Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

November 2021

Contents:

Performance Update

The portfolios recovered most of last month's losses and rose between 0.77% and 2.70%. The FTSE 100 and S&P 500 rose 2.21% and 5.23% respectively.

The S&P 500 closed at another record high as gains in technology (in Tesla in particular), led to a small rally. Tesla became a trillion-dollar company, rising by around 50% last month. It is now worth more than every other car company combined.

While US markets hit record highs, Emerging Markets and Japanese equities fell -1.01% and -5.21%, respectively. UK smaller companies barely moved, rising by just 0.04%. This is clearly a US technology-centred rally that is not pulling up every stock market.

Global bond markets were mixed, with overseas Government and corporate bond markets falling, but UK inflation-linked bonds rising by an incredible 6.34%. This was mainly due to inflation recording some big numbers (5.4% in the US and 3.1% in the UK). The Bank of England's new Chief Economist has warned that UK inflation is likely to hit or surpass 5% by early next year. The UK Government cancelled more than half the remaining gilt issuance for this tax year in an "unprecedented" reduction. This announcement in the budget caused gilts to stage their biggest one-day rally since March 2020.

Economists believe that interest rates will rise this year/early next year to 0.25%, with a further increase of 0.25% shortly after. This is because the UK economy is growing, household finances are strong, unemployment is much better than expected and businesses are performing well.

Oil prices continue to rise, which is inflationary, and other commodities are still creeping higher. Gold however remains subdued. And for those beer lovers, expect prices to rise as both barley and aluminium costs are soaring. In North America, dry weather is scorching the barley fields which account for around 20% of global beer production.

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	0.77	3.92	10.75
Cautious	0.90	3.57	13.92
Balanced	1.09	3.86	17.04
Adventurous	1.90	5.68	21.25
Dynamic Equity	2.70	9.24	15.70
Income Generating	1.07	4.56	22.77
Fourth Industrial Revolution	1.79	7.20	26.66
Retirement Investment Solution 1	1.24	4.70	15.67
Retirement Investment Solution 2	1.47	5.19	16.80
Retirement Investment Solution 3	1.68	5.64	17.85

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.10.2021.

Trend Following Signals

The table below shows whether the asset class is 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	x
UK Equity	✓	Commodities	✓
Europe ex UK Equity	✓	UK Corporate Bonds	x
US Equity	✓	UK Corporate Bonds (Short dated)	x
Japan Equity	✓	UK Index-Linked Bonds	✓
Pacific Equity	✓	Global Bonds	x
Gold	✓	UK Gilts	x
Global Property	✓	Emerging Market Bonds	x
Global Infrastructure	✓	Overseas Corporate Bonds	✓

This month we saw Pacific Equities and Gold move above trend, but emerging market bonds fall below trend.

Cautious, Balanced and Adventurous portfolios

Pacific equities rose above trend which now means the Cautious portfolio is fully invested in equities again. Emerging markets are still below trend in the Balanced portfolio otherwise that too would be fully invested. Both portfolios are significantly underweight bonds but have just allocated to Gold this month. The Adventurous portfolio remains fully invested in equities, but has reduced exposure to US equities and increased exposure to mining companies.

Dynamic Equity portfolio

US equities were reduced this month as mining companies have overtaken them on the momentum scale. We therefore initiated a position in the JP Morgan Natural Resources fund. Mining companies fell by nearly 40% in the crash last year but as the global economy is recovering stronger than expected, they have recovered and are now accelerating higher.

Foundation portfolio

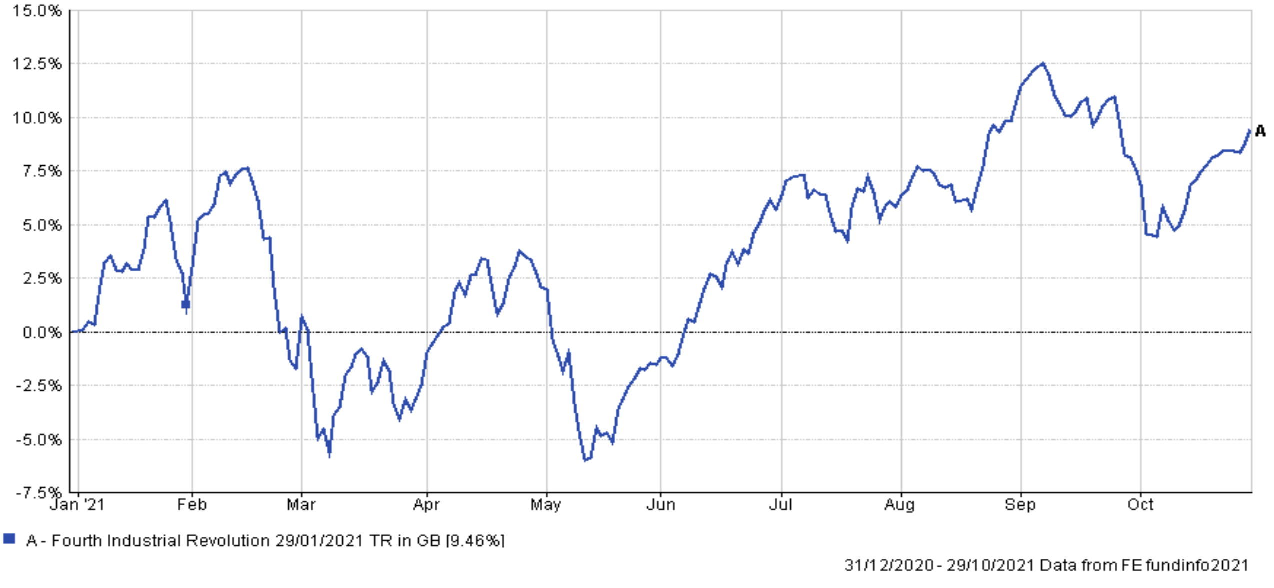
Bond exposure was cut again this month from 28.5% to 25.5% as Emerging Market bonds fell below trend. Exposure to Pacific equities and Gold increased.

