Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
September 2026

Contents:

Performance Update

The FTSE 100, FTSE 250, S&P 500, Euro Stoxx, and Nikkei 225 rose 0.22%, 4.34%, 2.17%, 1.12% and 2.01%, respectively. Our portfolios rose between 0.84% and 5.11%.

August is typically one of the weakest months for stock market returns, but this year we experienced higher than normal returns. There is nearly always something to worry about, yet markets can continue to rise. The interesting thing is how long the list of reasons not to invest was during the month:

- War and the Middle East: US–Iran tensions remained unresolved, with renewed US military action at the end of the month.
- Oil: It was extremely volatile and finished the month above $90, creating renewed fears about inflation and interest rates.
- Inflation: US inflation remained stubbornly above the Federal Reserve's target and is at 3.4%.
- Interest rates and bonds: Investors spent August continually changing their expectations about whether the Federal Reserve would raise rates again. Higher oil prices and inflation pushed government bond yields higher towards month-end.
- Trump and tariffs: Trade policy remained unpredictable, including further tariff measures and threats, particularly involving China and Canada.
- AI valuations: Investors continued questioning whether the enormous expenditure on AI infrastructure could justify technology-company valuations.
- Government debt: Concerns remain about high government borrowing and the sustainability of government finances.

Stock markets continue to advance as the good news (which we tend not to hear about) is outweighing the bad news. Our Trend Following portfolios remain fully invested in equities (as we follow the trend and not the noise), but exposure to bonds remains light. Gold remains below trend and infrastructure moved below trend as higher bond yields mean that the income generated from infrastructure is not as enticing.

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	1.45	0.93	13.05
Cautious	1.35	2.54	15.50
Balanced	1.54	3.97	18.29
Adventurous	3.50	4.79	24.76
Dynamic Equity	3.94	7.10	31.91
Income Generating	0.84	2.93	15.61
Fourth Industrial Revolution	5.11	16.93	31.54
Retirement Investment Solution 1	2.42	3.66	20.47
Retirement Investment Solution 2	2.70	4.26	22.42
Retirement Investment Solution 3	2.95	4.79	24.15

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.08.2026.

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	x	Overseas Corporate Bonds	x

Of the leading 23 markets we monitor, 18 are above trend.

Cautious, Balanced and Adventurous portfolios

The portfolios increased their cash positions as global infrastructure 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. Last month our momentum investment in the Ninety One Global Gold fund rose 33.83% and the JP Morgan Natural Resources fund rose 11.51%. This helped the portfolio rise 3.94%. However, whilst the returns over the last three years have been outstanding, the volatility has increased significantly as gold and other miners are experiencing significant volatility. This is one of the drawbacks of running a momentum strategy as you have to be prepared to experience sharp short-term losses from time to time but the rewards longer term can be extremely good.

Foundation portfolio

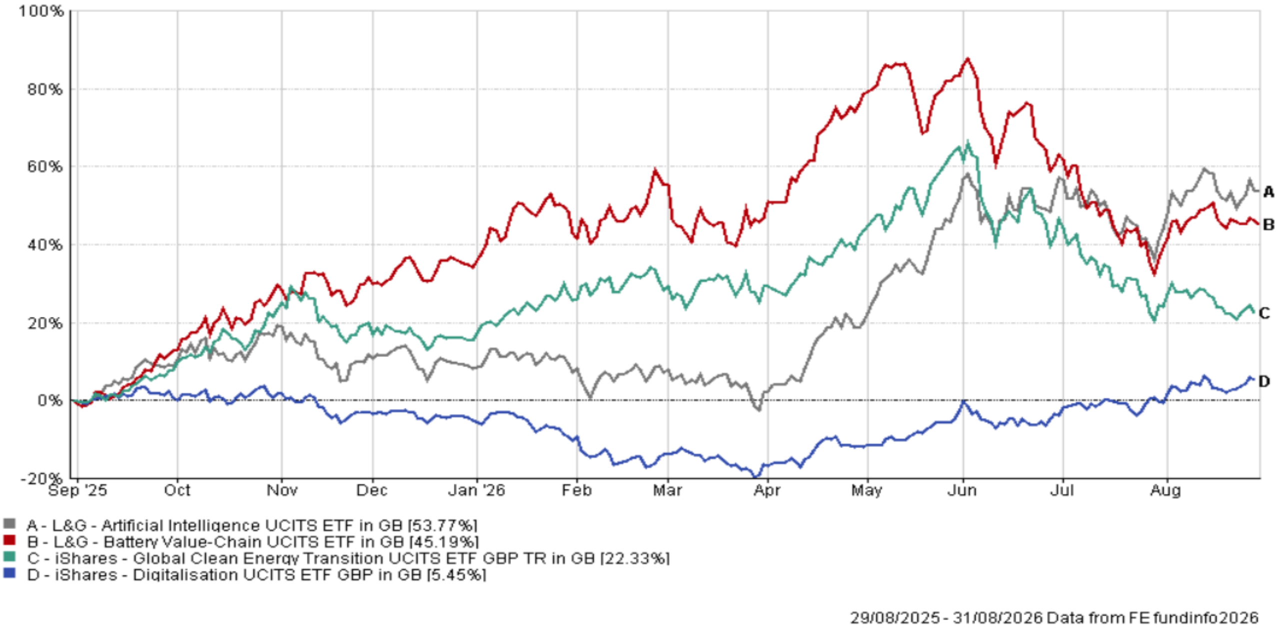
After raising the cash level last month, cash levels have increased further this month as three bond markets fell below their long-term trend, driven by infrastructure falling below trend. Rather than attempting to predict market movements, the portfolio seeks to reduce exposure to asset classes that are weakening while maintaining exposure to those showing sustained strength. As a result, the portfolio has a high weighting in equities and continues to perform steadily, hitting a new all-time high.

