

Monthly Investment Update

January 2026

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Performance Update

The Santa Rally was limited to Europe, with the FTSE 100 and Euro Stoxx rising 2.26% and 2.16%, respectively, whilst the S&P 500 and Nikkei 225 fell 1.43% and 1.15%, respectively. Our portfolios ranged between -2.16% and 1.16%.

Global stock markets had an excellent 2025, with the Euro Stoxx leading the way, gaining 32.2% in sterling terms. Momentum appears to have changed with the US underperforming significantly, whilst European markets begin to catch up after years of underperformance. The FTSE 100 is approaching the 10,000 level, which we expect it to break above shortly.

As expected, interest rates were cut by 0.25% in the US and UK. Inflation in the UK fell to 3.2% from 3.6%. Interest rates are expected to fall to 3.25% in the UK during 2026 as inflation continues to fall, and economic growth remains anaemic (it fell 0.1% last quarter). Perhaps the biggest issue at the moment is that whilst interest rates are being cut, government bond yields are not falling. The rate at which the UK Government has to pay to borrow for 10 years is 4.8% and unchanged in December. The same rate in the US is 4.12%, and this increased marginally in December despite the interest rate cut. Bonds are thus moving sideways with UK gilts rising by just 0.05% last month.

Gold had another good month, advancing by 1.25% in sterling terms. Other precious metals continue to rally, with silver gaining 22%. The good news for the global economy is that the price of oil continues to fall, despite issues with some major oil exporters such as Iran, Russia and Venezuela.

Global stock markets enter 2026 on their continued upward trends, global growth remains steady (but slowing), inflation is falling, and interest rates are being cut. The bad news stories that occurred in 2025 appear to be improving (i.e. possible peace in Ukraine), and President Trump has been less market-moving with fewer announcements that materially changed the economic outlook. Overall, we could be in for a continuation of the Goldilocks period and returns in 2026 could be as strong as in 2025.

The performance of the portfolios over the last month, six months and one year is shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	-0.01	8.43	9.59
Cautious	0.04	9.44	10.36
Balanced	0.15	10.61	11.57
Adventurous	0.42	14.58	15.33
Dynamic Equity	1.16	17.44	18.61
Income Generating	0.86	7.89	12.42
Fourth Industrial Revolution	-2.16	15.99	13.81
Retirement Investment Solution 1	0.30	11.71	11.98
Retirement Investment Solution 2	0.44	12.68	13.00
Retirement Investment Solution 3	0.57	13.54	13.92

Trend Following Signals

The table below shows whether the asset class has a positive trend (✓) or a negative trend (x). A positive trend occurs when the market price exceeds 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	Asset Class	Trend Signal
Global Equity	✓	Emerging Market Equity	✓
UK Equity	✓	Commodities	✓
Europe ex UK Equity	✓	UK Corporate Bonds	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	✓	UK Index-Linked Bonds	✓
Pacific Equity	✓	Global Bonds	✓
Gold	✓	UK Gilts	✓
Global Property	✓	Emerging Market Bonds	✓
Global Infrastructure	✓	Overseas Corporate Bonds	✓

