Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

May 2023

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Performance Update

Global stock markets generally had a good month, with the FTSE100, FTSE250 and Euro Stoxx growing 3.41%, 3.15% and 1.54% respectively. However, the S&P500 and Emerging Markets indices fell 0.09% and 2.72% respectively. Bonds fell during the month with UK Gilts declining 1.53% and UK Inflation-linked bonds down 4.70%. Our portfolios performed well growing between 0.12% and 1.84%. The exception was the Fourth Industrial Revolution portfolio which fell 2.39%.

Another bank had to be rescued in the US as First Republic Bank was hit by depositor withdrawals. This was a very similar situation to SVB and is a bank-specific issue. Stock markets were spooked by this but then recovered towards the end of the month after some better-than-expected results from the major technology companies. These technology companies are beginning to lead stock markets higher again.

UK Inflation fell slightly from 10.4% to 10.1% which is the seventh consecutive month of double-digit figures. Our inflation is affecting us all as it is energy and food prices that are experiencing the highest rises. Inflation is expected to come down significantly over the next few months, but the UK's headline rate remains much higher than the US and Europe and is not falling as rapidly as expected.

Bonds gave up a lot of last month's gains with UK Gilts and UK Inflation-linked bonds falling by 1.53% and 4.70% respectively. This is due to inflation not falling as quickly as expected and therefore interest rates will likely stay higher for longer.

Investors are becoming increasingly concerned about the US government's ability to honour its debt payment as the "debt ceiling " looms. Normally negotiations go to the wire and eventually the debt ceiling is raised, allowing the US government to borrow more. This time, with an election not too far away, negotiations may be more tense.

UK house prices rose 0.5% in April following seven months of consecutive falls. Is this an anomaly or is the UK economy very resilient?

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	0.12	2.13	-2.45
Cautious	0.47	1.78	-0.25
Balanced	0.53	1.38	-0.94
Adventurous	0.61	0.04	-2.28
Dynamic Equity	1.04	0.09	-2.14
Income Generating	1.84	5.63	-0.51
Fourth Industrial Revolution	-2.39	0.66	-0.44
Retirement Investment Solution 1	0.55	0.40	-3.04
Retirement Investment Solution 2	0.63	0.25	-3.01
Retirement Investment Solution 3	0.70	0.12	-2.98

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 30.04.2023.

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

US equity markets fell below trend. Japan equities and UK corporate bonds moved above trend.

Cautious, Balanced and Adventurous portfolios

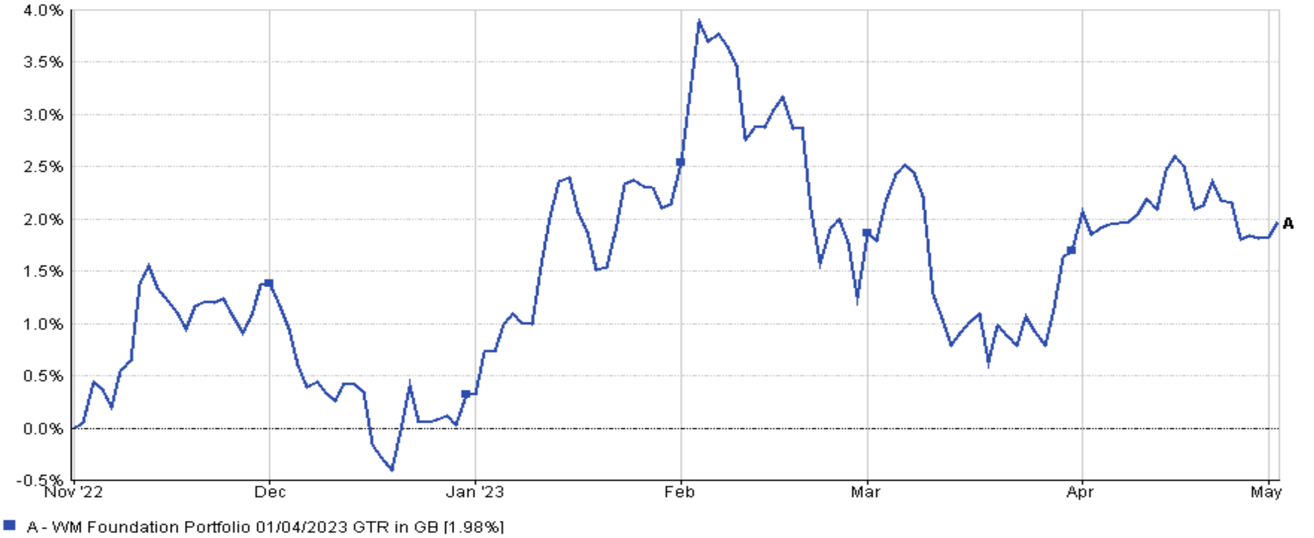
The portfolios enjoyed some good returns last month as the equity holdings performed well, in particular the UK and Europe. The US is now underperforming and exposure to US equities was reduced in the Cautious and Balanced portfolios. Healthcare is now recovering, and exposure has been increased in all three portfolios. Overall, equity exposure remained static in the Cautious and Balanced portfolios but increased in the Adventurous portfolio as Japan equities were also added. We have managed to miss a lot of the volatility within the bond markets, but exposure increased in both the Cautious and Balanced portfolios as Overseas and UK Corporate Bonds are both beginning to trend higher.