Income Generating portfolio

The Income Generating Portfolio delivered a positive return of 0.84% in August, lagging the other portfolios. The portfolio benefited from its exposure to UK equities, but rising government borrowing costs are proving a headwind as investments in higher-income asset classes become less enticing. The portfolio holds investments in “quality” dividend-paying companies that provide steady returns, and if there is a bubble in AI companies, the Income Generating portfolio should provide some protection.

Fourth Industrial Revolution portfolio

After a decline of 6.48% in July, the Fourth Industrial Revolution Portfolio rose 5.11% in August. Last month we wrote: *"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."* This certainly proved to be a good time to invest, and the portfolio is up 31% over the last 12 months and 68% over three years. We remain in a period where the exponential growth of technology in our lives is proving to be a profitable investment. To reduce the volatility, the portfolio invests in 10 underlying funds, each focusing on a different technological sector. Since building the portfolio, the diversification has been extremely effective, as returns from each sector have been very uncorrelated. The chart below shows 4 of the underlying funds and you can see how they behave very differently at times:



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 infrastructure fell below trend.

Summary of Portfolios

There are so many reasons not to invest – wars, inflation, tariffs, high government debt levels, high valuations. However, equity markets are on strong upward trends, and returns over the last few years have been extremely strong. Rather than succumbing to the noise and making subjective decisions, we can start our investment process by looking at which markets are on upward trends, so we can stay invested during the good investment periods. At some stage, we know we will have a correction, but it is impossible to predict when it will happen.

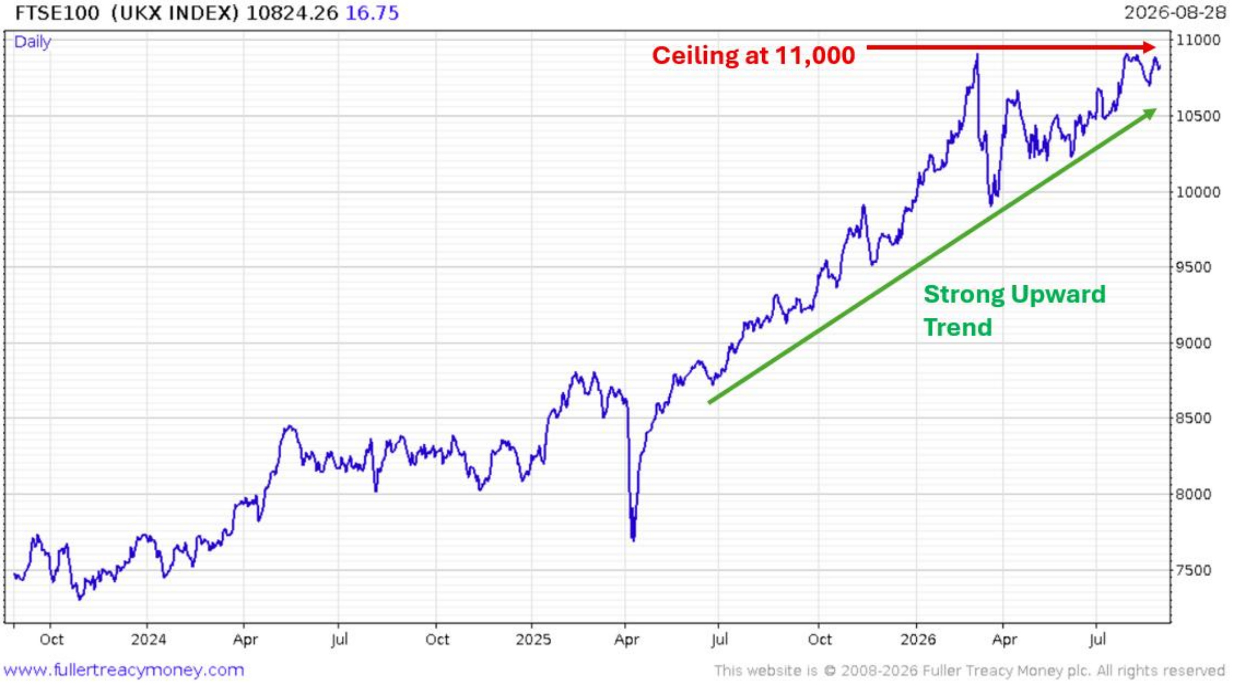
What we are seeing, though, is a period of incredible change, as technology is growing exponentially in our lives. The productivity growth should be incredible, and this could lead to the highest economic growth in our lifetimes. However, if it doesn't deliver as expected, or geopolitical events worsen, then we could be heading for a stock market crash; only this time, government debt levels are so high that they may not be able to bail us out. We remain in the optimistic camp as stock markets are moving higher.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at UK markets.

