Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
August 2026

Contents:

Performance Update

The FTSE 100 and 250 bucked the trend, rising by 3.62% and 4.45% respectively. Other markets fell, with the S&P 500, Euro Stoxx, Nasdaq, Emerging markets and Nikkei 225 falling 1.44%, 0.94%, 6.10%, 4.36% and 0.47%, respectively. Our portfolios performed between -6.48% and +1.00%.

Bond markets suffered losses as well, with UK Gilts, UK Inflation linked Gilts and global bonds falling 1.2%, 3.30% and 1.19%. This was driven by rising oil prices and expectations that interest rates will not be cut any further, possibly rising by the end of the year. Rising borrowing rates hurt equity markets, especially those that have performed the best, such as the Nasdaq. We are beginning to see a change in leadership with Europe and the UK significantly outperforming the biggest US companies. Every equity market remains above trend, but we are getting closer to the trend line in some markets.

Oil prices had fallen below $70 but rose mid-month to above $92. They eased off somewhat to close just below $85. This spike followed an escalation of the conflict between the United States and Iran. A series of US air strikes on Iranian targets, followed by Iranian missile and drone attacks against US interests and regional allies, raised fears that the conflict could spread across the Middle East. Markets became increasingly concerned that further military action could disrupt oil exports through the Strait of Hormuz, the world's most important oil shipping route, through which around one-fifth of global oil supplies pass.

Gold continued to fall, while commodities were the best-performing asset class, rising 7.16%.

Against this backdrop, our Trend Following portfolios remain fully invested in equities, but exposure to bonds has decreased significantly. Gold remains below trend as well. We are also in a weak period for equities as they have historically tended to underperform during the summer months. However, their overall declines have been somewhat muted.

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	-0.47	3.46	11.55
Cautious	-1.24	5.47	14.32
Balanced	-1.48	6.61	17.05
Adventurous	-2.02	6.15	21.87
Dynamic Equity	-2.74	8.95	28.31
Income Generating	1.00	6.38	14.52
Fourth Industrial Revolution	-6.48	13.09	25.76
Retirement Investment Solution 1	-1.44	6.15	18.28
Retirement Investment Solution 2	-1.71	6.64	19.98
Retirement Investment Solution 3	-1.93	7.07	21.48

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.07.2026.

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	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	✓	UK Index-Linked Bonds	x
Pacific Equity	✓	Global Bonds	x
Gold	x	UK Gilts	✓
Global Property	✓	Emerging Market Bonds	✓
Global Infrastructure	✓	Overseas Corporate Bonds	x

Of the leading 23 markets we monitor, 19 are above trend.

Cautious, Balanced and Adventurous portfolios

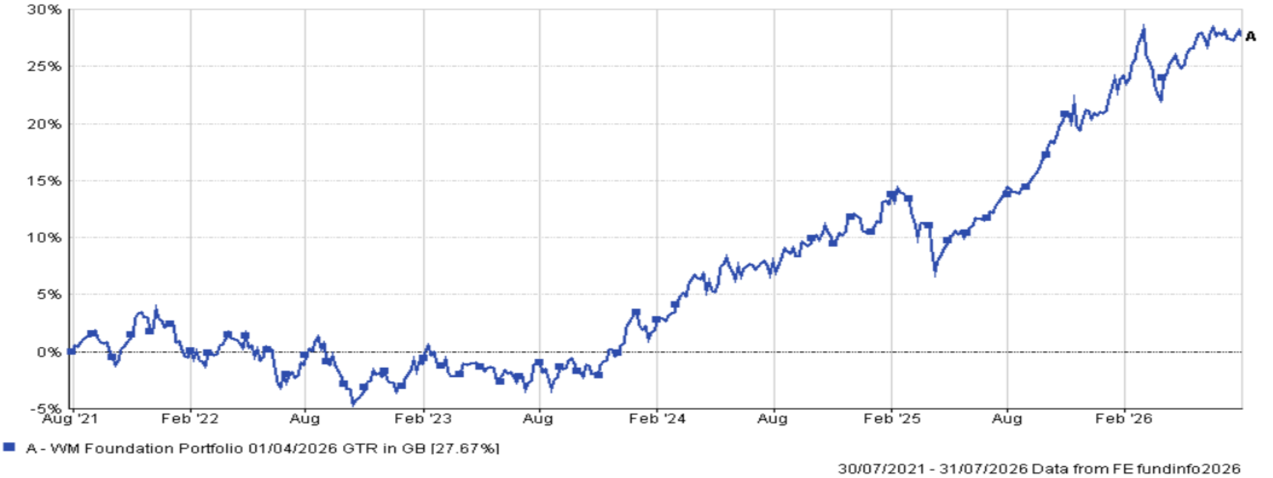
The Cautious and Balanced portfolios increased their cash positions as three bond markets fell below trend. All of the major equity markets remain above trend so we have full exposure to equities in all three portfolios. Due to having this exposure, the returns have been excellent over the last year, but the Portfolios have become more volatile recently.