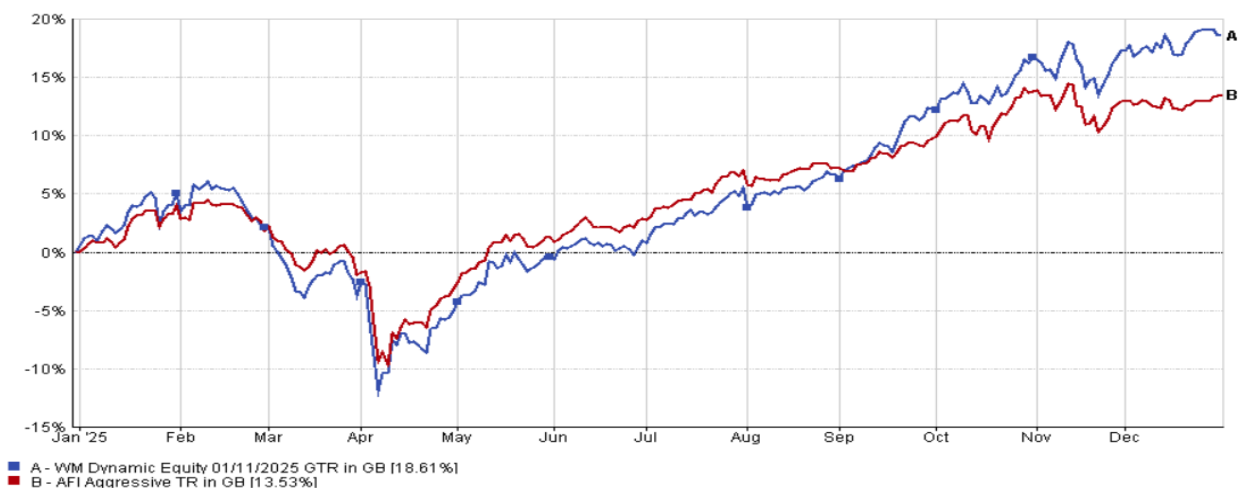
Of the leading 23 markets we monitor, all remain above trend.

Cautionous, Balanced and Adventurous portfolios

The Portfolios remain fully invested and made modest gains in December. The bond exposure in the Adventurous and Balanced portfolios changed following the removal of emerging-market bonds and the increase in UK corporate bonds. Over the last year, the returns have ranged from 10.36% to 15.33%, outperforming their benchmarks. The Adventurous portfolio performed the best as it employs momentum in its investment philosophy and benefited from its exposure to gold and general miners.

Dynamic Equity portfolio

There were no changes to the Portfolio. The Portfolio continues to benefit from the inclusion of mining equities, with gold miners up 7.74% and general miners up 3.03% last month. The Portfolio had a great 2026, significantly outperforming its benchmark, particularly in the previous 3 months, as you can see from the chart below:



31/12/2024 - 31/12/2025 Data from FE fundinfo2026

Foundation portfolio

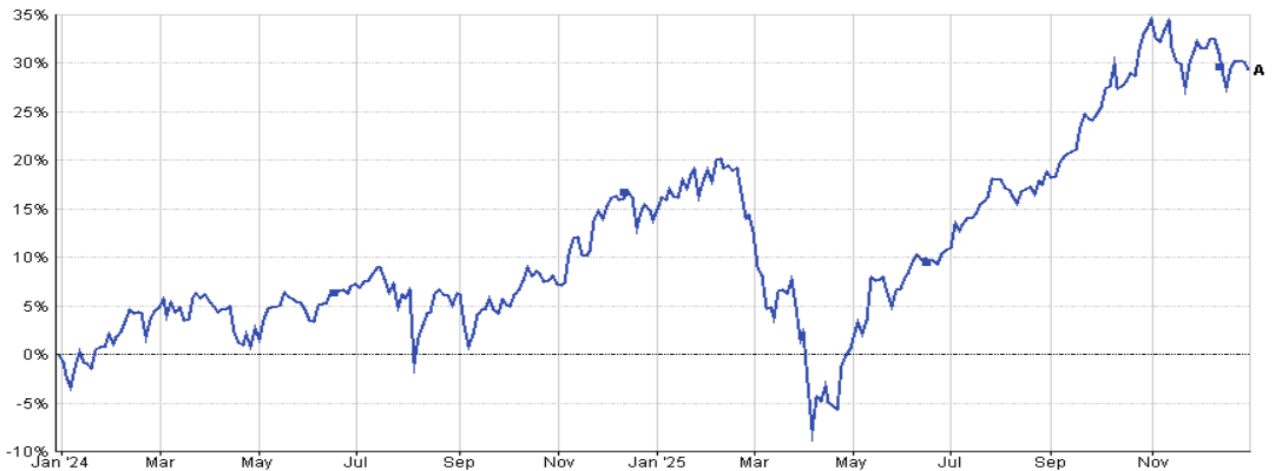
The Portfolio remains fully invested and had a quiet month. Strong gains in European and UK equities and gold were offset by losses in US equities and some bond funds. This remains a very diverse portfolio and is benefiting from some of the asset classes performing exceptionally well over the last year. The three-year annualised return is now 7.57% per annum, achieved with lower volatility (i.e., a smoother journey) than its benchmark.

