Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
November 2020

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Performance Update

Global stock markets fell last month, with the FTSE 100 and S&P 500 falling -4.75% and -2.66% respectively. Gilts and Gold also fell. With most asset classes falling our portfolios fell between -1.27% and -3.32%.

As we write, we don't know the result of the US election. We do know that stock markets will be volatile over the next few weeks as they react to whether Trump or Biden win. Biden is likely to print more money but also raise taxes. Trump will continue his aggressive foreign policy but maintain taxes at a lower rate. It is difficult to know how markets will react to each outcome.

The UK has now joined France, Germany, Belgium and Greece in a national lockdown, and this is one of the main reasons stock markets fell in October.

We must remember that stock markets are more worried about the longer-term earnings of companies rather than what is happening in the short-term. We must also remember that the most heavily affected sectors, namely the hospitality sector, do not make up a significant part of the major stock market indices. We saw this during the first lockdown during which technology companies rose significantly and this caused stock markets to recover after the initial crash.

Perhaps the most important factor that will affect stock markets over the next month will be the amount of fiscal stimulus that US politicians will agree on. They have been arguing over the next fiscal stimulus (their equivalent of furlough and more) and due to the election, nothing was agreed.

We must also remain mindful of what will happen after this lockdown and how a vaccine, improved test and tracing as well as the notion of herd immunity will affect stock markets. We know a vaccine is imminent, we just don't know how effective it will be (if at all). This news will undoubtedly be the most important for stock markets.
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	-1.27	2.85	-0.26
Cautious	-1.69	1.85	-2.37
Balanced	-1.93	2.59	-2.81
Adventurous	-2.82	2.53	-3.28
Dynamic Equity	-3.32	7.98	4.45
Income Generating	-2.24	1.22	-10.98
Fourth Industrial Revolution	-1.83	20.15	29.23
Retirement Investment Solution 1	-1.95	3.28	-0.21
Retirement Investment Solution 2	-2.19	3.93	0.38
Retirement Investment Solution 3	-2.40	4.53	0.93

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.10.2020.

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	✓
Europe ex UK Equity	x	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	✓

Pacific equities moved below trend and UK Gilts went above trend.

Cautious, Balanced and Adventurous portfolios

All three portfolios have a higher than average exposure to both bonds and equities. The Cautious and Balanced portfolios have been reducing their exposure to equities though over the last few months. This month exposure to Europe was reduced on top of removing exposure to Pacific equities last month. Exposure to bonds remined the same for the Cautious portfolio, but for the Balanced and Adventurous portfolios overseas corporate bonds and UK inflation linked bonds replaced UK Gilts and UK corporate bonds.

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. October saw goldminers fall around 6.5%, but this asset class still remains high up on the momentum scale. The asset classes displaying the best momentum has largely remained the same, but we could be heading for some changes as emerging markets begin to outperform.

Foundation portfolio

European equities moved back below trend and we reduced exposure. However, the portfolio experienced losses due to its exposure to equities and gold. All our bond markets remain above trend, and we are thus overweight bonds during this volatile period. This is helping the portfolio somewhat.

Income Generating portfolio

There have been signs that some of the companies that were forced to cut or suspend dividend payments during the initial part of the pandemic are now ready to recommence paying them. In March, the regulator asked UK banks to suspend dividends until the end of this year. This caused a sell off in the banking sector but there are now rumours that they will be allowed to pay dividends again from the start of 2021. This has helped the banking sector to move higher. We believe that as we move into 2021 the companies that were hit the hardest due to the uncertainty surrounding their dividends, could move significantly higher as we begin to see the path towards a more normal economic future.

Fourth Industrial Revolution portfolio

The sell off in the main technology companies continued in October. However, two of the funds that we invest in produced positive returns. Herald Investment Trust (invests in small UK technology companies) and the iShares Automation & Robotics funds grew 5.75% and 1.06% respectively. This helped offset losses in the other funds and again proves how well the diversification within this portfolio is currently working.

