# Watson Moore's Monthly Investment Update

## August 2019

**Contents:**



## PERFORMANCE UPDATE

- **Global stock markets continued to trend higher in July, helping our portfolios grow between 2.42% and 5.55%.**

- Every main asset class that we monitor is above trend, which has resulted in our trend following portfolios accepting more risk. This risk is being rewarded.

- The chance of a "no deal" occurring has increased significantly and this has caused Sterling to fall. This has in turn increased the value of our overseas wealth. Boris has so far been good for our portfolios!

- China and the US held trade talks, but we expect talks to continue, and progress only to be made closer to the US election in November 2020.

- US interest rates were lowered, and this has supported bond prices. However, bonds generally offer low yields and there are over $13 billion of them that offer negative yields. This means that you are guaranteed to lose money if you hold them to maturity.

- The performance of the portfolios over the last month, 6 months, and one year is shown below:

| Portfolio | Performance % 1 month | Performance % 6 months | Performance % 1 year |
|---|---|---|---|
| Foundation | 3.67 | 10.11 | 7.46 |
| Cautious | 3.57 | 7.03 | 1.28 |
| Balanced | 4.26 | 9.72 | 3.49 |
| Adventurous | 5.01 | 11.71 | 4.18 |
| Dynamic Equity | 5.37 | 16.50 | 10.01 |
| Income Generating | 2.42 | 9.43 | 5.40 |
| Third Industrial Revolution | 5.55 | 17.74 | 11.41 |
| Retirement Investment Solution 1 | 4.18 | 10.06 | 5.14 |
| Retirement Investment Solution 2 | 4.36 | 10.91 | 5.67 |
| Retirement Investment Solution 3 | 4.53 | 11.72 | 6.16 |

Please note that these figures do not include the platform or Watson Moore's fees.

## Trend Following Signals

The table below shows whether the asset class is either in a positive trend (✓) or a negative trend (×). 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 | ✓ |
| | | Overseas Corporate Bonds | ✓ |

## Summary of Portfolios

Every main asset class that we monitor continues to be above trend and as a result our trend following portfolios are now fully invested. This additional risk is being rewarded as the short-term returns that we have experienced have been good.

## Cautious, Balanced and Adventurous portfolios

The main investment philosophy that the portfolios utilise is trend following. This means that you invest more in the asset classes that are going up and reduce exposure when they are below trend. No changes were made to the portfolios and they are fully invested. This means that they are taking more risk than normal and we are being rewarded for this.

## Dynamic Equity portfolio

The momentum philosophy that forms the core of this portfolio attempts to invest more money in those markets that are experiencing the strongest growth. There were no changes this month and the current momentum asset classes are US, Pacific and North American equities as well as property, healthcare and technology sectors.

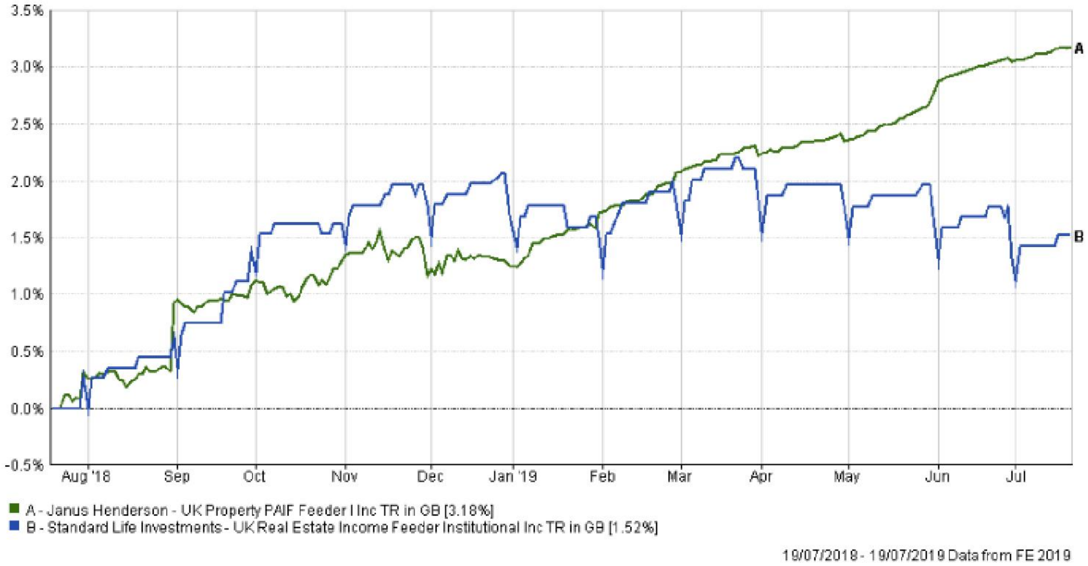
The portfolio has made significant gains over the last 6 months.

