Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

January 2025

Contents:

Performance Update
Asset Class Review
What to Look out for in 2025
Final Comment

Performance Update

The Santa Rally never materialised for many global stock markets, with the S&P 500, FTSE 100 and FTSE 250 falling by 0.93%, 1.29% and 0.55%, respectively. However, the Euro Stoxx 50 and the Nikkei 225 rose 0.85% and 1.44%. The Portfolios gave up some of November's strong gains, falling between 0.50% and 1.98%.

2024 has proved to be an excellent year for the Portfolios, returning between 6.46% and 17.49%. Inflation falling, global interest rate cuts, economic growth (particularly in the US), Trump winning, and AI technology's rapid advancement and integration collectively fostered a conducive environment for global stock markets. Whilst global stock markets advanced, there was a wide disparity in performance, with the S&P 500 rising by 26.7% but the Euro Stoxx 50 growing by just 5.07%.

However, concerns over higher inflation are beginning to affect sentiment. In the UK, consumer prices rose from 2.3% in October to 2.6% in November, and this caused the Bank of England to hold interest rates at 4.75%. 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. The market now only expects two interest rate cuts in 2025. UK Gilts and UK Inflation Linked bonds fell 3.60% and 10.98% last year, proving to be a headwind for lower-risk portfolios.

US interest rates may also struggle to come down much this year because many of Donald Trump's policies are inflationary. However, many of his policies are pro-business and should help stock markets continue their upward trends. A negotiated treaty in Ukraine will also help boost stock markets.

The oil price fell over the last year, which is surprising considering the geopolitical conflicts. However, we have a much more resilient oil market, with the US and Brazil ramping up production. This is good news. Gold proved to be one of the best investments in 2024, rising by 28.3% in sterling terms and reaching record highs. This was Gold's best annual performance since 2010.

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	-1.21	2.65	6.74
Cautious	-1.26	2.84	8.18
Balanced	-1.37	3.00	10.77
Adventurous	-1.32	2.78	13.56
Dynamic Equity	-1.22	2.93	17.49
Income Generating	-1.98	1.61	6.46
Fourth Industrial Revolution	-0.50	5.92	13.65
Retirement Investment Solution 1	-1.34	2.87	10.75
Retirement Investment Solution 2	-1.33	2.83	11.80
Retirement Investment Solution 3	-1.33	2.79	12.76

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.12.2024.

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	✓	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 Japanese equities moving above trend and UK equities moving below trend this month.

Cautious, Balanced and Adventurous portfolios

UK equities fell below the trend, and exposure was decreased in the Balanced and Cautious portfolios, whilst Japanese equities moved above the trend and exposure was increased. The Adventurous portfolio remains fully invested in equities and achieved a gain of 13.56% last year.

Dynamic Equity portfolio

The portfolio gave up some of last month's strong gains but is performing exceptionally well, up 17.49% over the previous year and significantly outperforming the benchmark (red line), as shown in the graph below. 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.

Foundation portfolio

Exposure to UK equities decreased, whilst Japanese equities increased. It has been difficult for lower-risk portfolios as bonds have struggled in 2024. We are therefore pleased that the portfolio grew by 6.74% in 2024. The portfolio has a trend following investment philosophy, which reduces exposure to bonds when they are below trend. This helped ensure that the portfolio did not fall too much when bonds suffered bigger losses.

Income Generating portfolio

The portfolio gave up last month's gains as bonds fell significantly. In addition, equities that pay higher dividends are less attractive to investors as interest rates are not being cut as aggressively as first thought. This is proving to be a headwind for the portfolio.

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 expectation is for two interest rate cuts in the UK next year and possibly just the one in the US, as they cut their rates in December. If interest rates fall more than this, expect the Income Generating portfolio to outperform.

Fourth Industrial Revolution portfolio

Last month, the portfolio fell just 0.5% as we experienced strong gains in four underlying holdings. The portfolio was rebalanced in December ensuring that more money remains invested in the best two performing underlying funds and less in the worst two. The Herald Investment Trust remains one of the two best-performing funds and continues to have the most money invested in it. However, despite performing exceptionally well, the L&G Global Technology fund was replaced by the iShares Digitalisation fund, which has started to perform well. The L&G Global Clean Energy fund remains a bad performer, so its allocation remains lower. The L&G Cyber Security fund had its allocation increased as it marginally performed better than the L&G Battery Value Chain fund, which had its allocation reduced. Overall, the "Momentum" screen applied to this Portfolio is performing well and has helped the portfolio grow by 13.65% over the last year.