Income Generating portfolio

The portfolio is our second best performer this year. One of the underlying holdings that has performed well recently is the L&G Global Infrastructure Fund. It invests predominantly in utility companies and currently pays an income of 2.1%. The increase in infrastructure spending announced by Governments has enabled the fund to perform well this year and it has accelerated higher:

Fourth Industrial Revolution portfolio

The portfolio invests in companies that are helping to solve some of the world's problems, such as climate change, cyber security and fighting diseases. It will be much more volatile than other portfolios and will have periods in which it falls and rises rapidly. You can see that by looking at this year's performance:



However, we believe that these companies are the ones that will help shape our future and will be highly sought after by investors, which in turn will lead to increased longer-term returns. We are now approaching the portfolio's 5-year anniversary and it has achieved a return of 18.87% per annum since launch, which is outstanding.

Retirement Investment Solutions

The Solutions produced some good returns last month and over the last year have grown by between 15.67% and 17.85%. Equity exposure increased as Pacific equities went above trend as did Gold. Bond exposure was reduced as Emerging Market bonds fell below trend.

Summary of Portfolios

Facebook, Apple, Netflix, Google, Microsoft, Amazon and NVidia are the most significant shares in the US market and occupy approximately 20% of the market cap of the total market. Owning these seven shares contributed to massive outperformance following the credit crisis crash. These shares continue to move higher and have help us to achieve some strong October returns for our portfolios. Tesla is also performing well and grew by over 50% last month which is astonishing as this magnitude of monthly return is normally only achieved by the smallest of companies. With so much going on in the world and people worrying about climate change, inflation, labour shortages, higher taxes and everything in between, this narrow group of companies continues to outperform on aggregate. It is reasonable to assume this bull market in equities will not end until they roll over and start to trend downwards.

While equities were led higher by technology shares, Gilts also advanced due to an improved outlook for the British economy. Growth was revised up from 4% to 6.5% and this will lead to higher tax returns and less Government borrowing (positive for Gilts). In his budget speech, the Chancellor also acknowledged how sensitive the country's finances are to rising interest rates, as for every 1% increase in interest rates, the cost of borrowing goes up by £23 billion. In addition, a quarter of our debt is linked to inflation. The UK Government's frank discussion on how sensitive government finances are to interest rates is a welcome development. This helped Gilts rebound. We can therefore conclude that our portfolios are benefitting from the continued technology-led advance in global equity markets as well as bonds holding up relatively well for the time being.