Dynamic Equity portfolio

Again, there were no changes to the Dynamic Equity portfolio. We are experiencing heightened volatility across different asset classes and momentum is beginning to change (or at least we are at a pivotal point in which technology is beginning to underperform). Last month our momentum investment in the JP Morgan Natural Resources fund rose by 5.76% but our investment in the iShares MSCI World Momentum fund fell by 10.58%.

Foundation portfolio

The Foundation portfolio has recently increased its cash allocation as three bond markets have fallen below their long-term trend, reflecting our disciplined trend-following investment process. Rather than attempting to predict market movements, the Portfolio seeks to reduce exposure to asset classes that are weakening while maintaining exposure to those demonstrating sustained strength. Looking back over the last five years, the chart illustrates how this philosophy has worked in practice. It helped to limit losses during the sharp rise in interest rates following the 2022 'mini-budget' before participating in the subsequent recovery as global equity markets regained their upward trend. As a result, the Portfolio remains close to its all-time high.



Income Generating portfolio

The Income Generating Portfolio delivered a positive return of 1.0% in July, a pleasing result given that it has lagged some of our other portfolios over recent months. Whilst many growth-focused portfolios experienced modest declines during the month, the Income Generating Portfolio benefited from its exposure to UK equities and global companies with attractive dividend yields.

The primary driver of this outperformance was a rotation in investor sentiment away from high-growth technology companies and towards businesses offering stronger and more dependable income streams. As investors sought greater certainty in an environment of elevated interest rates and economic uncertainty, dividend-paying companies became increasingly attractive.

Fourth Industrial Revolution portfolio

The Fourth Industrial Revolution Portfolio declined by 6.48% in July, reflecting the increased volatility that should be expected from a higher-risk, growth-focused investment strategy. Despite this setback, the portfolio remains up more than 25% over the last 12 months. As discussed in previous updates, markets have continued to rotate away from higher-risk growth assets towards more defensive and income-producing investments. This shift has weighed on several of the portfolio's holdings. The largest declines came from the iShares Global Clean Energy ETF, which fell 15.31%, and the L&G Battery Value-Chain ETF, which declined 14.46%. Offsetting some of these losses, the iShares Digitalisation ETF produced a positive return of 3.33% during the month.

Periods such as these are an inevitable part of investing in disruptive technologies. Historically, the strongest long-term returns have often been achieved by investing after significant periods of weakness, when valuations have become more attractive and investor sentiment is subdued. While there is no guarantee that history will repeat itself, the current pullback may represent a compelling opportunity for long-term investors who are comfortable with the higher levels of risk and volatility associated with this portfolio.

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 cash exposure within the Foundation and Multi-Asset Trend Following portfolios increased as several bond markets fell below trend.

Summary of Portfolios

Rising inflation concerns, fuelled by heightened geopolitical tensions in the Middle East and the resulting volatility in oil prices, have led to weakness in both bond and equity markets during July. Higher energy prices increase the risk that inflation remains above central bank targets, reducing the likelihood of interest rate cuts in the near term and placing pressure on both bond valuations and equity markets. While markets remain sensitive to developments in Iran, investors continue to assess whether the conflict is likely to escalate further or move towards a diplomatic resolution.

At the same time, we have seen a notable rotation within equity markets. Investors have reduced exposure to some of the higher-growth technology companies that have led markets over recent years and have instead favoured quality businesses, defensive sectors and regions that appear more attractively valued. Market leadership rarely remains the same indefinitely, and periods such as this often mark the beginning of a broader shift in performance. This could be an opportunity for sectors and regions that have lagged in recent years to close the gap on the previous winners.

Asset Class Review

This section will give you an insight into our current thinking. This month, as most major markets consolidate, we look at the markets moving the most.

Global bond yields continue to rise.

President Trump has repeatedly argued that the next major technological revolution, driven by artificial intelligence, has the potential to lower future inflation by improving productivity, and thus central banks will cut interest rates. This would help the US, along with other highly indebted nations such as the UK, as the cost of servicing their debt pile will reduce significantly. Despite these longer-term hopes, financial markets remain cautious. The yield on the US 10-year Treasury bond rose last month to **4.73%**, reflecting investors' expectations that interest rates may remain higher for longer and that governments will continue issuing large amounts of debt.

