Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

December 2021

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Performance Update

Stock markets suffered a global sell-off on the last week of the month as the discovery of a new and potentially more contagious Covid-19 variant caused fears that the global economic recovery could be brought to a shuddering halt.

Despite this, the performance of the portfolios were mainly positive as sterling fell, which helped our overseas assets produce positive returns. The portfolios grew between 0.57% and 1.11%. Only the Income Generating portfolio reported a loss of 0.49% as it has less money invested overseas. The FTSE 100 and S&P 500 fell 2.17% and 0.69% respectively.

On the last Friday of the month, stock markets suffered their worst day since June 2020. Europe, the FTSE 100, Japan's Nikkei 225 and Hong Kong's Hang Seng fell 4.5%, 2.5%, 3.3% and 3.9% respectively on that day. We must expect this volatility to continue (both up and down) as we find out more about the “omicron” variant. We are not virologists, but history has shown that viruses get more contagious and less virulent as they mutate.

Sterling fell to $1.3299 against the US Dollar, a drop of 2.8% over the month. This helped our portfolios as they have a significant amount invested in the US. The return in Sterling from the S&P 500 was actually +2.17%. This is more a story of Dollar strength, than Sterling weakness.

Global bond markets rose while equities fell, as a global economic slowdown will almost certainly halt any interest rate rises. UK inflation-linked bonds rose again, taking the 2 month return to 11.12%. This helped our more cautious portfolios. However, economic data has been very strong, especially in Europe and if the omicron variant isn’t as bad as first feared, we expect a resumption of strong economic growth and bonds to come under pressure.

The oil price fell significantly which will in turn will reduce inflationary pressures. Gold remains subdued even during this volatile period.

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	0.98	4.20	8.07
Cautious	0.63	3.79	9.69
Balanced	0.57	4.14	11.51
Adventurous	0.68	6.47	14.43
Dynamic Equity	1.11	10.16	16.69
Income Generating	-0.49	3.15	12.03
Fourth Industrial Revolution	0.75	11.97	17.08
Retirement Investment Solution 1	0.77	5.72	11.57
Retirement Investment Solution 2	0.81	6.38	12.34
Retirement Investment Solution 3	0.84	6.99	13.05

Please note that these figures do not include the platform or Watson Moore’s fees.*All figures are sourced from Financial Express to 30.11.2021.

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	✓
US Equity	✓	UK Corporate Bonds (Short dated)	x
Japan Equity	✓	UK Index-Linked Bonds	✓
Pacific Equity	x	Global Bonds	✓
Gold	✓	UK Gilts	x
Global Property	✓	Emerging Market Bonds	✓
Global Infrastructure	✓	Overseas Corporate Bonds	✓

This month we saw Pacific Equities move below trend, and UK Corporate bonds, global bonds and emerging market bonds move above trend.

Cautious, Balanced and Adventurous portfolios

All three portfolios were up by over 2.5% by the middle of the month, but then fell back down to record only moderate gains. The portfolios were nearly fully invested in equities, but this month Pacific Equities fell below trend, so the Cautious and Balanced portfolios sold their position. Exposure to bonds has increased significantly in the Cautious and Balanced portfolios, which should help reduce any future volatility. The Adventurous portfolio remains fully invested.

Dynamic Equity portfolio

The portfolio was up over 4% before falling back to record a gain of 1.11% over the month. With the increased volatility we saw US equities and global property move back up the momentum scale and exposure was increased. The last time global property companies were this high was in 2019 and the position was exited just before we first heard about Covid in 2019. We exited mining companies after only being in for a month. European smaller companies were also replaced.

Foundation portfolio

Bond exposure was significantly increased this month, and this will help reduce any potential future volatility. The chart below shows the performance of the Foundation portfolio against the FTSE 100 over the last 6 months. You can see how the performance of the portfolio has been a lot smoother which is exactly what we strive to achieve.

Income Generating portfolio

After performing extremely well, the performance of the Income Generating portfolio fell last month. This is largely due to the fact that it has more money invested in the UK than our other portfolios and so did not benefit as much from Sterling's fall against the US dollar.

Fourth Industrial Revolution portfolio

While global equity markets suffered falls, technology-related companies performed far better, much like they did in the first half of last year. However, there was a wide divergence in performance of the underlying holdings, with the L&G Global Technology fund growing 7.98% but the iShares Healthcare Innovation fund falling 3.69%. The L&G fund comprises mainly of the big household names such as Microsoft, Apple, Alphabet (Google) and Facebook (now Meta). These companies are unlikely to be adversely affected if we see another widespread lockdown.

