

Monthly Investment Update

February 2025

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Performance Update

The year started with some outstanding returns for global stock markets, with the S&P 500, FTSE 100, FTSE 250, Euro Stoxx 50 and the Nikkei 225 rising 3.60%, 6.20%, 1.78%, 8.56% and 1.39% respectively. The Portfolios advanced between 2.95% and 4.95%.

Last month marked the inauguration of the most unorthodox US President in living history, Donald Trump. Regardless of individual opinions about him, one of the key indicators he seems to prioritise as a measure of his success is the performance of the stock markets over his four-year term. Right from the outset, he implemented cuts to corporation tax rates to stimulate economic growth, and this move has contributed to stock market advances. Additionally, he has been applying pressure on the Federal Reserve (FED), which is supposed to operate independently, to lower interest rates.

However, concerns over higher inflation from Trump's plans have meant that the FED is unlikely to cut interest rates anytime soon. There is even talk of a rate increase. Trade tariffs will increase the price of goods, and mass deportations will reduce the supply of labour and push up wages. Both will be inflationary, which is probably why Trump refrained from imposing tariffs right from his first day in office.

The Trump administration announced a major investment in artificial intelligence (AI) infrastructure called Starlink. It is claimed that a total of £500 billion could be invested. However, the technology sector was left in shock as a Chinese AI lab called DeepSeek appears to have produced an AI model that can rival Western leaders at a fraction of the cost.

Bonds advanced as interest rates are being cut in the rest of the world, with Europe cutting theirs by 0.25% and the Bank of England expected to follow suit this month.

Gold is rallying for a host of reasons as it hit a new all time high. The unpredictability of Trump's policies, especially the threat of tariffs and their consequences, is ensuring that demand for the safe haven of gold is strong.

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 | 2.95 | 4.69 | 10.87 |
| Cautious | 3.04 | 5.12 | 12.11 |
| Balanced | 3.69 | 6.22 | 14.76 |
| Adventurous | 4.27 | 7.54 | 17.26 |
| Dynamic Equity | 4.95 | 9.22 | 20.97 |
| Income Generating | 3.27 | 2.42 | 10.39 |
| Fourth Industrial Revolution | 4.68 | 10.95 | 18.70 |
| Retirement Investment Solution 1 | 3.58 | 6.11 | 14.55 |
| Retirement Investment Solution 2 | 3.81 | 6.59 | 15.56 |
| Retirement Investment Solution 3 | 4.02 | 7.03 | 16.46 |

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 | 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, 21 are above trend.

Cautious, Balanced and Adventurous portfolios

Once again, we are fully invested in equities, with the UK and Europe moving above trend. Bonds remain mixed with UK Gilts below trend but with UK interest rates most likely to be cut in February, it may not be long until we are fully invested in Bonds as well.

Dynamic Equity portfolio

The holding in gold miners jumped 16.09%, helping the portfolio return 4.95% in January. The momentum screen led to Indian equities being replaced by smaller US companies, which are benefitting from Trump's tax cuts. This has led to the Portfolio being even more overweight US equities. This is the nature of following a momentum driven investment philosophy as it will increase exposure to those sectors that are performing the best in the hope that they continue to outperform. Historically, following this strategy has resulted in significant outperformance.

Foundation portfolio

Similar to the Cautious, Balanced and Adventurous portfolios, the Foundation portfolio is fully invested in equities, with the UK and Europe moving above trend. Bonds are not fully invested in currently with UK Gilts below trend. The Portfolio advanced 2.95% over the month and is now up 10.87% over the last year. These are good returns for what is a low-risk portfolio.

Income Generating portfolio

The Portfolio advanced 3.27%, helped by strong gains in the FTSE 100. One of the largest holdings in the portfolio is the HSBC FTSE 100 fund, which is paying an income of 3.45%. The FTSE 100 hit a record high and looks like it could advance past 9000 before the summer, especially if interest rates are cut. However, the Portfolio also has large holdings in smaller UK companies which are underperforming as the UK economy struggles to digest the tax changes in the recent budget.

