Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
December 2022

Contents:
Performance Update
Asset Class Review
Qatar, Chile and the World Cup
Final Comment

Performance Update

Global stock markets continued their rebound in November, with the FTSE100, Euro Stoxx and S&P500 gaining 7.12%, 8.91% and 2.08% respectively. Our portfolios advanced between 1.03% and 4.18%.

Global stock markets continued to rebound as the US Federal Reserve confirmed that the pace of interest rate hikes will moderate. Stock markets view that this means interest rates will peak at a lower rate than previously thought and this helped boost stock markets. This coincides with a seasonally strong period for markets, and we could be in for a good “Santa Rally”. Last December the FTSE 100 rose 4.75% and over the last 30 years, December has been the second-best performing month of the year for the FTSE 100 (top is April).

Sterling also rebounded against the dollar and is now above $1.21. This is providing a headwind to our portfolios.

There appears to be a change in momentum within stock markets with the US no longer the leader. Europe has underperformed for many years but over the last 3 months it has been the best performing major market. We believe that investors are rotating out of more expensive US stocks and into those that they believe offer much better value. This is a potential sign that confidence is returning.

The Chinese government is adopting a carrot-and-stick approach to containing the recent outpouring of emotion on the streets. Vaccinating large numbers of elderly people and quietly circulating information that the Omicron variant is less deadly have been two policies deployed. At the same time, the streets have been flooded with police, and protestors are being made aware that there are costs to challenging the status quo. The conclusion is that the COVID-zero policy has peaked, and China will reopen. This helped the Chinese stock market jump 25.41% in November.

Bonds also had a good month with UK Government Bonds rising 2.77%. This is on the expectation that interest rates will not rise as much and the current yields are offering protection against a worse than expected recession.

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

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	1.68	-1.98	-3.57
Cautious	0.87	-0.50	-2.71
Balanced	1.07	-0.55	-2.87
Adventurous	1.55	-0.34	-4.70
Dynamic Equity	2.30	1.09	-3.68
Income Generating	4.18	-1.39	-0.96
Fourth Industrial Revolution	1.34	3.56	-16.44
Retirement Investment Solution 1	0.98	-1.65	-4.67
Retirement Investment Solution 2	1.16	-1.26	-4.63
Retirement Investment Solution 3	1.32	-0.91	-4.61

Please note that these figures do not include the platform or Watson Moore’s fees.*All figures are sourced from Financial Express to 30.11.2022.

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

Most major equity markets are now above trend, whilst most bond markets are below.

Cautious, Balanced and Adventurous portfolios

The equity content rose significantly as Pacific, European, UK and infrastructure equities rose above trend. We are now hopefully set for a Santa rally which we will benefit from as we are significantly more invested in equities than we were two months ago. We are still underweight bonds, and they did not bounce high enough for them to trigger a buy. Gold also rebounded a little and we repurchased our position.

Dynamic Equity portfolio

There has been a major shift in the momentum of this portfolio as Pacific equities moved high up on the momentum scale and replaced one of the US equity holdings. In addition, healthcare and smaller US companies replaced North America and World markets. We therefore have a much lower exposure to the big US companies and the portfolio is less sensitive to a falling US dollar. Overall, we can see that the portfolio is taking more risk as this recovery takes hold.

Foundation portfolio

Equity exposure significantly increased as Pacific, European, UK and infrastructure equities rose above trend. Gold also moved above trend and exposure was increased, but commodities fell below trend, so exposure was reduced. The only bond sector that is above trend are emerging market bonds and exposure was increased in them.

Income Generating portfolio

With interest rates rising this year but now expected to peak at a lower level, this has caused much volatility within the portfolio. However, the last two months have seen it recover significantly:

Fourth Industrial Revolution portfolio

The biggest technology companies continue to underperform, and the L&G Global Technology fund fell 0.09% over the month. This Fund has large holdings in Apple, Microsoft and Alphabet. However, 6 of our 9 holdings rose with the iShares Global Clean Energy fund growing by 7.32%. This helped the portfolio rise by 1.34%. We believe that it is important to have a diverse portfolio when investing in technology as different sectors can be extremely volatile. Our Fourth Industrial Revolution portfolio is extremely diverse.

Retirement Investment Solutions

The Solutions continue to make steady progress and have now increased their exposure significantly to equities. They continue to have very little invested in bonds.

Summary of Portfolios

The recent recovery has meant that our portfolios are taking on more risk than they were a few months ago, as many major stock markets are above trend.

We must remember that markets have already priced in the "doom and gloom" that we are reading about in the media every day. The latest doom is that the UK will be in a recession until the end of next year. Whilst bonds have crashed this year and are set to have their worst year ever on record, there comes a point in time when they offer great value and will start to recover. This will happen when inflation first starts to fall (data is showing that this has started to happen) and then interest rates will not have to go up as high as expected (this again is beginning to happen). The same will happen in equity markets and we are beginning to see them recover with Asia and Europe recovering the fastest. The Santa rally looks set to happen again this year, but we must remember that markets will remain extremely volatile (both on the upside and downside).

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.

US Stock market at a pivotal point

Since the beginning of the year, we have seen that for the main US stock market, each recovery high has been lower than the previous high and each new low is below the previous low including the recent October low. We have just broken above the red trend line (200 day moving average), and we look set to test the previous high at around 4300. A break above will be extremely positive and perhaps mark the start of a new "bull" market. Many other major markets (not all) share a similar pattern.

