Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
July 2020

Contents:

Performance Update

Global Stock markets continued to recover in June as they seem less worried about the economic impact of the virus and the threat of a second wave. The FTSE 100 and FTSE 250 gained 1.66%* and 0.60%* respectively. This led to gains in the portfolios of between 0.97% and 4.76%.

Two headlines in the Daily Telegraph (30th June) sum up the current investment world – 'FTSE closes out best quarter since 2010', which was contrasted with, 'Economy suffers worst quarter in 40 years'. Central Banks have been reacting to the bad economic news by flooding the economy with more liquidity (money). Some of this money has been invested in asset classes, which has helped the recovery in global stock markets.

With lockdown easing globally, we are expecting an increase in the rate of infections or what has been termed a 'second wave'. We have also seen cases rising in India, and within certain states in America. Stock markets appear to be calm as we are in a much better position to manage any increase in infection rates, through testing, tracing, fighting it with new drugs (e.g. Remdesivir) and hospital capacity.

As stock markets continue to recover, we have seen more of them break above trend, leading to some of our portfolios having more invested in them. Technology continues to lead the stock market rally, with some of the world's biggest companies, surging to new all-time highs.

Technology innovation is inherently deflationary, and this is helping to keep a lid on interest rates and allowing governments to borrow even more money. Long-term, one of the best ways to repay this debt is by allowing inflation to reduce its value. If this does indeed happen we expect bonds to fall significantly in value as interest rates will have to rise.

The performance of the portfolios over the last month, 6 months and 1 year is shown below:

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	1.23	-0.33	0.77
Cautious	1.02	-2.79	-1.70
Balanced	0.99	-4.13	-2.73
Adventurous	1.38	-4.52	-1.36
Dynamic Equity	1.89	-0.54	4.31
Income Generating	0.97	-13.70	-8.65
Fourth Industrial Revolution	4.76	18.47	24.25
Retirement Investment Solution 1	1.13	-2.16	0.64
Retirement Investment Solution 2	1.23	-2.02	1.08
Retirement Investment Solution 3	1.33	-1.89	1.49

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.06.2020.

Trend Following Signals

The table below shows whether the asset class is either in a positive trend (✓) or a negative trend (x). 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		Trend Signal
Global Equity	✓	Emerging Market Equity	✓
UK Equity	x	Commodities	x
Europe ex UK Equity	✓	UK Corporate Bonds	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	✓	UK Index Linked Bonds	✓
Pacific Equity	x	Global Bonds	✓
Gold	✓	UK Gilts	✓
Global Property	x	Emerging Market Bonds	✓
Global Infrastructure	x	Overseas Corporate Bonds	✓

European and emerging market equities moved back above their trend lines this month.

Cautious, Balanced and Adventurous portfolios

The Adventurous portfolio remained fully invested this month and there were no changes to the momentum part of this portfolio. The Cautious portfolio added exposure to European equities, with the Balanced portfolio adding exposure to emerging markets in addition. All three portfolios now have a significant exposure to equities and are benefitting from the recovery. Bonds and gold are also advancing which is again assisting returns.

Dynamic Equity portfolio

The momentum philosophy that forms the core of this portfolio attempts to invest more money in those stock markets that are experiencing the strongest growth (or the lowest losses). There were no changes made and we remain overweight US equities, gold miners, healthcare and technology. Technology again rose strongly and gained 6.98% in June, which helped the portfolio achieve a strong return. This demonstrates how following a momentum driven investment strategy can reward you.

Foundation portfolio

The portfolio increased its exposure to European equities. The portfolio is fully invested in bonds which are still growing in value. However, we are fully aware that yields from bonds are at record lows and if the global economy fully recovers, then we expect bonds to start falling. The Foundation portfolio will reduce its exposure to bonds when each sector breaks below trend. However, it will always have some exposure as it is our most diversified portfolio.

Income Generating portfolio

Pivoting the portfolio to invest in more growth orientated companies is beginning to pay off, with the L&G Global 100 fund growing by 3.57% last month. The portfolio still has around a third invested in UK equities and whilst they have lagged other global markets, they still offer some of the highest dividends in the world. Once we have fully come out of lockdown and the global economy improves, then we expect these dividend paying companies to recover.

Fourth Industrial Revolution portfolio

The portfolio grew by 4.76% in June and is up 24.25% over the last year. We do not believe that there is a better performing portfolio in the UK.

We believe that the underlying themes within this portfolio will be the most profitable ones over the next ten years. However, we must also be aware that this portfolio will fall significantly more from time to time and we will no doubt experience a big fall at some stage. The portfolio has exposure to companies like Microsoft, PayPal and Amazon and we look at how they are performing in the asset class review.

Retirement Investment Solutions

More equity markets moved above trend and we added exposure to Europe, emerging markets and global smaller companies. The portfolios have much more exposure to equities now and are benefitting from the recovery.