Dynamic Equity portfolio

Exposure to US equities had already been reduced significantly which helped the portfolio last month as US equities underperformed. The only change was Japan equities replacing Pacific equities. Japan equities have underperformed for many years with the 5-year return at 17% compared to the US at 82%. Could this be the period that they catch up and show the strongest momentum?

Foundation portfolio

The Foundation portfolio has been very steady over the last 6 months, benefitting from strong performance in UK equities and a recovery in bonds:



02/11/2022 - 02/05/2023 Data from FE fundinfo2023

Income Generating portfolio

The outperformance of UK equities helped the portfolio grow 1.84% last month. Every underlying holding grew last month, even the bond ones. The portfolio yields 3.09% and looks well positioned with exposure to "Quality" dividend-paying companies as well as the UK stock market which is undervalued when compared to the UK and Europe.

Fourth Industrial Revolution portfolio

The portfolio fell 2.39% as we saw significant losses in Cyber Security (down 8.81%) and Clean Energy (down 6.97%). The biggest technology companies performed well, and Biotech/Healthcare also produced positive returns. The gap between the best and worst-performing underlying investments over the last 6 months stands at over 27% which shows how volatile investing in companies that are on the cutting edge of technological change can be.

Retirement Investment Solutions

The Solutions invest in three of our portfolios, the Foundation, Dynamic Equity and Multi-Asset Trend Following. The Dynamic Equity portfolio will always invest in equities, whilst the other two are very diversified, increasing and decreasing exposure to asset classes depending on whether they are above or below trend. Currently, there is a higher-than-average exposure to equities, and the exposure to bonds is beginning to increase although from a relatively low base. The portfolios missed a lot of the bond losses last month, whilst benefitting from the strong gains in UK and European equities.

Summary of Portfolios

We are still experiencing high inflation in our day-to-day purchases with food inflation running at over 17%. The other vital purchase is energy which is up over 70% on an annual basis. The UK population is therefore feeling much "poorer" than last year, and this is affecting sentiment. However, if we take a step back and look at what we have been through recently, then perhaps we have a very resilient economy. Brexit, Covid, lockdowns, war, a spike in inflation, banks going bust, political chaos in the US and UK and a threat of recession, have all not derailed the global economy as it is still growing.

Companies have been very resilient and are innovating faster than ever (McDonald's has its first-ever robot restaurant). Inflation is set to come down and Russia is being thwarted by a cohesive global alliance. Stock markets are recovering, and bond markets are well off their lows following their crash. Interest rates are close to their peak, and we could be close to a new cycle in which we see interest rates falling thus supporting the global economy. There are certainly reasons to be optimistic (even house prices rose last month), roll on the summer!

Asset Class Review

This section will give you an insight into our current thinking. This month we look at the recovery in technology stocks.

Nasdaq-up 17.37% this year

The Nasdaq 100 is a great barometer for the price of technology companies, and you can see how it rallied during Covid, fell significantly as interest rates rose and is now back on an upward trend. Technology has been a great lead indicator for the future direction of stock markets, and it is beginning to show leadership again. This is good news for stock markets as investors are beginning to gain confidence again. This has mainly been driven by the belief that interest rates in the US are near the peak and will start to come down again.

