Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
September 2022

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Performance Update

Global stock markets fell over the month, with the FTSE100, Euro Stoxx and S&P500 losing 1.06%, 5.01% and 4.08% respectively. Our portfolios had performance ranging between -1.33% and +1.19%.

August proved to be a very volatile month for equities. The S&P500 was up by over 4% by the middle of August but then ended the month down over 4%. However, there were some stock markets that performed well with China, Australia, Japan, India and Brazil all growing. Brazil rose 6.17% in August.

The US dollar continued to strengthen, and this helped our portfolios as we have a significant amount invested in the US. As sterling falls against the dollar, the value of our dollar-denominated investments goes up when converted back to sterling. The S&P500 fell 4.08% but rose 0.32% in sterling terms due to the effects of currency movements.

After a bounce in July, UK Gilts extended their decline falling by 6.8%. They are now down 20.55% over the year. Despite UK Gilts being classified as a low-risk investment, they are currently behaving as a high-risk investment.

Consumer price inflation (CPI) has reached 9.3% and some commentators are forecasting that we could experience inflation at 18%. When CPI was 9.3% and rising in 1979, the Bank rate was 14% and mortgage rates were around 12.5%. The Bank of England is expected to increase interest rates from the current 1.75% to as high as 4% in 2023. This is still much lower than in 1979.

The US economy is doing much better as it is broadly self-sufficient in gas, so gas prices there are much lower. Inflation in the US dropped from 9.1% to 8.5% in July. It is important to note that what happens in the UK does not affect our investments as much as what happens in the US and elsewhere. The unemployment rate in the US (like in the UK) is very low and not rising as you would expect it would as you enter a recessionary period. Perhaps if unemployment rises a bit, then this would mean that inflation would come down quicker, interest rates wouldn't rise as much, and stock markets would move higher- bad news is good news.

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

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	-0.14	0.38	-2.07
Cautious	0.66	1.04	-2.25
Balanced	0.86	0.94	-2.28
Adventurous	1.16	0.52	-4.22
Dynamic Equity	1.09	2.33	-3.70
Income Generating	-1.33	0.09	-2.32
Fourth Industrial Revolution	1.19	-0.15	-14.60
Retirement Investment Solution 1	0.18	0.29	-3.48
Retirement Investment Solution 2	0.32	0.55	-3.64
Retirement Investment Solution 3	0.45	0.79	-3.80

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.08.2022.

Trend Following Signals

The table below shows whether the asset class is in a positive trend (✓) or a negative trend (x). A positive trend is when the market is above the average price over the last 200 days. 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	x	Commodities	✓
Europe ex UK Equity	x	UK Corporate Bonds	x
US Equity	✓	UK Corporate Bonds (Short dated)	x
Japan Equity	✓	UK Index-Linked Bonds	x
Pacific Equity	✓	Global Bonds	x
Gold	✓	UK Gilts	x
Global Property	x	Emerging Market Bonds	x
Global Infrastructure	✓	Overseas Corporate Bonds	✓

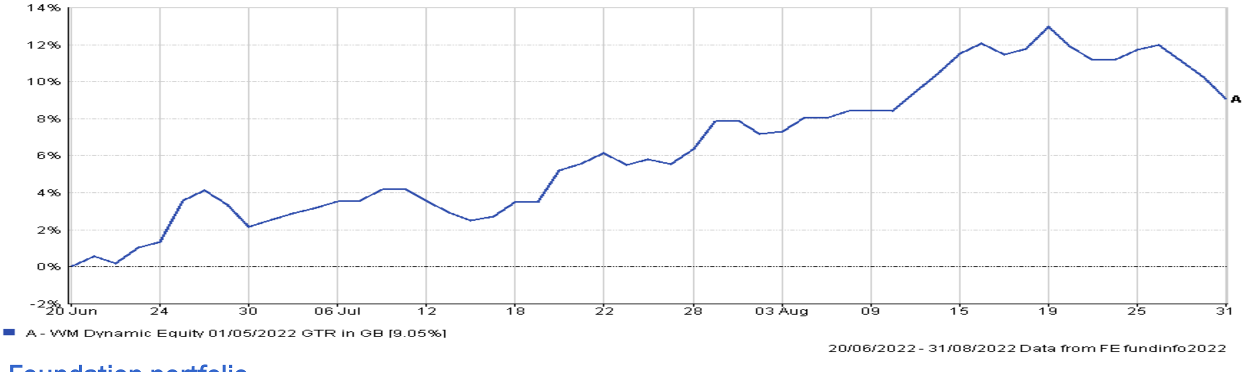
UK equities fell below trend and Japanese and Global equities moved above trend.