Summary of Portfolios

The portfolios were positioned very defensively back in March and April and if stock markets had fallen further then our trend following portfolios would have helped protect our clients wealth. However, as stock markets have recovered, we have been increasing exposure to them and have now seen Europe, emerging markets and global smaller companies all break above trend. Thus we have helped protect wealth during the bad times and have started to grow it again during this recovery.

The portfolios have also benefitted from having exposure to technology as these companies continue to benefit the most from Covid-19. Whilst we will undoubtedly see more bad news headlines as regional lockdowns occur to help fight the second wave, bad news can also help grow stock markets. This is because Central Banks print more money and some of this money gets invested, thus boosting asset prices.

Asset Class Review

This section will give you an insight into our current thinking and we have included some charts that we believe look interesting. We have highlighted three of those companies that have benefitted from Covid-19 and three that have not. The winners (this page) look like they will continue to dominate their industries and the losers (next page) will hopefully recover as they are big global companies. However, there will be many companies that do not survive the new "normal".

Amazon– the death of the high street

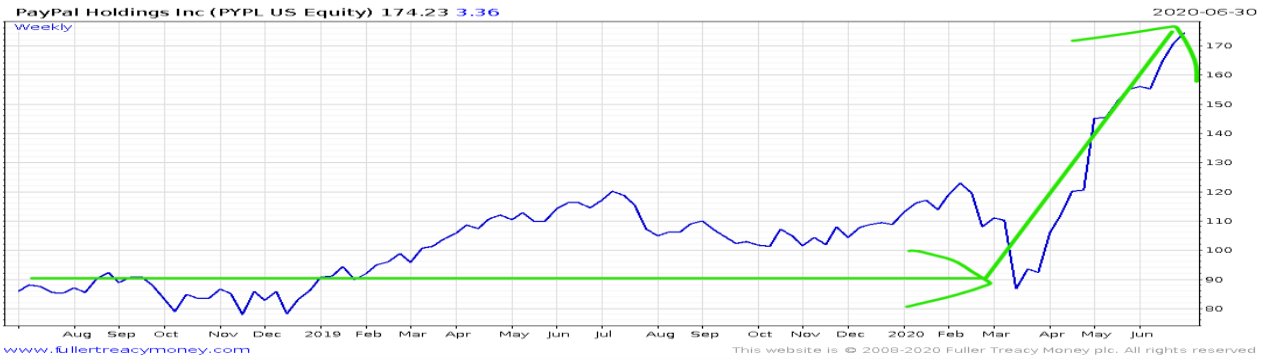
Amazon's share price was stuck, moving sideways as they struggled to make significant profits. The closure of the high street during lockdown has forced people online and given the share price a huge boost. It is believed that this is the catalyst to forever change peoples' shopping habits:

Microsoft – the engine of the new digital world

Microsoft was beginning to surge higher before Covid-19 hit the developed world. However, the initial reaction was negative for Microsoft as the fear was that many businesses would close and therefore Microsoft would lose a lot of clients. However, as its products have become essential in the business world (think Microsoft Teams) the share price has moved to a new all-time high :

Paypal – the death of cash

Perhaps this is the business that has benefitted the most as electronic payment systems have replaced cash due to the possibility of spreading the virus via coins and notes. Quite simply, the more electronic payments we make, the more this company makes:



Boeing – the airline industry will not recover for many years

While we will eventually want to go on holiday again, business travel may never recover as companies see the benefits that video conferencing can offer, rather than the expense and time of international travel. Will any airline place a new order for Boeing planes in the next few years?

Carnival – when will the cruise liner industry recover

Carnival is losing $1 billion a month in order to keep its fleet docked. There are reports that booking for cruises in 2021 are now back up to normal, but the share price tells us that the company is in trouble:

Beer – we are drinking less !

With the closing of pubs and restaurants, beer consumption has declined significantly, affecting companies like Anheuser-Bush (think Budweiser). Whilst the share is beginning to recover as lockdown is eased, it could be many years before we see packed bars again:

Summary

We have seen that Covid-19 has led to clear winners and losers. While some of those companies that have fallen the most are likely to recover, there will be many that will not, due to the fact that habits have been changed by the virus. Trying to invest more in the winning sectors and regions is our objective and we use a process called momentum to assist us. This simply means investing more in the places that have gone up the most in the expectation that they will keep going up in the future. This is why our portfolios currently have more money in technology.