Retirement Investment Solutions

Again, the solutions produced some good returns. Equity exposure reduced as Pacific equities went below trend and Bond exposure was increased.

Summary of Portfolios

The “omicron” variant has spooked investors as there are considerably more changes to it, including in the spike protein which is used to bind to human cells. It is the most divergent variant detected so far and is more transmissible than the Delta variant. However, initial reports also suggest that the symptoms are milder (fingers crossed). Moderna’s chief medical officer has said that he suspects the variant may elude current vaccines and scientists are now reformulating their vaccines which should be available in early 2022. Pfizer have said that an Omicron vaccine can be ready in 100 days.

The portfolios were due to report one of their best ever months, with the higher risk ones looking set for a 5% monthly return. Even the lower risk ones were up over 2% by the middle of the month. This was down to some continued good economic news, with the global economy continuing to grow significantly. However, since the news of the variant we saw a decline in values from the 16th November, but despite this, we still saw positive gains in November.

US technology companies continue to outperform, and it is reasonable to assume this bull market in equities will not end until they roll over and start to trend downwards.

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. This month we focus on how the Omicron variant has affected different markets.

Nasdaq – technology unaffected

The Nasdaq 100 is dominated by US technology companies, and you can see that while it is off a little against the earlier highs, this index actually rose in November. Technology will be less affected if we have a repeat of last year's lockdowns.

Europe and most other stock markets have seen a correction

The Euro Stoxx 50 Index shows a similar pattern to most other developed stock markets. You can see the crash last year followed by the uptrend. While we have experienced a correction just now, the market is still around the red trendline (200 day moving average). Many investment professionals use this line as a barometer to determine whether we are still on a positive or negative trend. At the moment, the consensus is that we are just experiencing a wobble within an upward trend.

Emerging Markets falling even further

By comparison Emerging Markets continue to fall and are on a negative trend with each peak failing to reach the previous one:

Oil – a significant fall

The oil price fell dramatically last year due to fears of a global economic collapse. However, the graphs shows that the recovery has been strong as investors have become more bullish. The recent fall is significant and indicates that investors are concerned that this variant could cause global lockdowns and the economy to contract:

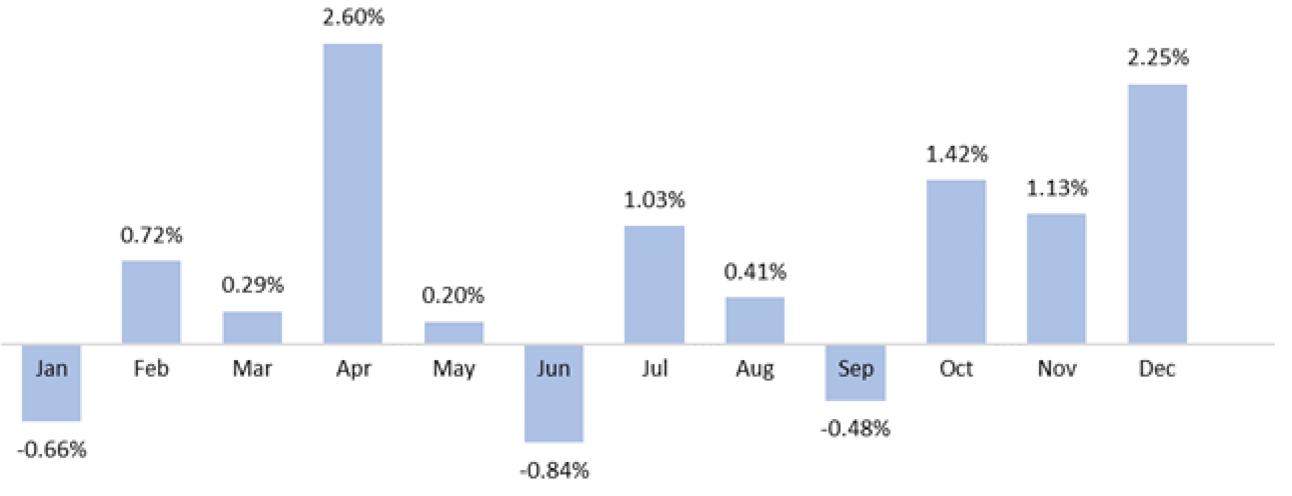
In Summary

A new variant is not a surprise to us but this one is causing much more concern from an investors' point of view as there are initial fears that lockdowns will return, and this will put an end to the economic recovery. However, stock markets are still generally positive, and therefore this could be a good buying opportunity.