Cautious, Balanced and Adventurous portfolios

The portfolios reduced their weighting in cash by increasing their exposure to equities slightly. Global and Japanese equities were purchased but UK equities were sold in the Cautious and Balanced portfolios. The Adventurous portfolio increased its exposure to Indian equities as they have been performing extremely well recently and are now above trend and high up on the momentum scale. The portfolios are still relatively defensively positioned as most bond markets are below trend as well as just under half of the major equity markets.

Dynamic Equity portfolio

Indian equities have moved higher up the moment scale, whilst Global property equities have fallen down the scale. Therefore, we switched positions. US equites remain high up the momentum scale, and we have a relatively high weighting to them. A rising US dollar has therefore helped our portfolio. Since the 20th June we have experienced a strong recovery, but the end of August the portfolio gave back some of its gains:



Foundation portfolio

The Foundation portfolio fell during the month as bond funds were hit hard in August. The portfolio will always have some exposure to most asset classes as the Foundation portfolio is our most diversified portfolio and reduces exposure to each asset class when the asset class is below trend. Currently only one bond asset class is above trend, and this has full exposure whereas the other ones have half the maximum exposure.

Income Generating portfolio

After a strong return in July, the portfolio was our worst performing portfolio in August. This is because we are now expecting interest rates to go up more now than at the start of the month and this makes income producing assets less attractive.

Fourth Industrial Revolution portfolio

This was our best performing portfolio with Clean Energy (+4.38%), Cyber Security (+9.47%) and Biotech (+4.07%) all rising significantly. Whilst the portfolio grew by 1.19% in August, it was up 7% at one stage before falling back. We must expect much more volatility as the future path of inflation and interest rates remain uncertain.

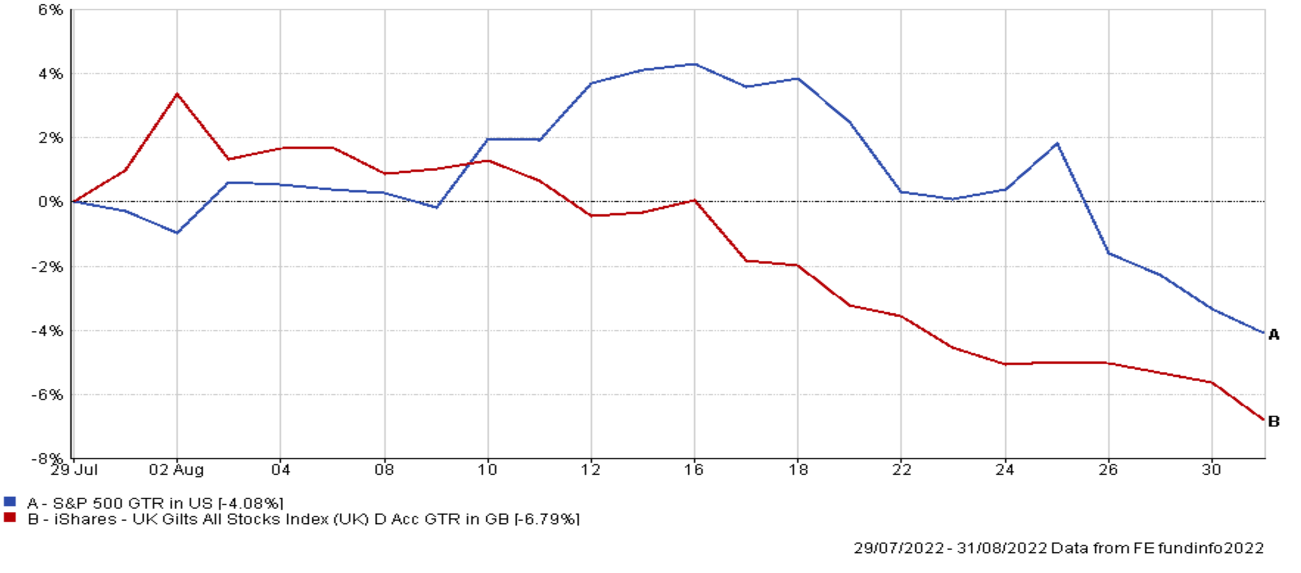
Retirement Investment Solutions

The Solutions reduced their cash levels as Global (large and small companies) and Japanese equities moved above trend. UK equities moved below trend though. The portfolio benefitted from their exposure to the Dynamic Equity portfolio but their exposure to the Foundation portfolio acted as a headwind.