FTSE 100 – upward trend but hitting a ceiling.

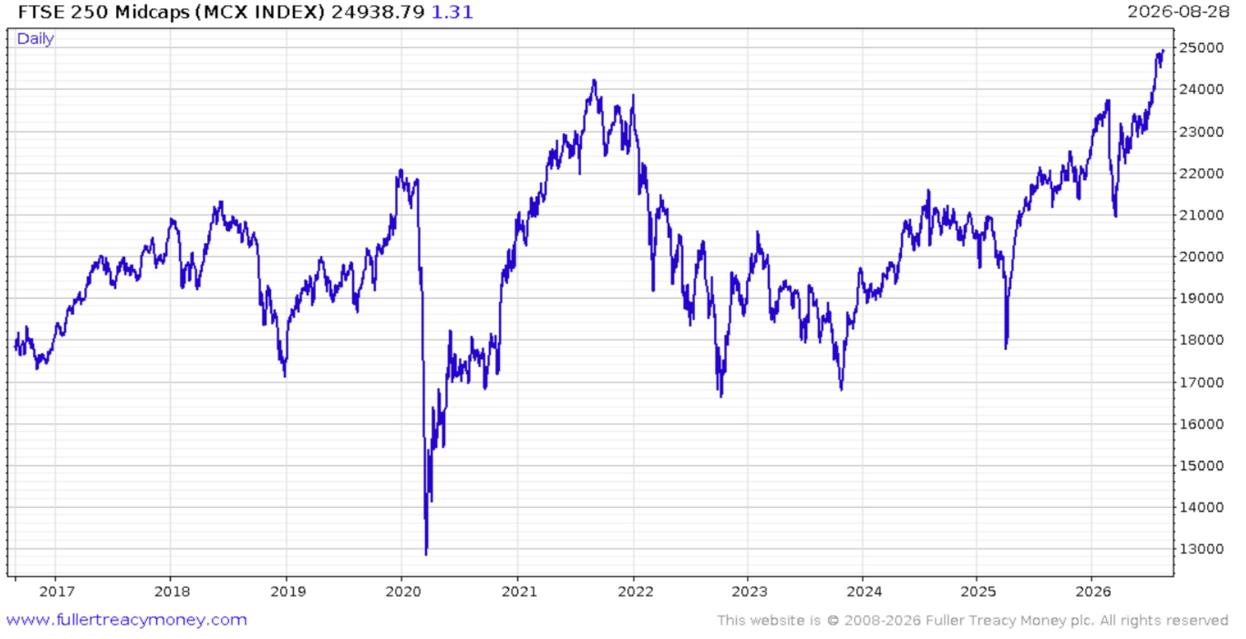
We have previously talked about ceilings and how a market takes time to break through, typically at a round number. The FTSE 100 has hit such a ceiling at 11,000. It first approached this level in February this year before falling back. We are now at a pivotal point: we are on a strong upward trend, but we cannot break the 11,000 level and hit a new all-time high. If the FTSE 100 breaks above 11,000, then we can expect it to move significantly higher.