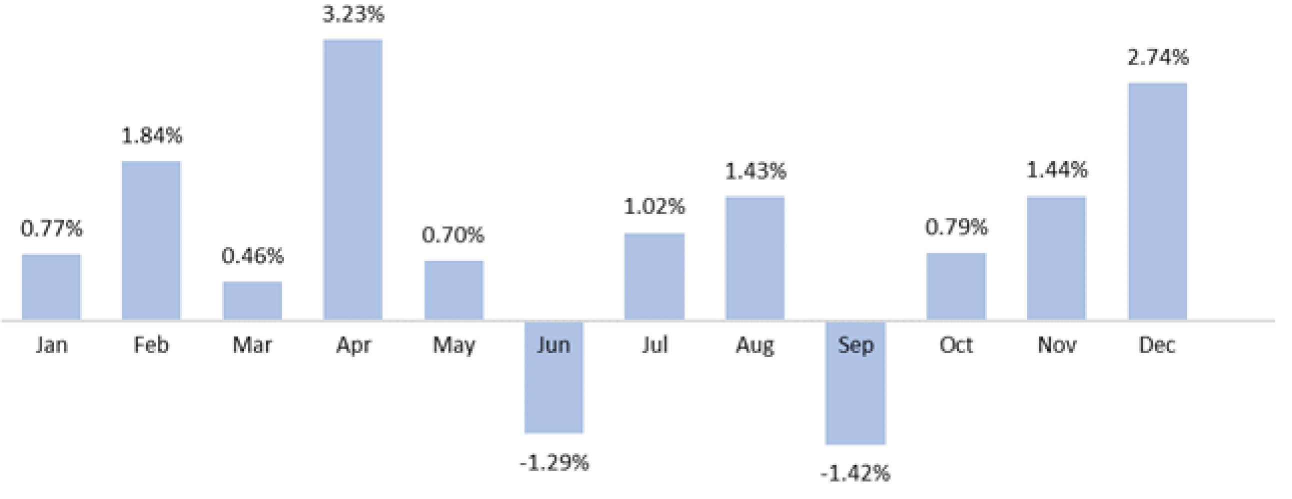
The Santa Rally

This time last year we looked at the 'Santa Rally', which is a term used for when stock markets post positive results in the run up to Christmas and the New Year. December 2020 saw the FTSE 100 grow by 3.28% so weren't disappointed! By looking at the average data for the FTSE 100, FTSE 250, S&P 500 and MSCI Emerging Markets over the last 30 years, you can see that the charts all show a strong period between October to May and a weaker period during the summer. April seems to be the best month in general followed by December. The charts below show the average monthly return for each market, each calendar month and you can see the effects of the Santa Rally:

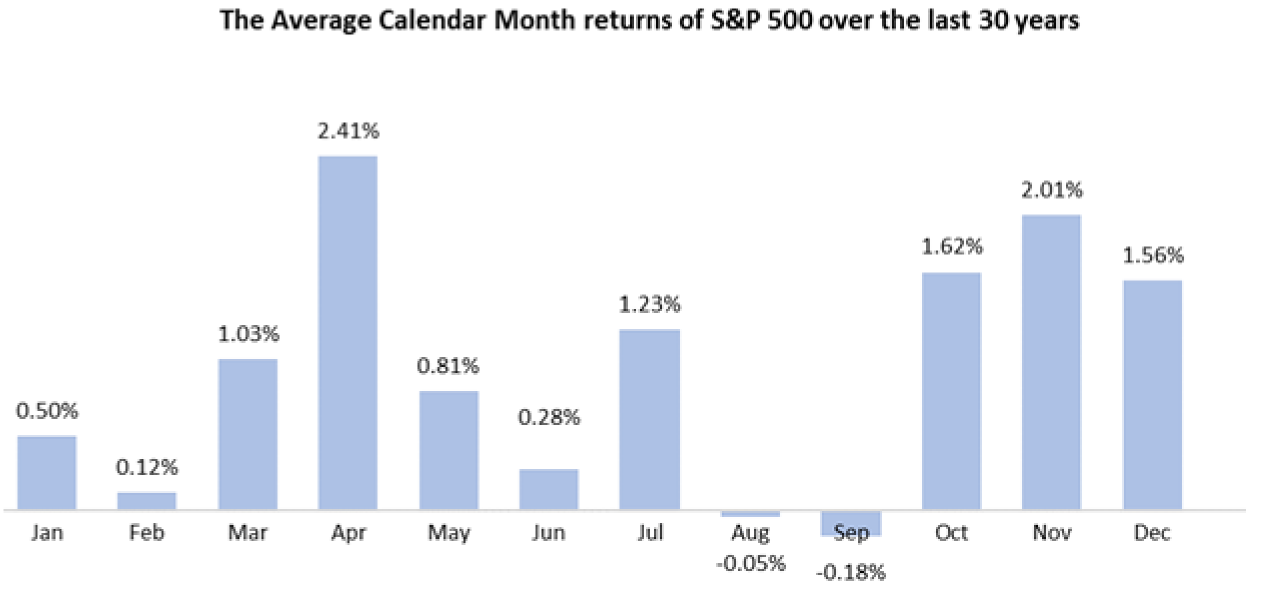
The Average Calendar Month returns of the FTSE 100 over the last 30 years