Summary of Portfolios

We are faced with an extremely volatile period for most asset classes, even the lower risk ones such as bonds. How high interest rates will peak is affecting all asset classes and with each piece of economic news, the expectation will change. The best scenario is that we experience some slightly bad economic news that sees unemployment go up slightly and economic growth reduce with talk about a mild recession. This would mean that central banks will not have to raise interest rates as high, as inflation will naturally fall. Lower interest rates should mean that bonds will do well, and equities will be supported, especially those markets that produce higher than average levels of dividend income.

The chart below show how volatile current markets are with UK gilts rising over 3% at the beginning of the month but ending down 6.79%. The S&P500 was over 4% up but ended over 4% down. This demonstrates how uncertain investors are when it comes to where interest rates and inflation are heading.

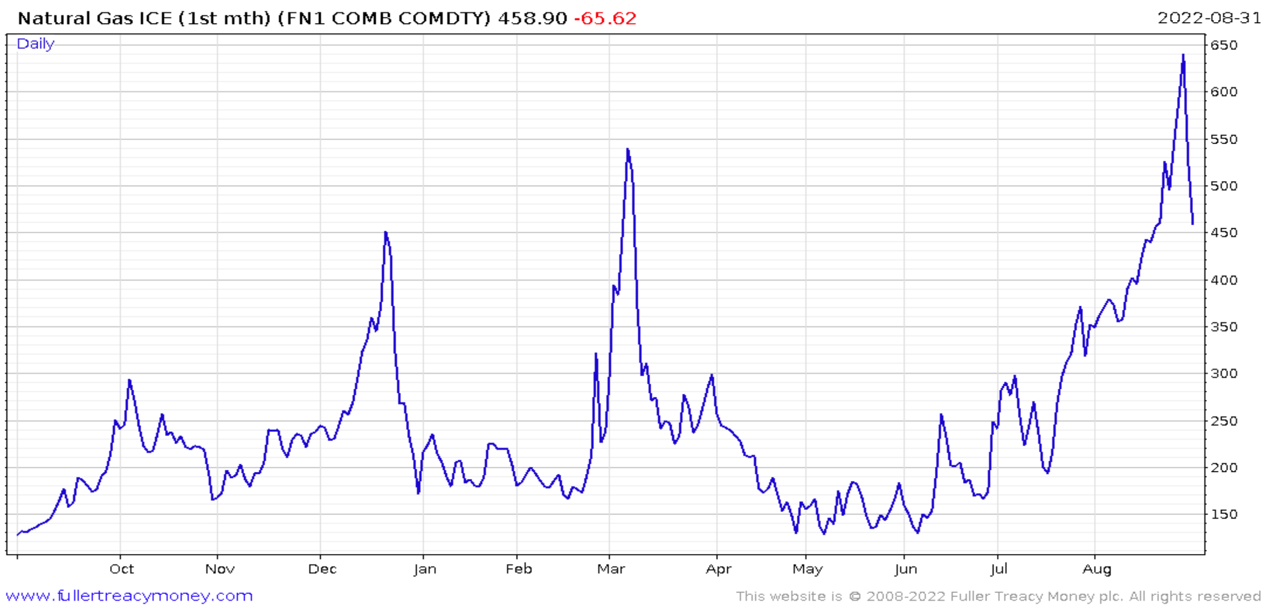


Asset Class Review

This section will give you an insight into our current thinking. This month we look at the most important charts affecting our wealth.

