Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

May 2026

Contents:

Performance Update

Global stock markets rebounded in April, after March's fall, with the FTSE 100, FTSE 250, S&P 500, Euro Stoxx and Nikkei 225 rising 2.28%, 6.60%, 7.23%, 5.37% and 14.39%, respectively. Our portfolios rose between 1.79% and 11.31%.

Equity markets rebounded sharply from their March lows, with the US leading the recovery. US markets are heavily weighted towards technology and quality growth companies, which are benefitting most from advances in Artificial Intelligence. Meanwhile, UK and European markets have greater exposure to industrial and cyclical sectors, which are more sensitive to rising costs and interest rates, leading to relatively weaker performance. The US is also energy independent meaning it is far less sensitive to rising oil prices. By contrast UK North Sea oil & gas production is now around 75% lower than its peak in 1999.

Other asset classes fell though with UK Gilts, overseas corporate bonds and gold falling 0.48%, 0.88% and 2.90% respectively. Oil prices remain elevated and volatile, which in turn has increased inflationary pressures at a time when markets had been expecting interest rate cuts. Instead, the move higher in oil has shifted expectations, with central banks now more likely to hold rates higher for longer or even consider further increases.

With global oil reserves tightening, there is increasing pressure for a resolution to the Iranian war, making some form of agreement likely in the near term. However, geopolitical uncertainty remains elevated, particularly given the unpredictability of the Iranian regime and the complexities facing Donald Trump in negotiations. Equity markets are pricing in the fact that higher oil prices will be a temporary shock and will soon fall back below $100. Bonds are pricing in the fact that oil prices, if they do fall back, will have a much higher base level ($85 not $65) and thus inflation will persist.

Our Trend Following portfolios responded to these conditions by increasing exposure to equity markets. 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	1.79	3.21	13.94
Cautious	3.77	3.28	15.97
Balanced	4.93	4.19	19.02
Adventurous	5.33	6.40	25.72
Dynamic Equity	6.76	10.22	35.42
Income Generating	2.68	4.16	15.12
Fourth Industrial Revolution	11.31	5.61	41.26
Retirement Investment Solution 1	4.56	5.47	20.84
Retirement Investment Solution 2	5.00	6.27	23.22
Retirement Investment Solution 3	5.38	6.97	25.36

Please note that these figures do not include the platform or Watson Moore's fees. *All figures are sourced from Financial Express to 30.04.2026.

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 asset classes with a positive trend and less (if any) to those with 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	✓
Europe ex UK Equity	✓	UK Corporate Bonds	x
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, 21 are above trend.

Cautious, Balanced and Adventurous portfolios

The Portfolios reduced their cash positions, as most markets are once again above trend. Stock markets recovered after March's correction and the recovery has been significant as it has ensured that all but one equity market is now above trend. All bonds except for UK Corporate Bonds are above trend as well.

Dynamic Equity portfolio

Despite significant volatility in global markets, there were no changes to the Portfolio again, as the momentum strategy has remained unchanged since 1st November 2025. The Portfolio recovered most of March's losses and is up 35.4% over the last year, which is outstanding when we compare it to other higher risk portfolios. However, this month saw a big disparity in the performance of our momentum holdings with the L&G Global technology fund rising by 18.8% but the JP Morgan Natural Resources fund falling by 2.87%.