Retirement Investment Solutions

The Retirement Investment Solutions invests in three portfolios: the Foundation, Dynamic Equity and Multi-Asset Trend Following. The Dynamic Equity portfolio performed exceptionally well last year, and this helped the three solutions achieve double-digit positive gains during 2024, despite UK bonds falling.

Summary of Portfolios

The portfolios have had a successful 2024, especially the Dynamic Equity portfolio, which has 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. December was a more subdued month, and the Santa rally appears to have happened a month early!

The performance of the lower-risk portfolios remains more highly correlated to inflation and interest rates. An unexpected rise in inflation caused experts to predict that interest rates will not be cut as quickly as expected. This caused losses in bond funds, which proved to be a headwind to our lower-risk portfolios.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the winners and losers of 2024.

The US was the biggest winner.

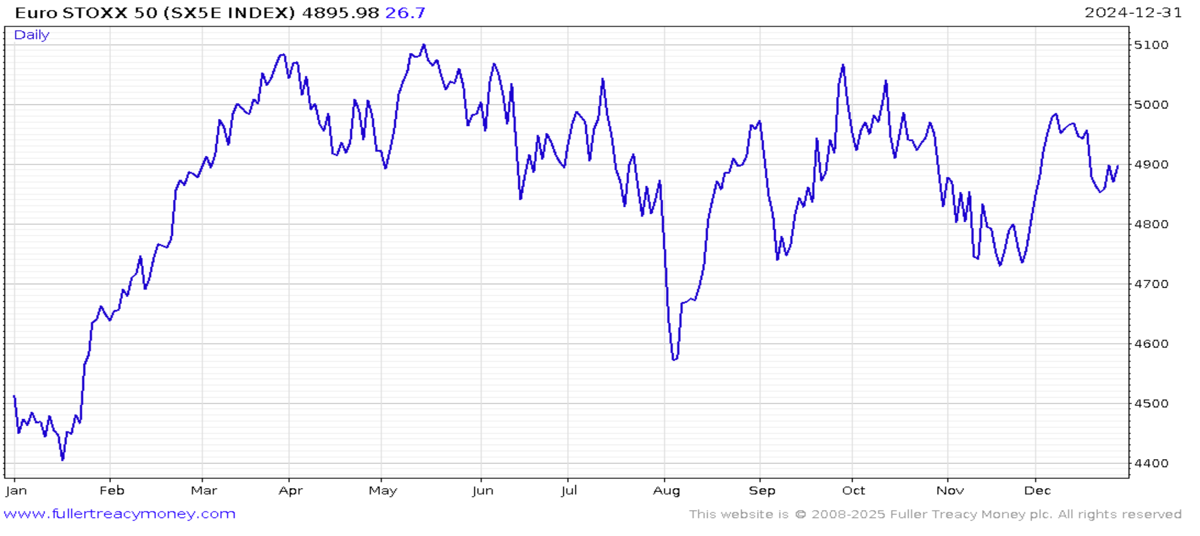
The S&P 500 is the best-performing major stock market, rising by 26.7% in sterling terms during 2024. However, 32% of the market comprises six technology companies: Apple, Nvidia, Microsoft, Amazon, Meta and Alphabet. It is, therefore, very reliant on these companies, and a small change in sentiment towards them could cause the S&P 500 to fall significantly. Interestingly, if you invested equally in each of the companies in the S&P 500, i.e., only 6% invested in those technology companies, then the return would drop from 26.7% to 14.4%.

FTSE 100 – up 9.66%.

The FTSE 100, including dividends, grew by an impressive 9.66%. However, as you can see from the chart below, this growth was achieved early on in the year, and since May, the FTSE 100 has fallen. The dividend yield (income) for the FTSE 100 is impressive and stands at 3.68%. If interest rates are cut more than expected, we would expect the FTSE 100 to become more attractive due to its yield and, therefore, could be one of the best-performing stock markets in 2025.

Europe- underperformed but still managed a positive gain.

The Euro Stoxx 50 (top 50 European companies) returned in sterling 5.07% in 2024, underperforming other major markets. There was a vast difference in the performance of the individual countries, with France falling by 3.71% and Germany increasing by 13.8%. The Euro Stoxx 50 is a much more diversified stock market in terms of industries than the technology-dependent S&P 500. Therefore, if we see a sell-off in technology companies, resulting in falls in the S&P 500, the Euro Stoxx could still make positive gains. Thus, having a flexible investment proposition that can significantly increase or decrease exposure to different equity regions could be very important in 2025.