[Income Generating portfolio](#)

The Portfolio benefited from being overweight UK equities as the FTSE 100 advances towards the 10,000 level. As interest rates are cut globally, the dividend yield from income-producing assets becomes more attractive, and this helped the portfolio advance 0.86% last month. The FTSE 100 still yields 3% despite its recent advance. This eclipses the yield in other major markets, and valuations are considerably lower than in the US. This could be a period when the FTSE 100 outperforms for an extended period. And if interest rates continue to be cut globally, then expect the Income Generating portfolio to benefit.

[Fourth Industrial Revolution portfolio](#)

The Portfolio gave up some of the recent outstanding returns, falling by 2.16% last month. The Portfolio has performed exceptionally well, growing by 29.34% over the past 2 years. However, the chart below shows how it has recently come off its high. This is typical of asset classes that rise significantly. They tend to have periods of consolidation in which investors who made significant profits start locking in some of their profits, and those who missed out start building up positions.



■ A - Fourth Industrial Revolution 15/12/2025 GTR in GB (29.34%)

29/12/2023 - 31/12/2025 Data from FE fundinfo2026

[Retirement Investment Solutions](#)

The Retirement Investment Solutions are designed to reduce losses during sustained periods of negative stock market returns, while also harvesting gains when stock markets trend higher. This is achieved by investing in three portfolios: the Foundation, Dynamic Equity and Multi-Asset Trend Following. The Dynamic Equity portfolio is high risk, and the Solutions are benefiting from their exposure to this portfolio, which is a major reason why returns over the last two years have been robust. The other two portfolios will significantly increase their cash position during the difficult investment periods, which will hopefully protect your wealth from significant declines. However, during sustained periods when markets are trending higher, they will increase their risk, and we have seen both portfolios perform well recently because they are fully invested. Over the last two years, they have outperformed their benchmarks.

[Summary of Portfolios](#)

The Portfolios experienced some strong returns in 2025 as most major stock markets hit new all-time highs. The upward trend in stock markets clearly remains. Whether we have a good 2026 depends a lot on whether the less fashionable industries start to reap the benefits of implementing artificial intelligence in their businesses. Relevant examples include banks processing transactions more rapidly and cost-effectively, restaurants employing automated kitchens, retailers using AI to increase efficiency in logistics, and even the NHS cutting waiting lists by speeding up paperwork and data processing.

Whilst the Portfolios are fully invested and thus benefiting from rising stock markets, the investment philosophy remains flexible enough to turn defensive if economic and market conditions change.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the biggest winners of 2025.

Gold was the biggest winner.

Gold was the best-performing major asset class, rising 55.3% in sterling terms during 2025. Central Banks have been buying Gold to add to their reserves rather than buying US Treasuries. They have been doing this in a slow and consistent way, which is why gold has been rising in a beautiful, consistent trend since early 2024. Gold miners performed even better, rising by an incredible 151.2%.



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FTSE 100 – up 25.8%.

The FTSE 100, including dividends, grew by an impressive 25.8%. Last January, we wrote: “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.” Interest rates were cut, and the dividend yield remains attractive at 3%. The FTSE 100’s most significant rises over the year were Rolls-Royce and the banking sector, which accounts for a large weighting. If the banking sector outperforms, this is a really positive sign for the broader economy.



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Europe-up 25.2% (local currency).

The Euro Stoxx 50 (the top 50 European companies) returned 32.2% in sterling in 2025, outperforming other major markets. However, 7% of this gain was from currency movements. The Euro Stoxx 50 is a much more diversified stock market by industry than the technology-dependent S&P 500. Europe has been underperforming the US for many years, so this could now be the start of Europe outperforming and catching up.

Euro STOXX 50 (SX5E INDEX) 5791.41 -4.81

2025-12-31



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Japan- up 28.62% (local currency)

The Nikkei 225 returned in sterling 20.17% in 2025, outperforming other major markets. The Yen depreciated against Sterling, which proved to be a headwind for UK investors. It does, however, appear to be in a period of consolidation, and this is normal for markets as they digest recent gains.