## Foundation portfolio

No changes were made to the portfolio and it is fully invested. This means that it is taking more risk than normal, and we are being rewarded for this. The bond part of the portfolio is performing extremely well due to the fact that interest rates globally are falling.

## Income Generating portfolio

One of the main threats to the portfolio, which may be down to Brexit, is in UK commercial property as we have seen one of the funds that we invest in (Standard Life UK Real Estate) stop growing. By comparison the other property fund that we invest in (Janus Henderson UK Property) continues to grow:




Back in January we reduced the exposure to the Standard Life fund from 5% to 2.5%, and now we feel that it is sensible to remove exposure. This may only be a temporary sale and we may reinvest once Brexit is sorted. We are also monitoring the Janus Henderson fund closely and may sell/reduce at some stage.

With the proceeds we reinvested into the iShares Global Property Securities Equity Index fund. This fund invests in global property companies worldwide and is yielding 2.46%. The fund has performed exceptionally well since the beginning of this year and the opportunity is that the momentum will continue, and returns will be good. However, as with any asset class that has experienced recent good returns, there is always the threat that it has gone up too much too quickly and will reverse some of those gains in the short term.

**Third Industrial Revolution portfolio**

No changes were made this month. This continues to be our best performing portfolio and it increased by over 5% again this month.

**Retirement Investment Solutions**

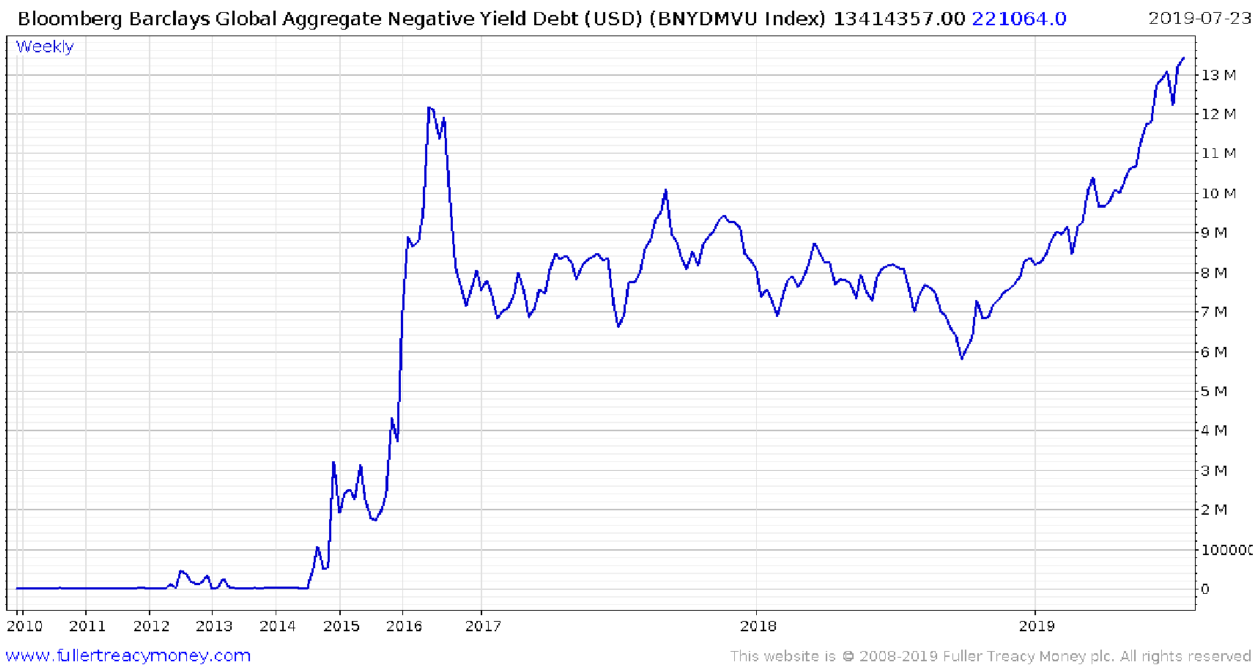
No changes were made this month and the portfolios are fully invested. The Retirement Investment Solutions are invested in not only a trend following portfolio, but the Foundation and Dynamic Equity portfolios as well.

# ASSET CLASS REVIEW

This section will give you an insight into our current thinking, and below are some charts that look interesting. With bond yields at record lows, and Germany just issuing a bond that guarantees to lose you money if you hold it to maturity, we look at whether bonds are good long-term investments.

