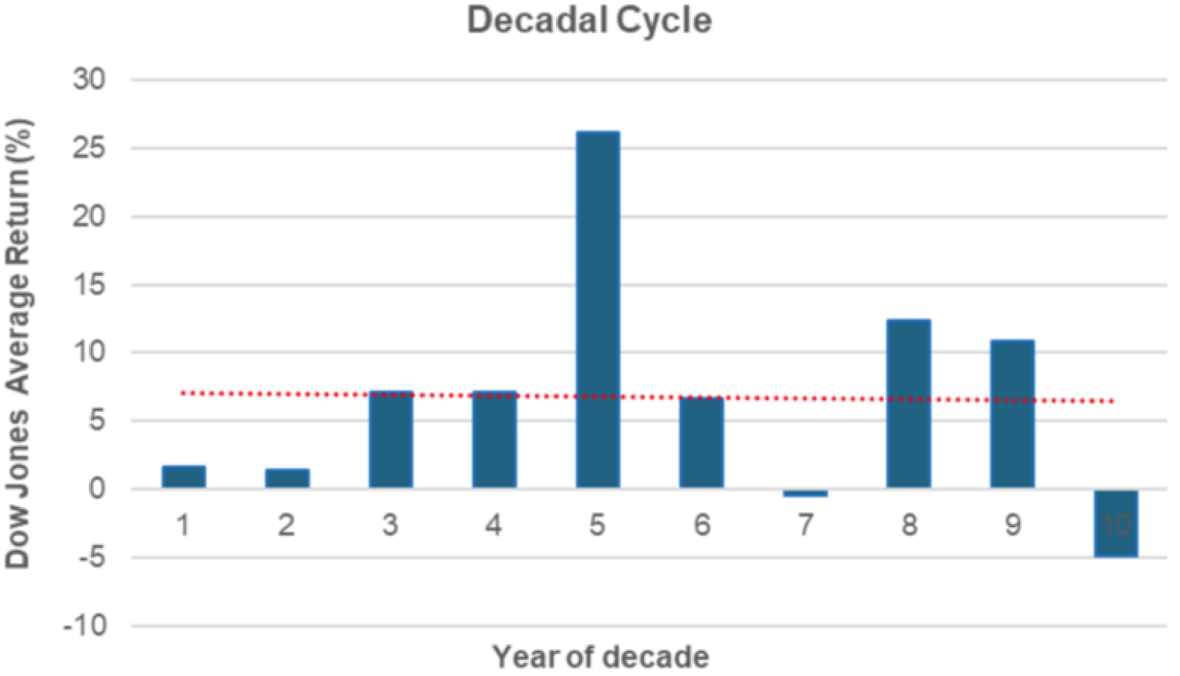
In Summary

Ignoring the President's marmite personality, Trump's policies are pro-business, and his victory has helped boost the value of global stock markets. He may also start dealing with the problematic government debt. Overall, we believe that Trump will help increase the value of your wealth, certainly in the short term.

2025- could be an incredible year

Last month, we looked at the ‘Santa Rally’, a term used for when stock markets post positive results in the run-up to Christmas and the New Year. November was a good month, and we hope December will also be. Following on from the ‘Santa Rally’ we have researched the “Decadal Cycle”. The Decadal Cycle is a market theory introduced by W.D. Gann, a world-renowned trader and analyst, who observed recurring patterns in stock market performance over 10-year periods. According to this theory, specific years within the decade tend to perform better than others due to cyclical economic and behavioural factors. While not an exact science, these patterns have been consistent enough to offer an interesting framework for understanding market trends.

Looking at the below chart, we can see the historical performance of the Dow Jones Industrial Average throughout the decadal cycle. We have gone back to 1881 for the data, which we believe is long enough to remove any “one-off” anomalies or statistical flukes. The standout year is the fifth, which has historically delivered an impressive average return of 26.77%, far outpacing other years. Other strong years include the eighth and ninth, with better-than-average (red dotted line) returns. On the flip side, the tenth year of the cycle has consistently been the weakest, showing negative average returns.



Why does this happen?

Gann believed that markets move in predictable cycles influenced by human behaviour, economic rhythms, and recurring historical patterns. For example, the fifth year’s standout performance could reflect mid-decade optimism and economic expansion. In contrast, weaker years may align with periods of caution about the new decade or market consolidation.

Next year could see the end of the war in Ukraine, the continued exponential growth in technological breakthroughs and a robust US economy. We, therefore, have the catalysts for a great 2025! However, 2005 and 2015 were anomalies and periods of poorer returns.

Final Comment

Global stock markets continue their upward trends and are helping the Portfolios have an exceptional 2024. This is especially encouraging as we enter a period in which stock markets seasonally perform better, culminating hopefully in a “Santa Rally”. In addition, we enter the year in the Decadal Cycle, which has historically performed significantly better than every other year. We certainly have the catalysts in place for a strong 2025 with significant tax cuts in the US coming and the potential ending of the war in Ukraine.

At all times, we also have potential flashpoints that could abruptly halt the upward trend in stock markets, most notably the potential Tariffs that Trump may impose and his unpredictable nature.

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