FTSE 250, new all-time highs

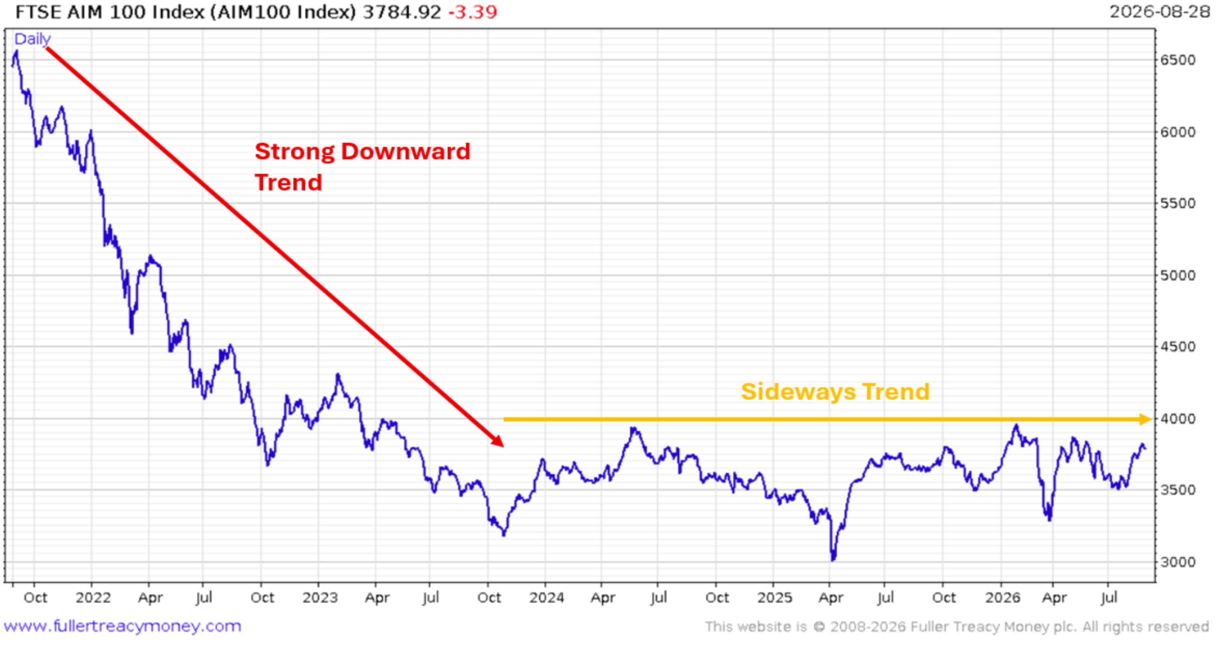
Last month we looked at the FTSE 250 and wrote: "*The performance of UK stock markets has been significantly lagging those of the US. However, as the US consolidates, UK markets, such as the FTSE 250, are beginning to break higher with the FTSE 250 likely to reach a new all-time high.*"

It has now hit that all-time high!