Nasdaq 100 (NDX INDEX) 13245.99 85.96 2023-04-28

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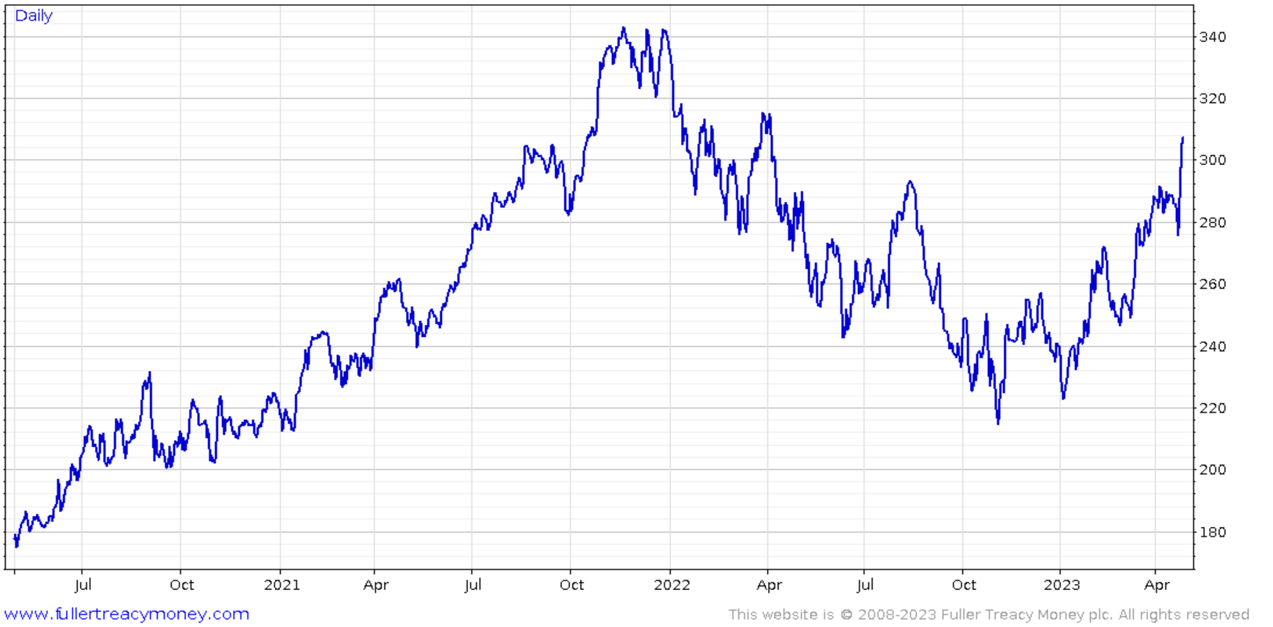
Microsoft

The chart shares a similar pattern as the Nasdaq 100 except for the jump in the last week of April in which outstanding results, as well as its headline-grabbing partnership with ChatGPT, caused the price to jump over 8% in a day.

Microsoft Corp (MSFT US EQUITY) 307.26 2.43 2023-04-28



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Facebook (Meta)- price jumps over 12% in a day

Meta shares have been extremely volatile, and you can see the sharp fall early in 2022. Meta owns Facebook, Instagram and WhatsApp but expanded too much during Covid by hiring too many employees. They are addressing this problem and have announced many redundancies causing the recent jump in the share price. In addition, advertising revenues were much higher than expected which shows that the global economy is much more resilient than we thought.

Apple-supply chain issues receding

The company cashed in during the pandemic when consumers were buying new devices for their homes and investing in working-from-home technology. However, the Chinese zero-Covid policy caused major disruption at Apple's factories and sales began to slide. Supply chains in China are now improving and the share price is recovering this year.