## Negative yields are at a record high

The chart below shows that there are over $13 Billion worth of bonds that offer investors a negative return. This is a new all-time high:




What this means is that investors are paying to hold their money in Government and company bonds. The reason for this is a general fear that the global economy will collapse, and we will be stuck in a deflationary period. This is simply buying into a safe haven. However, the US stock market is also at record highs and the American economy is growing at an annualised rate of 3.1%, unemployment is at a half-century low of 3.7% and inflation is at 2.1%.  We therefore have fear as well as a good economy – something has to give.

## German Bunds are at record low yields

If you lend the German Government money for the next 10 years, you will be effectively paying them 0.399% for the privilege. In 2009/10 you would have received 3.5% by comparison:

## The UK is still positive- just

The UK will still pay you the equivalent of 0.634% and is close to the post Brexit lows:


## The US is relatively high

Europe seems to have the lowest yields as the US currently pays 2.058%:


## Can I get a good return from Bonds?

The chart below shows the return that a US investor would have received in dollars for investing in US Government Bonds:


As you can see, they were beginning to lose money, but bonds have rallied sharply over the last 10 months. There is no reason why they can't still go up from here, but if interest rates do rise investors could see their wealth being slowly eroded.

## **In Summary**

We do not feel that bonds offer great long-term returns, due to the fact that yields are so low and even negative. However, they have been going up recently and due to the fact that we invest in asset classes that are on upward trends, our exposure has also increased within some of our portfolios. Whereas some investment managers have to hold bonds and have so far escaped from experiencing losses, we can sell out of them entirely when they go below trend. We feel that this investment philosophy will help protect our wealth when bonds eventually fall significantly.

# THE BORIS EFFECT

Boris becoming Prime Minister has affected our wealth due to the fact that the chance of a “no deal” has increased significantly. Whilst being labelled the “Britain Trump” by Donald Trump himself may not be the label that he wants stuck on him, he has certainly started off in the negotiating tactics like Trump would have. Preparing the country for a “no deal” and showing the EU that he is prepared to accept a “no deal”, is the strategy that Boris hopes will get concessions from the EU.

The bookmaker’s reaction has been extremely interesting as they have reduced the odds of a “no deal” happening in 2019 from 10-1 to nearly 6-4. Whilst it still isn’t the favourite option for the bookmakers, they now believe it is a much stronger possibility. The other major change in the odds has been the likelihood of a General Election occurring in 2019. The odds are now 4/5 which means that it is more likely to happen than not. Certainly, if you analyse the language from Boris, he is setting the Conservative party up to the possibility of an election. This election may in turn be a second referendum in disguise where the Brexit party and Conservatives join together. If there is a General Election, then the chances of the Conservatives having the most seats is again 4/5. Boris would hope that with a shakeup of MPs he may then have more Brexiteers and be able to negotiate on a stronger footing.

**So how has this effected our wealth?**

The currency markets are essentially placing bets on the prospects for UK plc. Sterling does better the more investors see a softer Brexit. The chart below shows the exchange rate for Sterling against the US Dollar over the last 3 years - the lower it goes the weaker Sterling becomes:


As you can see it has fallen significantly recently. This has in turn helped push up the value of our overseas holdings and has helped to increase the returns within our portfolios over the last few months. Therefore a “no deal” may actually benefit our wealth significantly.

In addition, the Boris effect has helped the FTSE 100 rise as well. This is because a weaker Sterling helps the multi-national companies that make up the majority of the FTSE 100, as, when they earn money in other currencies, it is worth more when they convert it back into Sterling. So if a company makes a profit of $100 million, then as Sterling weakens from 1.40 to 1.20, this in effect increases the profit from around £71 million to £83 million. The FTSE 100 earns over 70% of its revenue from overseas.

**In Summary**

We are now approaching the crunch time in which we will either get a “no deal”; the Irish backstop will be resolved and the deal passes, or we will have a General Election. This uncertainty and increase in the likelihood of a “no deal” has helped increase the value of our wealth. However, going forward we must expect more volatility than normal.

# FINAL COMMENT

Returns over the last few months have been very strong due to the fact that most asset classes are above trend and have remained so for a good number of months. As a result of which, our trend following portfolios have increased exposure to risk and have benefitted from this.

Going forward we must expect much more volatility as we have the twin political issues affecting our wealth – Brexit and Trump. A "no deal" Brexit should be good in the short term for our overseas investments as well as the FTSE 100. Trump wants a deal with China to happen in order to assist him in being re-elected President, but progress is likely to be made closer to the election in November 2020.

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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.**