Asset Class Review

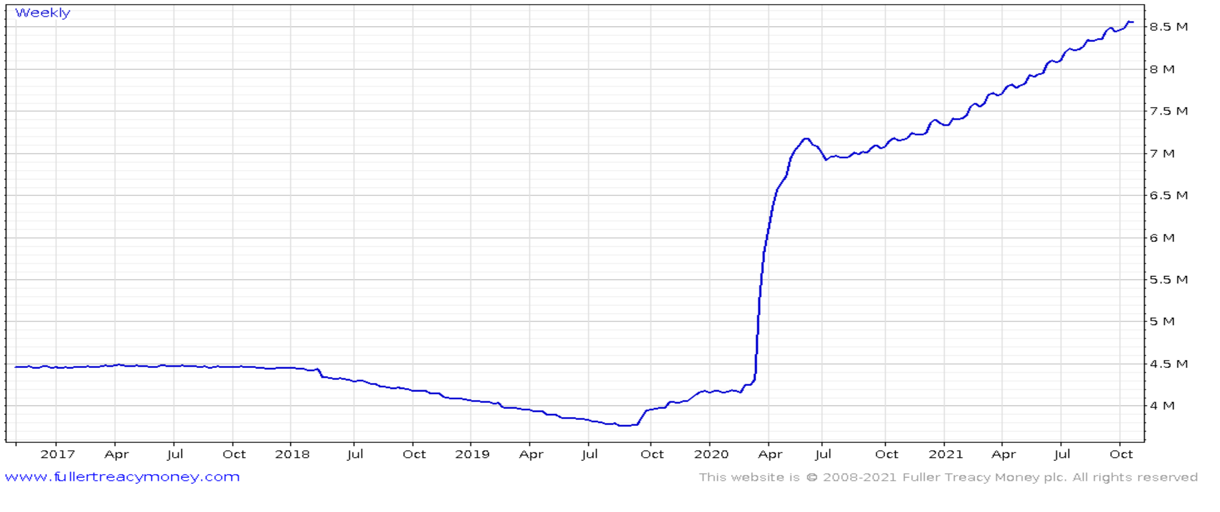
This section will give you an insight into our current thinking and we have included some charts that we believe look interesting.

FANGs – break to new highs

The FANG+ Index is a technology-orientated index that comprises ten companies such as Facebook, Apple, Amazon, Netflix and Alphabet (Google). These companies have become the most sought-after companies in the world and have led stock markets higher. Some commentators believe that when these stocks struggle and start correcting, they will drag other stock markets significantly lower. As you can see, they have struggled somewhat this year, but October saw them jump higher and hit new all-time highs. This is very positive.

Central Banks continue to print money

This is perhaps still the most important chart. FARBAST tracks the aggregate assets and liabilities of banks within the US economy. Essentially the higher it goes, the more money there is. Some of this money finds its way into stock markets and this is perhaps the main reason for the recovery in global stock markets last year and their continual advance. Despite fears of inflation and higher interest rates, there is a consistent uptrend in the money supply and while this continues to rise, we can expect a tailwind for stock markets.

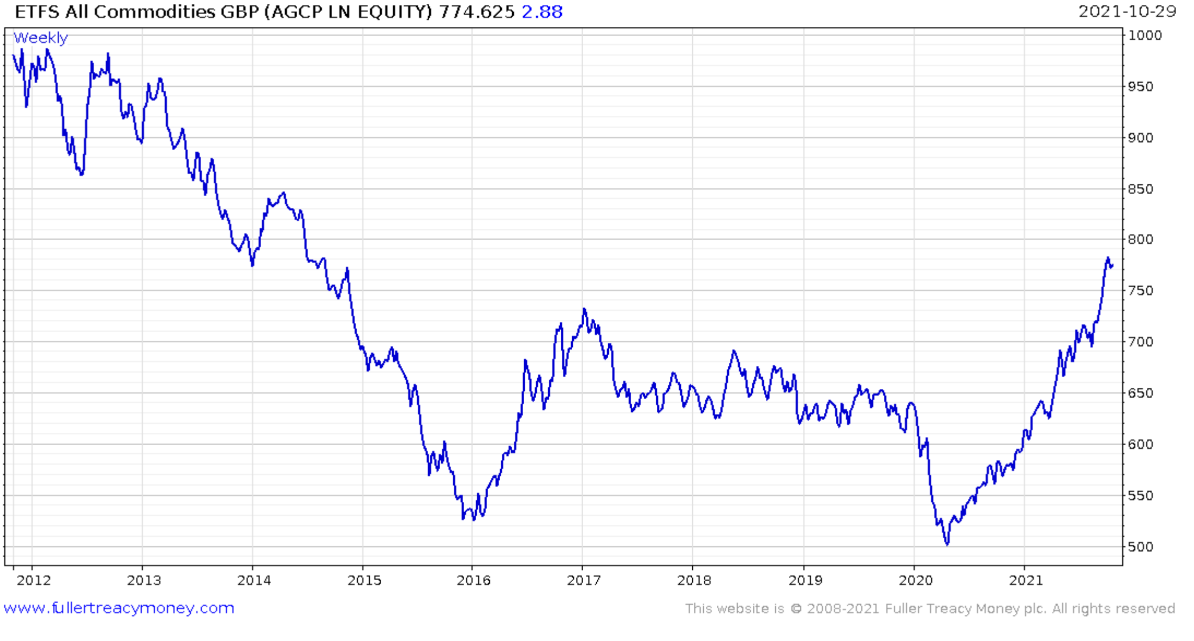


Long Term Gilt Yields Fall due to the Budget

The chart below is the interest rate (yield) that the UK Government needs to pay for borrowing money over the next 30 years. It is important as its low level has enabled the UK to borrow more to help pay for the pandemic. The chart below shows that it had started to advance rapidly over the summer, and this was starting to cause concern. However, announcements made in the budget showed that tax receipts will be much higher than expected due to inflation and stronger economic growth. While Government spending will also increase, the Chancellor has decided to save some of this extra revenue and will not need to borrow as much. Bond markets gave the budget a big thumbs up and the yield fell back from 1.5% to 1.1%:

Commodities still strong

The index below measures the price of all commodities including energy, agriculture, industrial metals and livestock. The index has risen over 60% since its low and continues to advance higher. This is undoubtedly leading to higher inflationary costs, but you can see that the index is still well below what it was 10 years ago:



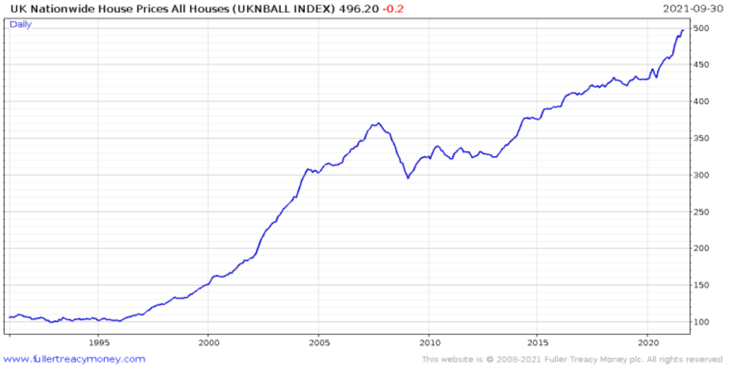
In Summary

The falling cost of borrowing in the UK is great news for our economy. This is against a backdrop of rising inflation and the continued advance in money supply. Global stock markets are moving higher, and they are still being led by the big US technology companies.

House Price Facts

The UK is obsessed with house prices, since we have a high proportion of homeowners as well as the fact that the economy has benefitted from the additional spending power that has been unlocked by the many that have withdrawn equity from their homes. This month we thought that we would look at some facts surrounding the housing market:

- There are an estimated 27.8 million dwellings in the UK.
- The Nationwide annual house price index (right) is 10% higher over the last year with the average property price over £250,000. The rate of increase is starting to accelerate higher again making the value of all UK homes over £7 trillion.



- There are now 524,306 properties valued at above £1 million according to Zoopla.
- The total value of housing transactions in 2020 was £211.1 billion.
- Wales is the strongest performing region with house price growth at 15.3%, Northern Ireland at 14.3% and Yorkshire & Humberside at 12.3%. London by contrast only grew by 4.2% and East Anglia by 8.9%.
- The biggest factor affecting potential regional house price growth in the short to medium term is working from home, as many people no longer have to live within a sensible commuting distance. We expect to see house prices rise in more rural areas faster than those areas by train stations.
- In the long term the biggest factor potentially affecting regional house price growth is autonomous transportation. This will make commuting even easier and busy main roads more desirable as noise and air pollution reduces.
- The most expensive house for sale on Rightmove is a 12-bedroom town house in Upper Grosvenor Street, London (pictured right). This is for sale at £54.5 million and includes a 73ft swimming pool, spa, gym, treatment rooms, master suite with private terrace and 55ft roof terrace

- The most expensive house for sale in Suffolk (pictured above and left) is “The Clees Hall Estate” valued at £10.5 million. It is a 7-bedroomed, moated country house, has 496 acres (with grass airstrip), 6 let properties on the estate bringing in £97,800 p.a. rental income and is only 72 minutes to Liverpool Street. Will this house be valued at the same as the London property shortly?
- 5-year fixed mortgage rates are still around 1.1%, but are rising. Will we see longer-term fixed rates like they have in the US, now that the 30-year gilt yield fell last month? A 10-year fixed rate in the UK is still only 1.9%. Is it worth paying a higher rate now for 5 extra years’ piece of mind?

In Summary

House prices have grown significantly in the UK this decade and show no signs of abating. Low interest rates have been the catalyst and higher rates will undoubtedly be a headwind for prices. Perhaps the biggest factor to consider going forward is the regional changes in prices, as commuting into major cities becomes less important.

Final Comment

Technology shares continue to lead global stock markets higher. Tesla moving 50% higher in a month is astonishing and shows that there is plenty more to come from companies that are solving some of the world's greatest problems. As long as these companies continue to move higher, we can expect our portfolios to do well, despite the fact there is a lot of bad news in the press about rising prices and taxes.

The UK Government also seems to be ahead of the curve in trying to slow down the rate of borrowing, by not spending all of the extra tax revenue as well as increasing taxes for the majority. This has led to UK bonds rising in October and this has been particularly beneficial to our lower risk portfolios. Therefore, we are still experiencing favourable investment conditions for stock markets as we enter the historically strong performing festive period.

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