Europe breaks higher

Europe shared a similar pattern until now. You can see how it has broken above previous highs as well as the red trend line. Europe has underperformed the US for many years, and this demonstrates that investors are switching money away from the more expensive US stock markets and moving it into the cheaper European ones. Investors want to remain invested in equities as they are cautiously optimistic (are we close to the end of the interest rate hike cycle?), but not that optimistic as they do still fear another significant pullback. As Europe is a lot cheaper than the US (it is not much higher than pre-Covid levels whereas the US is a lot higher) then it shouldn't fall as much if we do experience another "crash".

India- new all time high

India is benefitting from the current political situation in China. Apple got a bad shock last month when its most significant iPhone production facility was shut down as part of a COVID lockdown in China. Apple has already started to build more products in India and that trend is likely to accelerate over the next decade. In addition, as employers are more comfortable with working from home, outsourcing service orientated work to India is growing. This has helped the Indian stock market hit a new all-time high and it is now one of the worlds fastest growing stock markets.

UK Bond yields-continue to fall

The chart below shows the yield that you can receive from investing in UK government bonds over the next 10 years. The yield hit 4.5% under Liz Truss but have now fallen back to test 3.0%. This is really good news for fixed rate mortgages as they should be coming down even further over the next few months.

In Summary

Inflation has started to fall in the US and interest rates are expected to peak lower than expected. This has helped stock markets recover somewhat and we appear to have new leaders, with Europe and India outperforming the US. We remain at a pivotal point for stock markets, and we could be about to experience a Santa rally.

Qatar, Chile and the World Cup

There is plenty of political debate surrounding the FIFA World Cup. But behind the sports and the controversy, the event also highlights an interesting relationship between geography and economics.

Do World Cups run on natural gas?

Qatar's wealth comes from fossil fuels (oil and gas). They account for more than 70% of total government revenue, more than 60% of gross domestic product, and roughly 85% of export earnings. In GDP capita terms, Qatar is in the top five economies in the world: $85,000 per person, vs. a global average of $21,000, according to the World Bank. And, of course, fossil fuels have funded ~$220bn of spending on Qatar hosting the 2022 World Cup. In fact, fossil fuels have funded a fair bit of FIFA's recent work. The table below shows the top five countries in the world, in terms of natural gas riches.

Natural Gas (% of global reserves)	
Russia	23%
Iran	16%
Qatar	12%
United States	6%
Turkmenistan	5%

7IM/US Energy Information Administration

Russia hosted the World Cup in 2018. Qatar in 2022. And the United States is joint host in 2026 – along with Canada and Mexico, no slouches when it comes to oil and gas reserves.

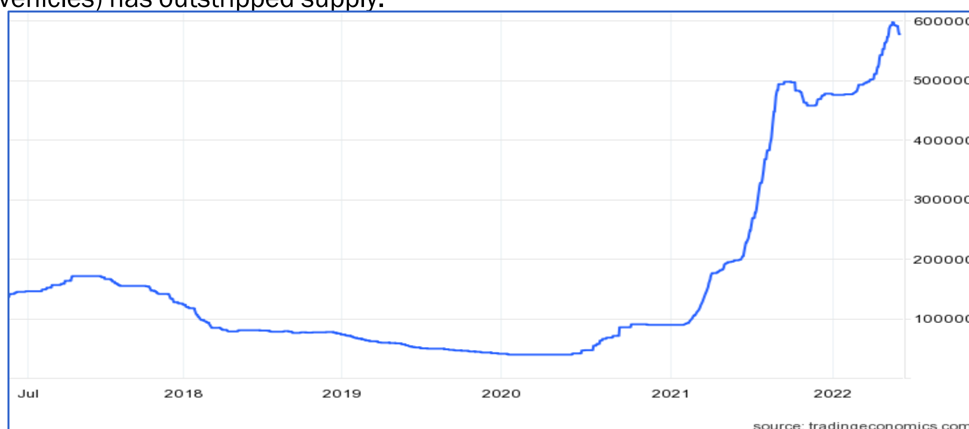
Will Batteries take over?

Will we see an Iranian or Turkmenistani bid? It might depend on what happens with the energy transition. As the world moves away from fossil fuels, who are the next winners of holding the resources that the world requires? Could it be lithium which is extremely important in batteries. The global reserves are even more concentrated:

Lithium (% of global reserves)	
Chile	42%
Australia	26%
Argentina	10%
China	7%
US	3%

7IM/US Geological Survey 2022

Anyone for Chile in 2030? The Chile stock market is up nearly 30% this year as the price of Lithium since 2021 has gone up over 6 times (see chart below), which demonstrates the new demand for batteries (mainly from vehicles) has outstripped supply.



Summary

Oil, and where it is found, has influenced global politics for our generation including the destination of the last two world cups. As we switch away from fossil fuels and countries strive to become energy independent, lithium production will become increasingly important. Chile could become the worlds most important country and the host for the 2030 world cup. There is currently a joint bid from Argentina, Uruguay, Paraguay and Chile, with the host chosen by FIFA in 2024.

Final Comment

2022 will go down as one of the most volatile periods for investment markets, especially with bonds "crashing" and nearly destroying the UK pension industry. Fortunately, the incompetence in the UK Government also caused sterling to fall significantly and this helped protect our portfolios somewhat. Despite the doom and gloom in the press, we are beginning to experience a recovery in both equities and bonds. This coincides with a historically strong seasonal period which has become known as the "Santa Rally".

We are beginning to see inflation data moderating, the price of commodities remaining stable, and interest rates not expected to peak as high. As the bad news gets slightly better, this can provide a catalyst for a strong recovery.

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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.