Foundation portfolio

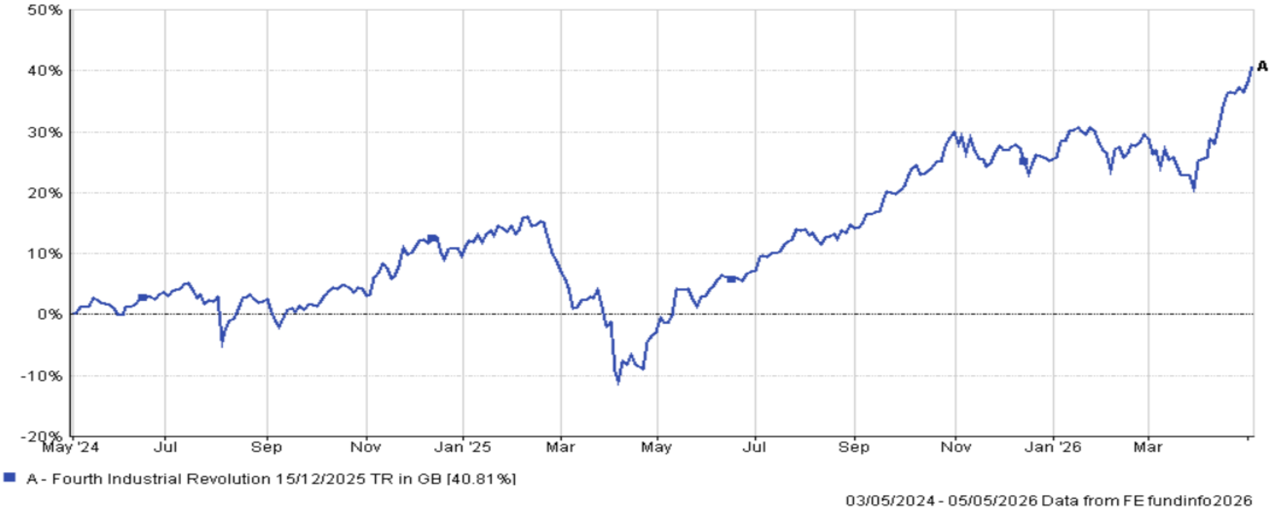
The Portfolio lowered its cash position to just 4.75% as some bond and equity markets broke back above trend. During the correction we have just experienced the maximum loss you could have endured if you had invested in the Foundation portfolio at the top and sold at the bottom was just 5.33%. This demonstrates the cautious nature of the portfolio. However, it has also returned nearly 14% over the last 12 months.

Income Generating portfolio

The war in Iran is potentially going to cause a spike in inflation and central banks may react to this by raising interest rates. For now, central banks have adopted a wait and see attitude but the expectation of further interest rate cuts this year has all but vanished. This has proved to be a headwind for the Portfolio as higher potential interest rates mean that the yield on the Portfolio becomes less valuable and some of the underlying assets should fall in value. Lower future interest rates mean the opposite should happen. Despite this, in periods of instability, investors can start to invest in more defensive asset classes such as the higher income producing stable asset classes that make up the bulk of the Portfolio. We could therefore see this Portfolio outperform if we see an end to the Iran war shortly as well as a period of continued economic instability.

Fourth Industrial Revolution portfolio

The Portfolio was our best-performing one in April, as we saw a rally in US technology companies, with the Nasdaq 100 hitting an all time high. The Portfolio benefited from the investments in Batteries (up 21.68%) and Robotics (up 21.23%). Once again, the difference between the best- and worst-performing underlying holdings was extreme at 25.15%. This demonstrates the diversified nature of the Portfolio, and whilst it invests in higher-risk funds, it is currently benefiting from many of them being uncorrelated. As you can see from the chart below, the Portfolio has now hit an all time high and is performing exceptionally well.



Retirement Investment Solutions

The Retirement Investment Solutions (RIS) are benefitting from having an allocation to the Dynamic Equity portfolio. The allocation ranges from 20% within the RIS 1 and 40% within the RIS 3. The balance of the Solutions are invested in the Foundation portfolio and a trend following portfolio, both of which increase and decrease their exposure to asset classes depending on their trends. This provides the “brakes” when markets suffer a prolonged fall. This month the previous cash increase was mostly reversed, and the Solutions are nearly fully invested again.

Summary of Portfolios

The Portfolios recovered from March’s falls, with many stock markets reaching new all-time highs. This may seem counterintuitive, as the war in Iran continues and the Strait of Hormuz remains effectively closed, causing severe disruption to global trade.

The main concern is that prolonged disruption could keep oil prices higher, pushing up inflation for the rest of the year. If inflation remains elevated, central banks may be less willing to cut interest rates and, in a more extreme scenario, could even be forced to consider further rate rises.