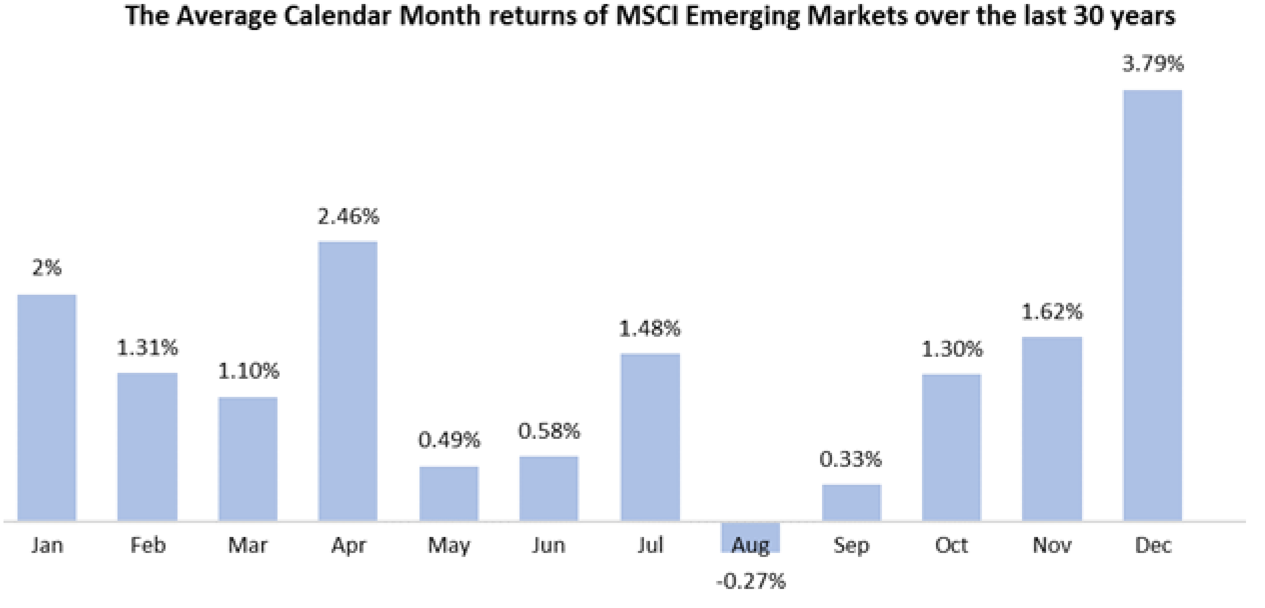


The Average Calendar Month returns of the FTSE 250 over the last 30 years



The Santa Rally (continued)





While you can get a broad idea of when a Santa rally might start by looking at historical data, each year's Santa Rally will be different. It might start early, it might start late, or it might not start at all. You can only know for sure if a Santa Rally has taken place once it is already over. This year we have seen stock markets correct somewhat in November and this might just lead to a strong rebound this month.

Whatever the reason for this, and whenever it occurs, we know that historically December is a great time for investing money and it just leaves us to say, 'Happy Christmas!'.

Final Comment

Stock markets suffered a small correction towards the end of November as the uncertainty surrounding the “Omicron” variant is causing concern that another global lockdown will occur. This correction has just taken place before a period that is usually very positive for stock markets. If Omicron spreads quicker but is less virulent, then we may see another Santa Rally.

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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.