UK Gas– spiked higher but come off the highs for now

The chart below shows the price that the UK has to pay for natural gas. The price of gas will vary across the world, and it is currently much lower in the US. You can see how much it rose by in August and this is the reason behind the rise in the energy price cap as well as the expectation that the cap will jump much higher in future. As per the two previous spikes we saw a big fall after and hopefully that will happen again, especially as slowing economic growth should reduce demand for energy. In addition, China is now exporting unused (Russian) gas to Europe for a tidy profit.



Sterling takes another leg lower

All of our portfolios have a significant amount of money invested in the US and the continued fall in the value of sterling in August, helped protect our portfolios somewhat. There are some commentators forecasting that sterling will hit $1 in the short term. However, as sterling falls it means that the costs of our imports rise, and this will lead to even higher inflation in the future. There are certainly going to be some challenging times for the UK going forward and the political decisions over the next few months will be extremely important.

UK Gilt yields- very volatile but moving higher

The chart below shows the yield (interest rate) that you can receive from investing in UK government bonds. As the yield goes up government bonds fall in value which is why we have seen big losses on bonds as well as equities this year. Although they are classified as a low-risk investment, they are behaving in a very volatile way. This month they were up at one stage by 3.38% but ended the month losing 6.79% in value.

Stock markets still trending downwards

The chart below is of the FTSE250 which measures the performance of smaller UK companies. However, the pattern is very similar to many other stock markets. The red line is the average price of the index over the last 200 days and acts as a smoother trend line. You can see how since 2022 each recovery high has been lower than the previous high and the red trend line is consistently falling, which signals we are still in a down trend. The important part to look at is will the new low be higher or lower than the July low. If it is higher then this could signal a change of direction and better times ahead.

In Summary

Equities and bonds have both benefitted from a summer bounce but the second half of August saw them both fall lower and resume their downward trends. The UK economy looks as though it could suffer from one of the worst increases in inflation as gas, as well as a depreciating sterling, help push up prices. The good news is that the value of our overseas investments benefit when sterling depreciates.

Buy The Dip?

The Nasdaq 100 has fallen 24.38% year to date despite a small summer recovery. We are now being asked if the "dip" is an opportune time to invest more into equities, especially in technology laden stock markets such as the Nasdaq 100 or if we should use the summer recovery to sell. The chart below is of the Nasdaq 100 (blue line) and the longer-term trend line is the red line. The trend line averages out the price of the index over the last 1000 days, and you can see that whenever the blue line has dipped close to the red line, it has bounced much higher. Thus, if we had invested more money at each dip then it would have been very profitable. If history repeats, then now is a good time to buy.

Whilst buying the dip has been a very profitable strategy in the past, and could indeed be so this time, each previous dip has tended to coincide with central banks cutting interest rates and/or printing more money. The reaction to the Covid crash was the most recent example. However, this time we are faced with a "dip" in stock markets, but interest rates are rising to fight inflation and central banks are beginning to withdraw liquidity from global markets. We are thus in a different environment to previous recent dips and must be aware that this time could be different. The last time stock markets broke their 1000 day trend line was in 2008 and you can see how the initial leg downwards was followed by a recovery and then a much sharper fall from the summer of 2008:

On the positive side we are experiencing rapid technological innovation which should continue to provide sufficiently large benefits and productivity gains to help stock markets rise higher over the long term. Artificial intelligence, robotics, synthetic biology, autonomous vehicles and nuclear fusion are being discussed as near-term solutions to many problems that we face. Stock markets have also priced in that a recession is imminent and thus have fallen to reflect that. Unemployment remains low and consumers are still spending money to make up for the lost time during Covid. If we start to see inflation fall and progress made on ending the Ukraine war, we could experience a very sharp upward movement within global stock markets.

The short answer to the question should we "Buy the Dip?" is probably over the long term, but beware that we are faced with some difficult problems in the short term that could push markets lower from here.

Final Comment

We experienced much volatility in almost every asset class in August as we are experiencing much uncertainty in inflation and how high interest rates will have to go to fight it. Bonds are being the most affected and, despite being classified as low risk investments, they are producing the highest negative returns now.

Sterling remains in a downtrend against the dollar as the weight of energy prices, interest rates and inflation are hitting consumer spending and contributing to negative sentiment. We must remember that a falling pound acts as a tailwind for our portfolios. In addition, how the US economy performs affects global stock markets significantly more than anything that happens in the UK.

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