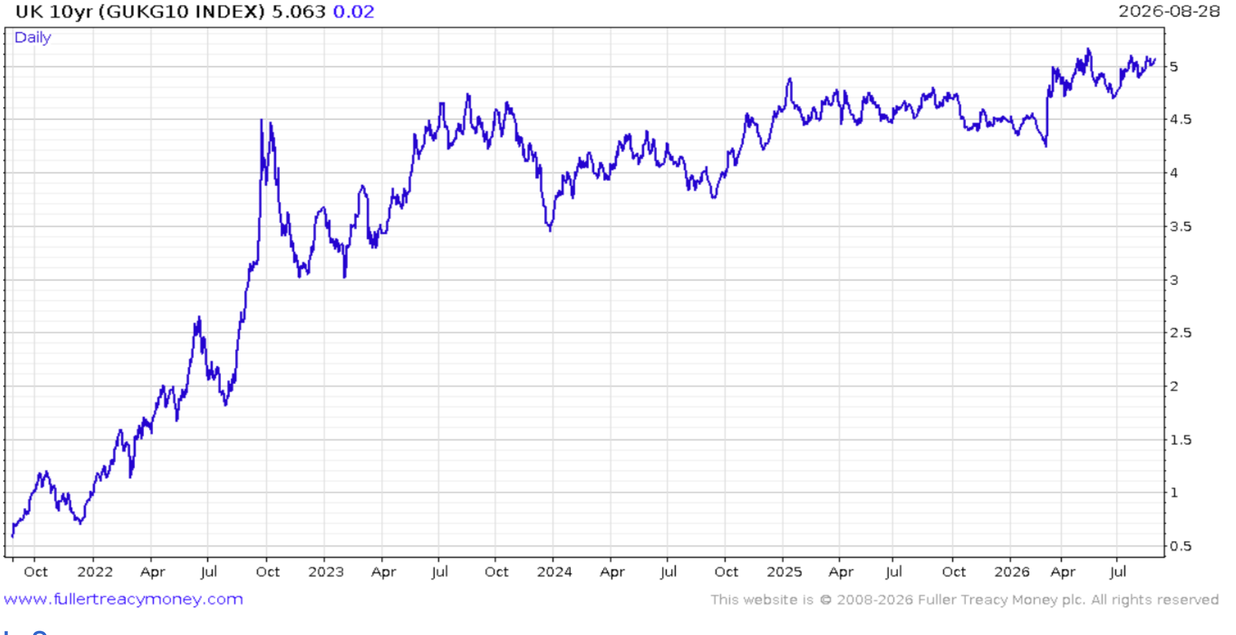
AIM sideways

Unlike the FTSE 100 and 250, the AIM stock market (the UK's smallest companies), is trending sideways after a steep fall earlier in the decade. There shows no sign of an uptrend as we are in a lengthy consolidation period. However, the other two markets could pull up the AIM market ,and we could be about to embark on a new uptrend. The first hurdle is to break the 4,000 level.



Government borrowing costs rise

Whilst stock markets are advancing higher, the biggest concern is Government debt and the cost of servicing it. The chart below shows the rate that the UK Government has to pay for borrowing over 10 years. You can see it now appears that the 5% level is where it has jumped to from the previous 4.5% level. Whilst the 5% level was the norm during the 2000's, the level of debt now is significantly higher, and this chart is therefore extremely important.



In Summary

The FTSE 100 and 250 are performing extremely well and this could drag up the AIM market. However, the biggest concern is the cost of servicing Government debt (not just in the UK).

Government Debt – Where Will Future Tax Rises Come From?

Government debt continues to rise across the developed world. This has not been confined to one political party: debt has increased under Republican and Democrat administrations in the US and Labour and Conservative governments in the UK. Ultimately, governments have four broad ways of addressing high debt: reduce spending, raise taxes, allow inflation to reduce its real value, or generate stronger economic growth.

The US is placing considerable faith in technology and AI to increase productivity and economic growth. In the UK, meanwhile, rising welfare, pension and healthcare expenditure continues to put pressure on the public finances. With another Budget approaching, the question is: where can additional tax revenue realistically come from?

Is employment reaching its tax limit?

Headline Income Tax rates don't tell the whole story. Employees also pay National Insurance (NI), and employers now pay NI at 15% on most salaries above £5,000. When we compare the tax collected with the total cost of employing someone, the burden becomes clearer:

Salary	Employer cost	Take-home pay	Total tax & NI
£25,000	£28,000	£21,520	23.1%
£50,000	£56,750	£39,520	30.4%
£75,000	£85,500	£54,057	36.8%
£100,000	£114,250	£68,557	40.0%
£125,000	£143,000	£78,057	45.4%
£150,000	£171,750	£91,286	46.8%

At £150,000, therefore, an employee receives only around 53p of every £1 their employer spends employing them. There is clearly a practical limit to how much further employment can be taxed without affecting incentives to work, employ and invest.

Could pension income be next?

Pension income is subject to Income Tax, but unlike employment income it is not subject to National Insurance. This creates an increasingly noticeable difference between the taxation of someone earning a salary and a retired person receiving the same gross income from State and final-salary pensions.

There has been discussion about whether older and younger taxpayers should be treated more equally. A general NI-style charge on pension income has not been announced, but it illustrates another potential source of revenue. UK taxpayers currently receive around £210 billion a year of pension income. On that historic tax base, a hypothetical 2% pension-income levy could raise approximately £4.2 billion a year before allowing for exemptions or behavioural changes.

What does this mean for investors?

We are not predicting the next tax rise. The broader point is that governments face a difficult equation: high debt, rising expenditure and limits on how much further employment can be taxed. If economic growth does not provide the solution, governments are likely to continue looking across the wider tax base – including pensions, investments, property, capital gains, dividends and estates. We must expect some new taxes in October's budget, which means making ISA and pension contributions as soon as possible extremely important. In addition, whatever tax changes occur in the future, we will be there to assist.

Figures are illustrative, based on 2026/27 England, Wales and Northern Ireland tax rates. Employer NI is included to demonstrate the total taxation of employment and is legally a liability of the employer.

Final Comment

We experienced investment losses in July, but August saw strong gains, reminding us that markets rarely move in a straight line. Last month we wrote the following paragraph, which continues to summarise our views:

"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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