Japan Nikkei 225 Index (NKY INDEX) 50339.48 -187.44

2025-12-30



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In Summary

2025 was a great year for stock markets, with all major markets posting strong gains. However, momentum has changed, with the US underperforming. This is perhaps the period when other markets catch up after years of underperformance. In the January 2025 investment update, we wrote, "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)." It's nice to have our predictions come true!

The J Curve

The J-curve is a simple way of describing a common pattern in economics and investing. Things get worse at first (a dip), and then, after a period of adjustment, they get much better.

If you draw it on a chart, the line falls first and then rises sharply – roughly in the shape of the letter “J”. You often see this with big changes or reforms. For example, when a country restructures its economy, or a company undertakes a major transformation, there can be short-term pain (job losses, higher costs, disruption) before the long-term gains (stronger growth, higher efficiency, better profitability) show up. The J-curve is just a way of saying: “short-term cost, long-term benefit.”

How artificial intelligence could be a J-curve for productivity

Artificial intelligence (AI) is likely to follow a similar J curve path for productivity. As businesses start using AI, several things can drag productivity down:

- Money is spent on new systems, software and infrastructure.
- Processes need to be redesigned to make use of AI rather than just bolting it on.
- Staff need to be trained and retrained, which takes time away from day-to-day work.
- There are likely to be mistakes, duplicated effort and trial-and-error as people figure out what works and what does not.

This can mean that, in the early stages, overall productivity is lower, even though the goal is to improve it. On the chart, this is the part where the line drops below its starting point.

Adjustment phase – turning the corner of the J

Over time, organisations climb out of that dip:

- People become comfortable and confident using AI tools.
- AI is properly embedded into workflows rather than sitting on the side.
- Companies learn where AI genuinely adds value and where it is better to stick with human judgment.
- Low-value, repetitive tasks are automated or removed entirely.

At this stage, productivity gradually returns to its starting point – the line begins to curve upward.

Acceleration – the upward part of the J (long-term gain)

Once the learning curve is behind us, the benefits can begin to compound:

- The same number of people can produce more output or handle more customers.
- Decisions can be made faster and with better information.
- New products, services and business models become possible that did not exist before.

This is where productivity can rise quite quickly, giving you the steep upward part of the J-curve. The eventual level can be much higher than where we started, even though we went through a dip to get there.

How will it affect our Investments?

The simple answer is it already has. Investors have pencilled in the fact that future profits will be enhanced by the adoption of AI in society, and we have experienced strong gains in stock markets over the last few years. However, the benefits have been condensed into a small number of firms that currently control AI (think Microsoft and Nvidia). Over the next few years, a wider group of companies will benefit from the J-curve effect as they implement AI into their businesses.



The chart to the left compares the performance of the S&P500 to the equal-weighted version. The equal-weighted version effectively reduces the exposure to the biggest technology companies to just 0.2%, whereas the S&P 500's top 6 companies account for 31.9% of the index. Last year, the equal-weighted index underperformed by over 6%. 2026 could see the reverse, as AI is embedded in most businesses, which in turn benefits from significant productivity gains. Having a flexible and robust investment philosophy could be the best way to take advantage of the J curve.

Final Comment

Whilst the Santa Rally occurred in some markets, others failed to enjoy the cheer. We enter 2026 with global stock markets continuing their upward trends. Bonds are displaying marginal gains but have not yet rallied as we would have expected with global interest rates falling, and gold shows no signs of changing trend. We have lots of positive data and news as we commence 2026, and it could be another profitable year.



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The past is not necessarily a guide to future performance. The value of any investments can go down as well as up and you may not get back the full amount invested. Taxation is subject to change and you may have to pay tax on any gains. The Watson Moore portfolios are unlikely to exactly mirror our clients' portfolios due to the timing of the initial investment and the speed of response to our fund switch recommendations as well as the effect of charges. The figures above therefore assume a client invested on the launch day and have responded immediately to our recommendations. As from the middle of 2016, the portfolios have been run on a discretionary basis by our sister company WM Capital Management. All figures and charts are provided by Financial Express.