FTSE 250, new highs shortly?

The performance of UK stock markets has been significantly lagging those of the US. However, as the US consolidates, UK markets, such as the FTSE 250, are beginning to break higher with the FTSE 250 likely to reach a new all-time high.

Europe, new highs shortly?

Like the UK, Europe is beginning to catch up and looks set to reach new all-time highs shortly as well. Europe has a much more diverse group of companies, with a high weighting in Financials, Industrials, Consumer Products and Healthcare. Money appears to be flowing out of the technology-laden US stock markets and rotating into the more diverse European markets. This could be the start of a major shift in momentum.

Nasdaq, locking in profits?

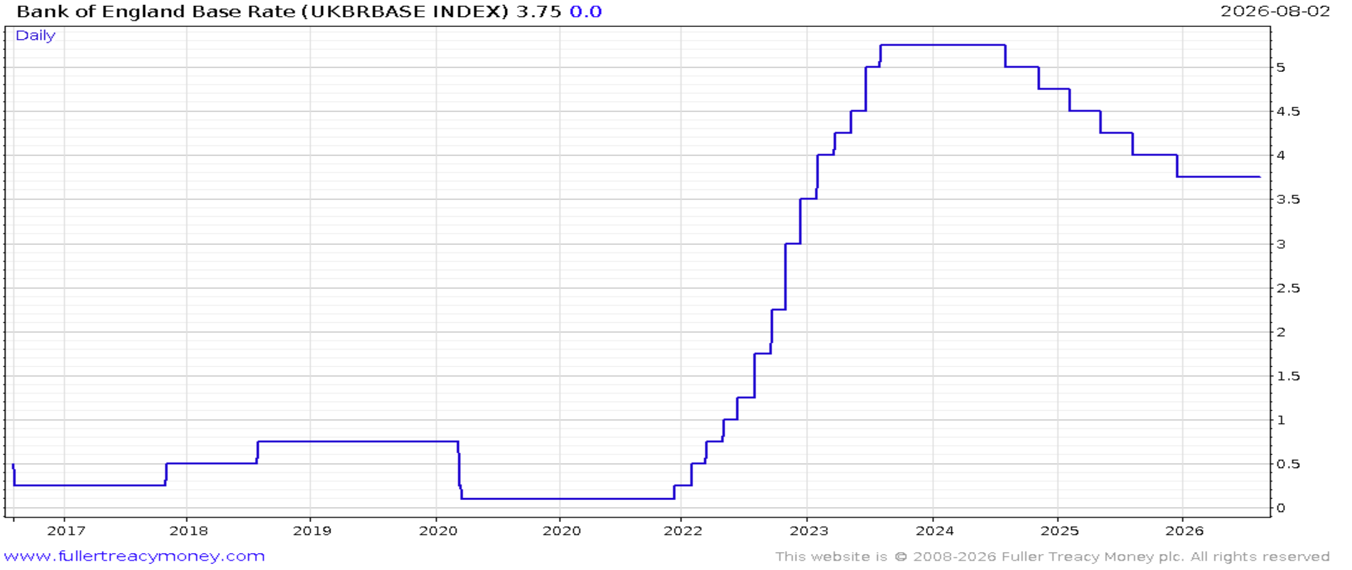
The Nasdaq houses some of the world's biggest technology companies and has been the standout performer. However, recently there has been much talk of an "AI" bubble and potential crash in technology-based companies. This has led to some profit-taking and money has been reinvested in cheaper, more diverse regions such as Europe.