Testing, Testing, Testing

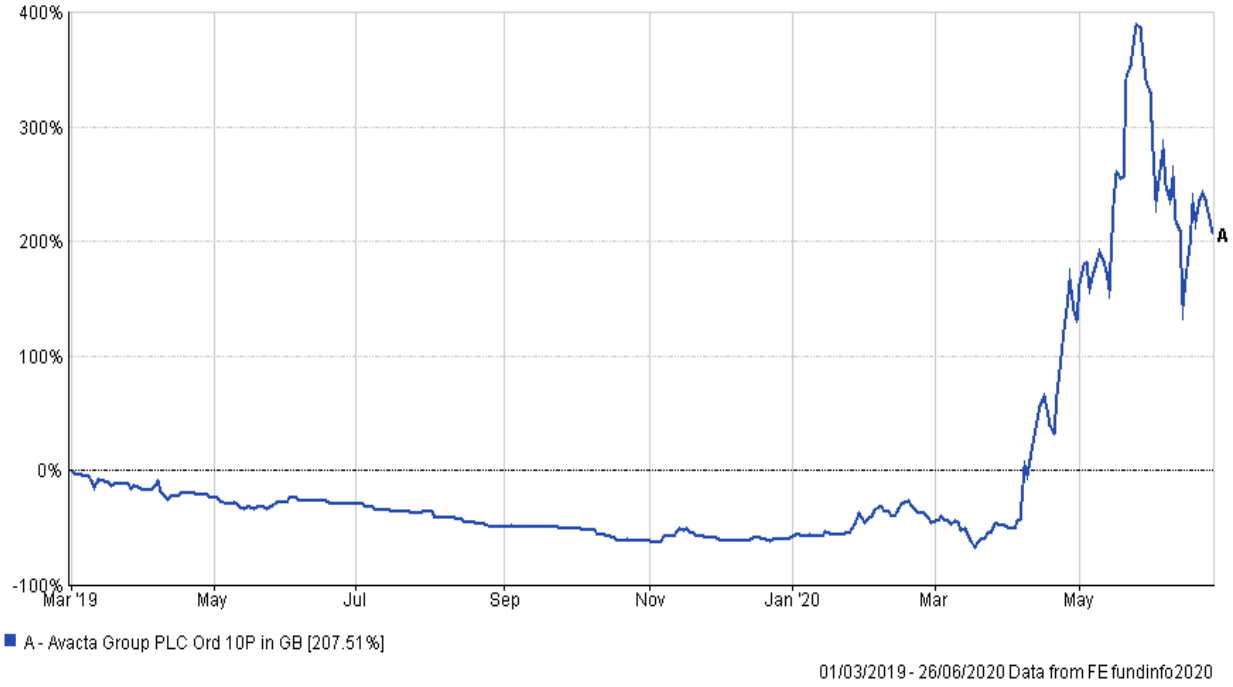
Global endeavours to fight the Covid-19 pandemic heavily rely on accurate, fast and frequent tests for the virus - "test, test, test", as the World Health Organization (WHO) has bluntly put it. Around the globe, the current approach to diagnosing the virus is based on samples obtained from nose and throat swabs. The current testing process typically requires a health care worker wearing personal protective equipment to collect a sample. It then needs a lab to analyse it (which takes hours and expensive machines). This resource-intensive process has not proved to be scalable enough. For anyone who has done a home test, it is difficult to administer yourself and therefore the reliability reduces. In addition, results take 24-48 hours to get back to the individual. This system is clearly not workable.

It is obvious that we need faster, more frequent, and more widely available testing. This is where a small biotech company in Whittlesford, Cambridge might be able to solve the problem. They have used their existing research to create a saliva test that can detect the virus in under 20 minutes. They are now at the final stages of producing the test and in their update they have stated:

'Work continues now to refine the test strip design, optimise its performance and get the best detection limit possible in order to generate the highest sensitivity in the final rapid test product.'

Once they are happy with this, they have lined up manufacturing partners in the UK who can mass produce the product. These tests could be available in the next few months and will hopefully tick all the boxes – reliable, easy to use at home, cheap to produce and results are almost instant.

The implications of this are enormous. If the testing kits are cheap enough then every business can test every employee every day before they enter the office. Airlines will be able to test passengers while they get checked in, thus ensuring that the plane is Covid-19 free. In fact every business, leisure activity and school can return to some sort of normality with cheap rapid testing. A successful testing regime will give us time to produce a well researched vaccine that has the confidence of the wider population. A rushed vaccine that doesn't work very well will undoubtedly destroy confidence and the initial results from a Chinese developed vaccine are not very good.



As you can see the share price of this Whittlesford based company has rocketed over the last few months. This is true of many biotech companies that have seen breakthroughs in their research. We remain optimistic that the world's best scientists will be able to help get the virus under control and the global economy can rebuild.

Final Comment

We are in the strange situation of having experienced a stock market recovery after one of the quickest crashes in history. The recovery is occurring at the same time that economic news is terrible. The news flow will probably continue to worsen as the unemployment rate increases due to the phasing out of the furlough scheme.

Global stock markets appear willing to look past these short-term obstacles. A good part of the reason for this is because of the expectation of additional flows of liquidity from Central Banks (some of this finds its way into stock markets and pushes up prices). In fact, Central Banks seem determined to push stock markets higher, and when any bad news is received, they immediately announce more money to flood into the economy.

We have the world's leading scientists and companies working together on fighting this virus and we should see some rapid testing advances shortly that will help open up the economy and give us more confidence to return to our previous normality. This will give us time to produce a vaccine of a high standard and stop any major second wave hitting us.

While this Investment Update aims to provide you with some reassurances as to how we are currently managing your wealth during this crisis, for us, by far the most important factor is that you and your loved ones stay safe and well.

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