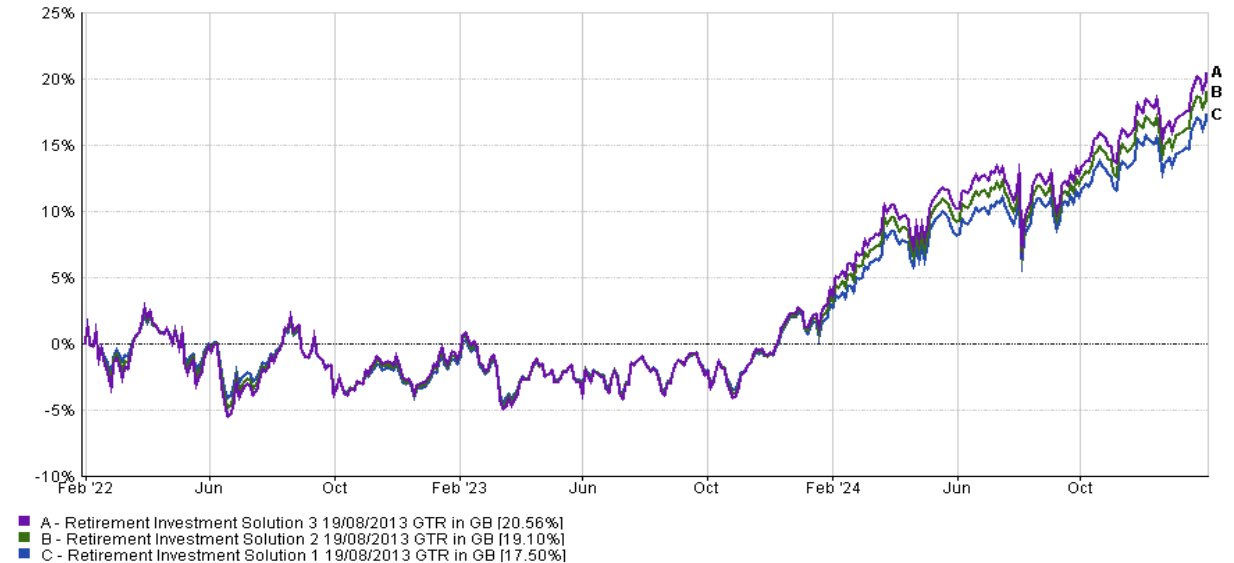
The Portfolio is also much less exposed to technology companies as they tend to pay lower dividends. It therefore invests in a much broader range of industries and geographical regions. This can be demonstrated by comparing the top holdings in the Portfolio with the Dynamic Equity portfolio. The top holding in the Income Generating portfolio is HSBC at 1.02%, whereas Apple, at 5.02%, is the top holding in the Dynamic Equity portfolio. The two portfolios therefore compliment each other very well and will perform very differently at different stages of the economic cycle.

[Fourth Industrial Revolution portfolio](#)

The L&G Artificial Intelligence fund was the top performer within the Portfolio as it grew 9.5%. The DeepSeek news meant that AI could in future be much cheaper than expected and therefore be implemented into companies much quicker and broader than previously expected. The portfolio advanced 4.68% over the month and is now up 74.98% over 5 years. This is a high-risk portfolio that has historically led to significant long term returns but will fall significantly from time to time.

[Retirement Investment Solutions](#)

The Retirement Investment Solutions invests in three portfolios: the Foundation, Dynamic Equity and Multi-Asset Trend Following. Each portfolio has a different investment philosophy and by blending them, we hope to achieve steady long-term returns. Over the last 3 years you can see the benefits of this strategy with the Solutions having a significant amount in cash during the difficult period in 2022/23, but investing more in equities as markets advanced during the end of 2023 to now.



31/01/2022 - 31/01/2025 Data from FE fundinfo 2025

[Summary of Portfolios](#)

Trump's policies have and will affect the performance of the portfolios during 2025. Tax cuts have already helped the portfolios achieve some strong returns in January, but if his trade tariff policies lead to higher inflation, then we could see an end to this current upward trend in equities.

When investing, we must try to block out the headline news and concentrate on what is actually happening in the markets. Currently, most major equity markets are on strong upward trends, with the US leading the pack. Bonds are more mixed, as the rapid falls in interest rates have not yet materialised. Therefore, we must conclude that we remain in a positive time for our wealth, and 2025 could be another good year.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the continued upward trends in the major global stock markets, with many breaking to new all-time 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, and the upward trend pattern continues. The fear was that Trump's trade tariffs could be the catalyst for higher inflation and lower global growth, which caused the recent dip. However, it does look like he is using the threat of tariffs as a negotiating tactic and has delayed their imposition, which is why a new high has been achieved.