In Summary

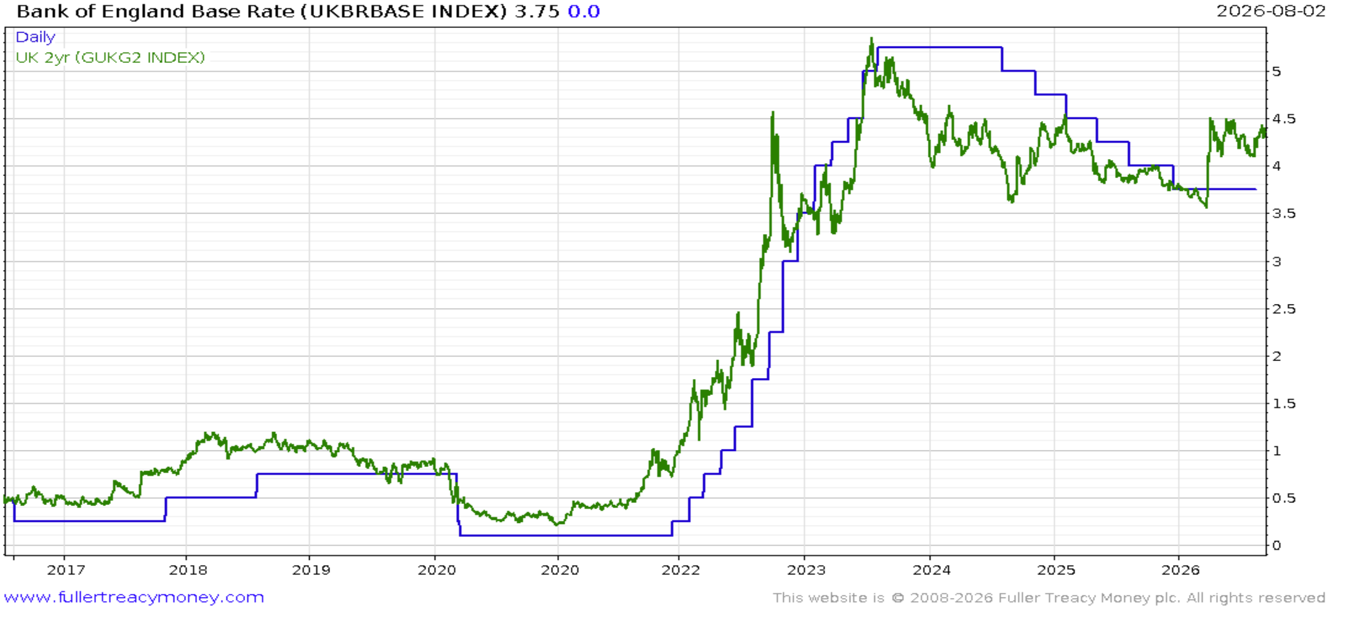
We are seeing the previous leaders, such as the Nasdaq, experience some profit taking, and other markets are now beginning to catch up. This is normal in a bull market as investors want to lock in some of their gains and rotate their money into sectors and regions that are perceived to be undervalued.

Where next for Interest Rates?

Interest rates in the UK remained unchanged at 3.75% for the fifth month in a row. Although analysts expect them to remain unchanged for the foreseeable future, there are now calls for them to rise. The chart below shows how interest rates rose 14 times on the run to reach 5.25%, their highest for 15 years. These rises worked somewhat as they brought inflation down and cooled the economy, so much so that we saw 6 cuts that began in 2024:



Predicting the future is virtually impossible, as many variables always affect every decision. However, the chart below overlays the yield you can get from buying UK government bonds for two years (green line), with that of the current Bank of England Base Rate. You can see how correlated they are, but also how the UK government bond yield has jumped this year, along with most government bond yields:



The rise in government bond yields is not unique to the UK. In the United States, the 2-year Treasury yield has increased from around **3.40% in March to approximately 4.29% today**, despite President Trump making it clear that he would like to see borrowing costs move lower. European government bond yields have also trended higher, although to a lesser extent, with the equivalent 2-year yield standing at around **2.82%.**

This is one reason why developments in the Middle East, particularly the conflict involving Iran, are so important for the global economy. A sustained rise in oil prices would increase energy costs, adding to inflationary pressures, and central banks may be forced to raise interest rates, or financial markets could push government bond yields even higher. That combination would increase borrowing costs for households, businesses and governments, raising the risk of weaker economic growth and, potentially, recession. For this reason, financial markets are likely to react positively to any credible progress towards a lasting peace agreement.

Final Comment

July served as a reminder that markets rarely move in a straight line. Rising geopolitical tensions, higher oil prices and increasing government bond yields created a more challenging environment for both equity and bond markets, leading to negative returns across many of our portfolios. Whilst periods such as these can be uncomfortable, they are a normal part of long-term investing and often create opportunities as leadership within markets changes.

Looking ahead, we remain optimistic about the long-term outlook. Artificial intelligence continues to offer the potential to transform productivity and corporate profitability, while any sustained easing in geopolitical tensions could help reduce inflationary pressures and support lower interest rates. Nevertheless, Donald Trump's unpredictability, together with ongoing geopolitical risks, means market volatility is likely to remain elevated. Rather than attempting to predict these events, we continue to follow our disciplined investment process, allowing portfolios to adapt automatically as market trends evolve whilst remaining focused on delivering attractive long-term returns.

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