In Summary

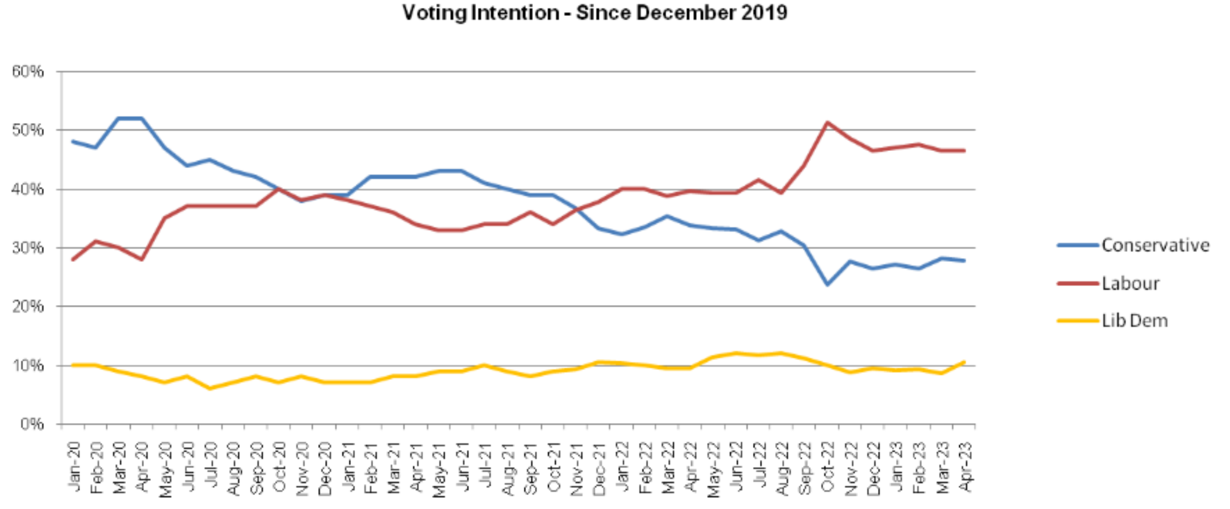
Technology shares form a very important part of most people's portfolios, especially in the USA. They have been a barometer of how well the global economy is performing and they have been leaders i.e., when technology shares start doing well the rest of the market follows and vice versa. The recent recovery this year is proving to be good news for our wealth.

General Election Winner

While there is no set date for the next general election in the UK, it must be held no later than **Thursday, January 23, 2025.** The likely date that Rishi will set for the next general election is November 2024 (it is difficult to campaign over Christmas). This is the date that the Conservatives believe they have the best chance of winning the election as it will give the economy a chance to experience an upswing whilst also allowing a new illegal migration bill to come into effect. With inflation remaining high in the UK, this is proving to be great news for tax revenues as figures have just come in showing that the Government borrowed £13.2 billion less than official forecasts last year. This should pave the way for tax cuts in the budget of April 2024 and a last throw of the dice for the Conservatives.

What are the polls saying?

The overall polling averages extrapolated in the 3 weeks to 13 April place **Labour on 46.1%**, the **Conservatives on 28.3%**, and the **Liberal Democrats on 9.7%.** This would lead to a Labour Majority with 352 seats and the Conservatives on just 205, losing 160 from the last election. Interestingly Boris Johnson would lose his seat! However, there is now a lot more uncertainty as to who will win the election with the Conservatives polling between 26% and 35% in two polls published on the same day. The chart below is from www.politics.co.uk and shows how voters have fled the Conservatives but have tentatively started to come back.



Voters now seem a little bit more uncertain than they did a few months ago. Perhaps the biggest and best predictor of who will win the next election are the bookmakers who have Labour at around a 75% chance of getting the most seats . This has dropped from over 80% recently though. These figures are according to Betfair.

Is it important for our money about who wins?

Usually, there is a big gap between the tax strategies of Labour and Conservatives. However, the UK debt ratio as a % of GDP is at the highest level since 1961. The UK's debt share is now almost equal to the size of the British economy and debt interest payments have risen by 50% over the last year to £106.6 billion due to rising interest rates as well as more debt. This means that both parties have to stick to an austerity plan to bring down public debt. When Liz Truss tried to reduce income tax, the financial markets wouldn't let her, so any radical changes from the current plan by either party are unlikely. Therefore, it could be the least important election from an economic and personal finance point of view. The two tax changes that could come into place if Labour win that could affect our clients are:

- The reintroduction of the lifetime pension allowance. Labour introduced it at £1.8 million before the Conservatives oversaw its reduction to £1 million and then removed it during the last budget.
- Capital Gains tax rates could increase in line with income tax rates. They are currently much lower.

In summary

It is likely that we will see a Labour Government throw out the Conservatives at the next election, but this is not a clear-cut certainty especially with public finances improving due to high inflation. However, due to the current high public debt and high tax rates, both parties will probably be unable to change that much economically in the short to medium term.

Final Comment

The global economy continues to perform in a way that is conducive to rising asset prices. Inflation is falling (expect to see the headline rate in the UK drop considerably) and interest rates are close to their peak and could fall by the end of the year. Tax receipts have benefitted from inflation (e.g., higher prices lead to higher VAT receipts) and the economy is possibly at a much better place than the headlines tell us. We could be in for a good period for our wealth in which we experience the “Goldilocks economy “ of some growth but not too much and some inflation but not too much.

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