FTSE 100 – new all-time high.

The FTSE 100 had become stuck in a range from May last year but has broken to a new all-time high. The catalyst was a fall in sterling. We must remember that over 70% of the FTSE 100 earnings are derived from overseas, so a lower sterling translates into higher profits in GBP. 9000 could be hit before the summer. The FTSE 250, a better barometer of the UK economy, is still struggling though.



Europe- breaks higher

Like the FTSE 100, the Euro Stoxx 50 (top 50 European companies) broke out of its trading range as fears of the Trump tariffs receded. The previous high of around 5500 was in the year 2000 and we could be set to break through that. Once a stock market breaks to a new all-time high, it can move significantly higher.



India – after hitting new all-time highs, it has fallen significantly

India is a great example of what can happen after a rapid advance. It was one of the fastest growing stock markets, rising over 40% in just over a year. After a prolonged period of market rallies, investors often engage in profit booking, which involves selling stocks to realise gains. This phenomenon is particularly pronounced when indices reach record highs, as was the case in India recently. Profit booking leads to short-term corrections and adds to market volatility.



In Summary

2025 has started with most major markets showing strong positive returns, many of which hitting new all-time highs. However, after a rapid advance, a stock market can pull back as demand simply dries up and investors try to bank their profits at the same time. We must therefore be wary that with global stock markets hitting new all-time highs, we are still prone to bouts of consolidation, and this can lead to large short-term losses.

High and Low Risk

The basics of investing are that high-risk investments should produce the best longer-term returns but are prone to significant falls from time to time, and lower-risk investments should produce slow, steady returns and not fall too much during difficult investment periods. However, over the last 3 years, some lower-risk investments have fallen significantly, whilst the higher-risk investments have produced some excellent returns and a steadier journey.

The chart below shows the performance over the last three years of two of the lowest-risk funds (red lines) that the Portfolios can invest in, as well as the highest-risk fund (blue line) and the gold fund that we invest in (green line):



31/01/2022 - 31/01/2025 Data from FE fundinfo2025

The most striking observation is that the performance difference between the worst-performing low-risk and highest-risk fund is 115% ! The lowest-risk funds are UK Government Bond funds, with the worst-performing one being the Inflation Linked bond fund. Both fell significantly during 2022 as interest rates rose much quicker and higher than expected. They have struggled ever since.

The best-performing fund is the L&G Technology Index Trust, which invests significantly in Apple, Nvidia, Microsoft, Alphabet (Google) and Meta. Rising interest rates usually act as a headwind for technology companies, but these companies are so cash-rich and offer products that are embedded in our daily lives; they have become almost immune to any bad news.

Finally, the green line is the Gold fund that some of the Portfolios can invest in. Gold tends to be uncorrelated to equities and bonds but also does not tend to like rising interest rates. Gold does not pay any income and costs money to store, so when cash returns are high, the opportunity cost of holding gold usually means it falls. However, over the last three years it has acted as a safe haven due to the uncertainty of world events. It has performed exceptionally well, almost being the perfect investment as it has achieved exceptional returns without suffering any large short-term losses.

The good news is that most of the portfolios employ trend following in their investment philosophy, which means that they have largely missed out on the significant losses endured by UK Gilt funds and have had more money invested in Gold and the L&G Technology fund.

Final Comment

2025 has started exceptionally well, with global stock markets remaining on their upward trends with some hitting new all-time highs. The catalysts for the continuation of the upward trends in stock markets remain, with significant tax cuts in the US being implemented, the potential ending of the war in Ukraine and the harnessing of AI leading to productivity gains in most industries.

However, we also have fears that inflation will rise once again particularly in the US as Trump's trade tariffs cause higher inflation globally, leading to interest rate rises not cuts. This is certainly an interesting time!

Watson Moore Independent Financial Advisers Limited

Essex House

Station Road

Upminster

Essex

RM14 2SJ

Tel: 01708 250624

Email: chrismoore@watsonmooreifa.com

www.watsonmooreifa.com

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