Brazil – a big loser

Emerging markets have been highly volatile in 2024. The best example is the Brazilian stock market, and you can see how it was performing exceptionally well by late summer, but then it fell significantly, recording a loss of 28.8% for sterling investors. Both China and India had good years, which ensured that the overall emerging market index grew by 9.43%. When investing in emerging markets, we must expect extreme volatility and wide variations in specific country returns and 2025 will no doubt be the same.

In Summary

2024 was a great year for stock markets, with most major markets showing strong positive returns. However, when we break down the performance of global stock markets, we can see a high dependency on the performance of just six technology companies. 2025 could see a change in leadership with stock markets that offer a more diverse range of companies outperforming the previous leader (S&P 500).

What to Look out for in 2025

After some great investment returns in 2024, many of us are looking ahead to 2025 with curiosity and optimism. Predicting markets is never an exact science—sometimes, they move in surprising ways regardless of news or expectations. For example, major political events often grab headlines but don't always impact markets as expected. However, the key themes that could shape the year ahead are always worth considering. Here are some important areas to keep an eye on in 2025:

1. A Slowing UK Economy Labour's win in the UK election marks a significant shift in political leadership. With a focus on increased public spending, reforms to healthcare and education, and greater emphasis on green energy initiatives, the new government faces the challenge of navigating a slowing economy. Economic growth has been under pressure due to high borrowing costs and subdued consumer spending. While uncertainty remains, opportunities could emerge as the government works to stimulate growth.

2. The Global Interest Rate Story Continues 2024 saw interest rates start to fall as inflation cooled, and this trend could continue into 2025. Central banks, including the Bank of England and the U.S. Federal Reserve, are expected to lower rates further to stimulate economic activity (but not as much as previously expected). Lower interest rates can be good news for stock markets and bonds. Borrowing becomes cheaper for businesses and consumers, helping drive investment and spending.

3. Trump's Victory and Its Market Impact Donald Trump's return to the White House following the 2024 election has already begun shaping expectations for 2025. During Trump's previous presidency, markets rallied significantly, driven by tax cuts, deregulation, and pro-business policies. Investors are anticipating similar moves, which could boost U.S. stock markets. While volatility remains a possibility, Trump's policies are expected to prioritise US economic growth, potentially making U.S. stock markets outperform for another year.

4. Recovery for Smaller Companies Smaller companies, particularly in the UK as they are extremely cheap, could be well-positioned for growth in 2025. Lower interest rates and a recovering economy would allow these businesses to borrow more cheaply and invest in expansion. Smaller companies are often more sensitive to economic changes, meaning they tend to benefit earlier and more dramatically when/if growth returns.

5. Geopolitical Tensions and a Push for Stability While we hope for peace, geopolitical tensions remain an important factor for global markets. Conflicts like the ongoing war in Ukraine and uncertainty in the Middle East can affect commodity prices, especially oil and gas. However, there are signs that 2025 could bring more stability. Diplomatic talks and changing leadership could lead to progress in resolving these conflicts. If energy prices remain stable or decline, this would boost businesses and consumers globally.

6. Technology and the AI Revolution The technology sector, particularly artificial intelligence (AI), is expected to remain a major driver of growth in 2025. Companies that integrate AI and automation into their operations are gaining a competitive edge. AI has the potential to transform industries, increase efficiency and boost the value of stock markets.

7. A Rise in Adventures—and Spending on Experiences After years of economic and global uncertainties, people are prioritising experiences over possessions. From luxury travel to adventure-filled holidays, 2025 could see a boom in spending on unique experiences like safaris, wellness retreats, and culinary tours. Travel companies, experience-driven businesses, and hospitality providers stand to benefit as consumers seek more ways to make memories and enjoy life. After all, as the saying goes, 'collect memories, not things.'

Summary While no one can predict exactly what 2025 will bring, there are plenty of reasons to be optimistic. Falling interest rates, political developments, and growth in smaller companies and technology could all provide opportunities for strong investment returns. By staying diversified and following trends, we can confidently navigate whatever the year has in store.

Final Comment

After a strong November (early Santa Rally!), December was a month in which bonds fell, and stock markets were mixed. Inflation is beginning to rise again and had the knock-on effect of potentially delaying further interest rate cuts. The economy and investment markets are susceptible to inflation changes after experiencing high inflation levels over the last few years.

As we start 2025, global stock markets remain on their upward trends and have helped the Portfolios have an exceptional 2024. We 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.

We, therefore, enter 2025 in an optimistic mood, but we also must remember that unexpected events can derail our optimism.

Watson Moore Independent Financial Advisers Limited
Essex House
Station Road
Upminster
Essex
RM14 2SJ

Tel: 01708 250624

Email: chrismoore@watsonmooreifa.com

www.watsonmooreifa.com

Authorised & Regulated by the Financial Conduct Authority