Despite this, markets have continued to rise because investors appear to believe the conflict will not last much longer. Iran needs a resolution before the economic damage becomes too severe, while Donald Trump is facing growing pressure at home as higher gasoline prices begin to affect consumers and his core voters.

In summary, markets are currently looking through the near-term disruption and focusing on the possibility of a resolution. In addition, they have once again started to focus on the potential of productivity gains that artificial intelligence will bring to many industries.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at which stock markets have recovered the most.

Technology- new all time high.

The Nasdaq 100 is laden with technology stocks that are benefitting from the emergence of AI. Investors have learnt that buying the dip pays off and you can see that the dip this time was less pronounced than in 2025 and the recovery was much explosive. Stock markets want to move higher despite the political and economic uncertainty.

Japan – new all time high

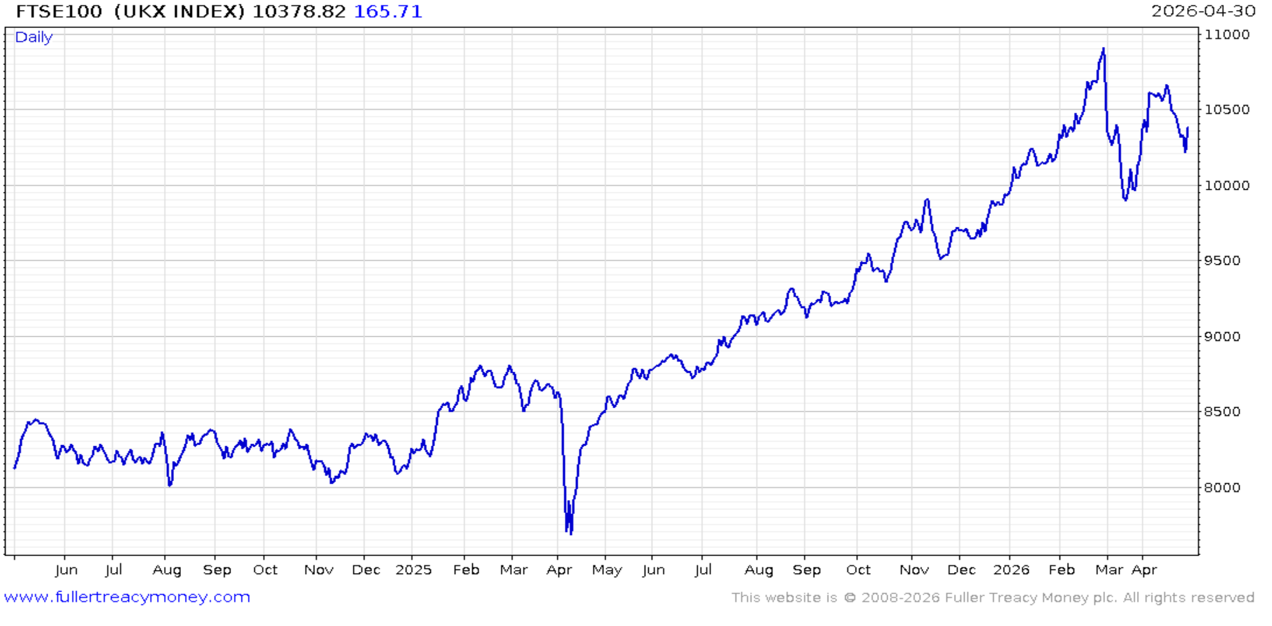
Japan is at the forefront of the AI revolution as it has many leading companies in industrial automation, robotics, semiconductors and the hardware side of the AI boom. The Nikkei 225 is now one of the worlds best performing stock markets and, after years of underperformance, has reached a new all time high.

Emerging markets- new all time high

Emerging markets are heavily influenced by Chinese companies. While not as influential as in the US, Chinese companies are major players in AI development, electric vehicles and digital payments/ platforms. The Chinese government is also now more supportive of the private sector, and this is helping emerging markets to recover after years of underperformance.