Retirement Investment Solutions

European equities were sold, and the cash part of these portfolios increased. All 3 portfolios experienced losses as they all currently have a significant exposure to equities. This exposure has been reducing though over the last few months. Exposure to bonds remains high though and this is helping somewhat.

Summary of Portfolios

The summary is very similar to last month in which we wrote:

"While we continue to see much bad news in the press, with virus cases rising across Europe, we must remember that stock markets are forward-looking, and they price in the earnings of companies many years from now. Therefore, despite all the short-term problems, the longer-term outlook is very positive. Indeed there appears to be a huge pent-up demand, with a survey from the Office of National Statistics showing that the average UK household is now saving 29.1% of their income. It was just 6% pre-Covid. Therefore, when we have controlled the virus, we expect a surge in spending and thus increased profits within many of the companies we invest in.

In addition, interest rates are expected to be lower for longer and to possibly even turn negative. This allows companies to borrow and invest for growth. It also encourages new companies to start up and is one of the factors behind the success of Tesla and other innovative companies."

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. There are always some asset classes that trend higher and this month we look at some of them.

Agriculture – prices are rising quickly

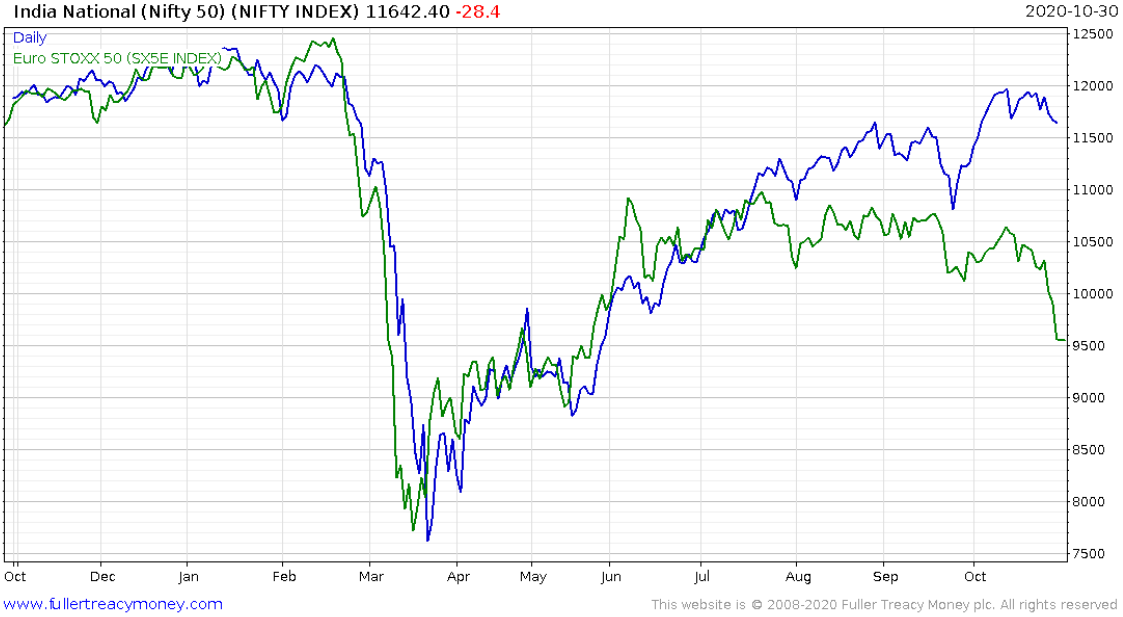
Since June, the price of a basket of agricultural commodities have risen 20%. This means the price of wheat, corn, sugar and soya beans are rising and eventually this will increase the price of our supermarket shop:

UK– Banks moving off their lows

The FTSE 350 Bank index comprises companies such as Barclays, NatWest and HSBC. Banks were forced to cancel their dividends in March, and they fell significantly. However, they have risen over 15% in little over 6 weeks as it looks likely that banks will start to pay dividends again early next year. If this continues, then we should see the FTSE 100 move higher as well:

India – a steady uptrend

While the US, Europe and the UK have suffered some steep falls recently, India has continued its upward trend. The chart below shows the Indian stock market as the blue line and we have overlaid Europe (green line) to show that the stock markets behaved very similarly up to July this year. India has performed much better since and is recovering very steadily:



China - continuing its upward trend

China was the first to lock down and has now (if we believe the data) successfully controlled the spread of the virus while other countries are losing control once again. Its main stock market has continued to advance higher:

In Summary

While most stock markets have suffered falls over the last 2 months, there is always something going up. The US and technology stocks have been the markets leaders for a long time but perhaps that is about to change as we are seeing emerging markets continue their strong uptrends. In addition, those sectors that have been hit the hardest, such as UK banks, could recover much quicker than others. This will happen if we start seeing some good news in the fight against the virus. We are also experiencing strong price rises in agricultural commodities and this will feed through to our inflation rates shortly.

Herd Immunity

As we enter a second national lockdown, the news is full of rising infection rates and unlike the lockdown in March, the rain and winter is here. It is understandingly easy to be negative.

However, there are also some interesting opinions that we are very close to the end of this pandemic that are not receiving coverage in the main press. It is certainly worth looking at these opinions. At this stage we must point out that we are not virologists and cannot provide any further evidence as to the validity of these opinions, but if they are indeed true, then we have the catalyst for stock markets to move much higher.

The first opinion to look at is the "Great Barrington Declaration", which was signed on the 4th October. This is a proposal drafted by experts in the field of epidemiology and the basic principle is that the current lockdown policies are producing significantly more harmful effects on health (less people vaccinate their children, go to cancer screenings, more suffer from mental health, etc). This will cause greater excess deaths in the long-term. Their principle is that we should let the virus pass through those parts of society who have minimal risk of death, until we eventually reach herd immunity. The World Health Organisation believes that this strategy is dangerous.

The second opinion that is certainly worth investing an hour of your time in, can be watched via a video by Dr Mike Yeadon. If you search his name and buzzsprout then you will find the podcast, or you can simply use this link:

https://escapefromlockdown.buzzsprout.com/1013854/5745529-episode-21-dr-mike-yeadon

The essence of his argument is that SAGE, the government's scientific advisory body, has assumed that there is no prior immunity to Covid-19, whereas his belief is that 20-50% of the population has immunity to the virus via T-cells. This is backed up by some existing research on previous viruses. If this is true, then we are much closer to herd immunity and the end of the virus. He also believes that the statistics being presented to the government, including the amount of false positive results in the current Covid tests, are wrongly influencing our reactions to the virus.

Finally, the British Medical Journal has published a peer reviewed article that discusses herd immunity in a much more scientific way. This is quite a hard read, but interesting:

https://www.bmj.com/content/370/bmj.m3563

The article discusses the need to do more research on pre-existing immunity and how we could be close to herd immunity without a vaccine.

Summary

We are not scientific experts and cannot verify whether these opinions are correct, but it is certainly interesting to be aware of them. Stock markets have somewhat recovered from the crash in March and they are telling us that we are close to the end of the virus that is causing so much disruption to the global economy. Stock markets are forward looking and therefore more concerned about the future earnings of companies in a year's time, rather than today. If we are indeed closer to herd immunity than the mainstream press believe, then the global economy will pick up much more quickly than expected and stock markets will almost certainly experience a strong move higher.

Final Comment

We are faced with some extremely negative news in the press with infection rates rising and a new national lockdown. On top of this it is raining, and we are facing a difficult winter. However, it is very interesting to look at 'other' viewpoints that are not making news headlines, which paint a much more positive picture that we are closer to the end of this virus than most people think.

We are also likely to see much more fiscal stimulus (money printing) in the US and this has always helped stock markets move higher. Quite simply, the more money in the global economy then the higher the prices of asset class (such as stock markets) can go. In addition, we have very low interest rates, and this is supporting the global economy. We must also remember that stock markets are forward-looking, and they price in the earnings of companies many years from now. Therefore, despite all the short-term problems, the longer-term outlook is very positive.

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