FTSE 100 – underperforming

Whilst other stock markets have hit new all time highs, the FTSE 100 is underperforming, mainly due to the composition of the underlying constituents. The FTSE 100 lacks the large technology companies that have driven strong growth elsewhere.



In Summary

Last month we looked at how this current correction could be very similar to the correction in 2025, with a short sharp fall followed by an equally sharp recovery. This time the fall hasn't been as big and the recovery has been much faster. The one sentence from last month that seems to summarise what is happening is that; *"Donald Trump wants to be remembered as the greatest President ever, with stock market growth among his main measures of success. He therefore wants your wealth to go up!"* Global stock markets believe that is true and despite the oil price not falling, markets believe that there will be a resolution in Iran shortly and the oil price will fall.

Are Premium Bonds Worth Investing In?

What are Premium Bonds?

Premium Bonds are a savings product issued by National Savings and Investments (NS&I) and are fully backed by the UK Treasury. Unlike a traditional savings account, they don't pay interest. Instead, every £1 you invest is entered into a monthly prize draw, with prizes ranging from £25 all the way up to £1 million. All winnings are completely tax-free, and importantly, your original investment is 100% secure, as it is backed by the UK Government.

They are hugely popular. Today, there is around £130–£135 billion invested, and approximately 24 million people hold Premium Bonds – that's roughly one in three UK adults.

Why do they exist?

From the Government's perspective, Premium Bonds are a clever way of raising money. Instead of borrowing from financial markets (where they might currently pay around 4.45% for a two-year loan), they can raise money from savers and pay out a 3.3% prize fund rate instead. That makes it a relatively low-cost form of borrowing.

For investors, the appeal is simple, Your money is secure/accessible, returns are tax-free and there is always the chance of a large prize.

How do the returns actually work?

The current prize fund rate is 3.3%, but this is not a guaranteed return. The odds of winning are 1 in 23,000 per £1 bond, per month. So, for example, if you held £23,000, statistically you might expect to win something reasonably regularly. However, it's important to be clear most prizes are small (£25–£100) and only two £1 million prizes are paid each month. Many investors will win less than the headline rate, and some may win nothing for periods of time. In other words, this is not a consistent income-producing investment.

What is the tax advantage?

Because all prizes are tax-free, the "effective return" depends on your tax rate:

Taxpayer Status	Net (Premium Bonds)	Gross Equivalent
Basic rate (20%)	3.30%	**4.13%**
Higher rate (40%)	3.30%	**5.50%**
Additional rate (45%)	3.30%	**6.00%**

Are Premium Bonds worth investing in?

Premium Bonds can be particularly attractive for higher and additional-rate taxpayers who have already used their ISA allowance. However, for others, there are often better options. For example, a Cash ISA provides tax-free interest with certainty and 1-year fixed rates are currently around 4.5%, which is higher than the 3.3% prize rate. Over the longer term, a medium-risk investment portfolio (AFI Balanced) has delivered around 6.1% per annum over the last decade (albeit with investment risk).

The bottom line

Premium Bonds are not an income-generating investment. They are best thought of as a tax-efficient cash holding with a lottery element. If you want certainty and a reliable income, then cash savings or ISAs are typically better. For higher-rate taxpayers in particular, they can offer a very competitive effective return, especially once all tax allowances have been used.

However, over the long-term returns are likely to be superior from an investment portfolio.

Final Comment

Global stock markets signal that all is well in the global economy. However, the War in Iran continues with the Strait of Hormuz effectively closed and disrupting 20% of the global oil supply as well as other vital commodities such as fertilisers. The oil price remains elevated, and we are beginning to hear that airlines may have to cut capacity in the summer as jet fuel becomes scarcer. The duration and extent of the conflict will ultimately determine the impact on financial markets, and they currently believe that a resolution is imminent as both Trump and Iran have a lot to lose the longer the conflict goes on.

On the positive side the exponential growth in technology and in particular AI, is ensuring that the glass is “half full” for investors and enthusiasm is returning to those companies that have the most to gain from AI.

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