Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

June 2023

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Performance Update

May was a very volatile period for global stock markets, with the S&P500 and Nikkei225 rising but the FTSE 100 and Euro Stoxx falling. Bonds also suffered reasonably high losses. This caused our portfolios to fall between -0.29% and 2.21%. The outlier was the Fourth Industrial Revolution portfolio which grew by 5.99%.

UK inflation fell to 8.7% but was higher than expected and this caused bond yields to rise and UK bonds to fall. UK Gilts, Corporate Bonds and UK Inflation-linked bonds fell by 3.25%, 1.97% and 6.43% respectively. Interest rates are now expected to peak at 5.5% and there is talk of the UK entering a mild recession. Food inflation remained at 19% close to a 45-year high, prompting Rishi Sunak to discuss putting caps on food prices.

Despite this news, Rightmove reported that the average asking price for a home jumped by 1.8% month-on-month in May, lifting the average asking price for a house coming to market to £372,894. This was the highest monthly increase for 2023 so far.

Germany-Europe's largest economy- fell into recession over the winter, as economic disruption caused by Russia's invasion of Ukraine weighed on growth. The Euro Stoxx index has grown by 6.84% over the last 6 months compared to a loss of 0.97% from the S&P500 (main US stock market). This highlights how stock market performance is not always related to economic performance.

Japan is doing well with economic growth coming in at 1.6% from an expected 0.7%. The Japan stock market is now at a 33-year high and the rate of growth has increased. The Nikkei225 increased 5.79% last month. The USA Nasdaq100 is also recovering well and is at a 9-month high, growing by 9.26% in May. Whilst these two stock markets are doing well, others fell in May on worse-than-expected economic numbers.

Perhaps the most exciting news is that the price of gas continues to fall dramatically, which means that Putin is losing the economic war. In addition, the price of agricultural products continues to fall, and this should help bring down inflation in the UK.

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	-1.02	-0.58	-2.55
Cautious	-0.29	0.60	0.10
Balanced	-0.62	-0.31	-0.85
Adventurous	-1.45	-2.90	-3.24
Dynamic Equity	-2.21	-4.32	-3.27
Income Generating	-2.17	-0.83	-2.19
Fourth Industrial Revolution	5.99	5.27	9.02
Retirement Investment Solution 1	-0.85	-1.42	-3.04
Retirement Investment Solution 2	-1.06	-1.94	-3.18
Retirement Investment Solution 3	-1.26	-2.42	-3.31

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.05.2023.

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	x	Commodities	x
Europe ex UK Equity	✓	UK Corporate Bonds	x
US Equity	✓	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

Most bond markets remain above trend and global equity markets are mixed with just less than half above trend.

Cautious, Balanced and Adventurous portfolios

The Adventurous portfolio slightly increased its exposure to equities whereas the Cautious and Balanced portfolios reduced their exposure. We are in a period of much uncertainty and stock markets are fluctuating between being above and below trend. Bonds remain below trend as interest rates are still expected to increase in the UK. Having a very low exposure to bonds is helping the portfolios currently.

Dynamic Equity portfolio

There is much volatility in global equity markets, and we are seeing changes in the momentum of different stock markets which in turn is leading to more changes to the portfolio. This month saw the exposure to US equities and technology companies increase. Exposure to Healthcare companies and Natural Resources decreased. Japan companies continue to do well, and we benefitted from their inclusion at the beginning of May.

Foundation portfolio

April saw the Foundation portfolio benefit from the rebound in bonds, but last month saw these gains reverse as bond yields in the UK increased significantly. The portfolio increased exposure to US equities but saw reductions in UK and Healthcare equities as well as UK corporate bonds.

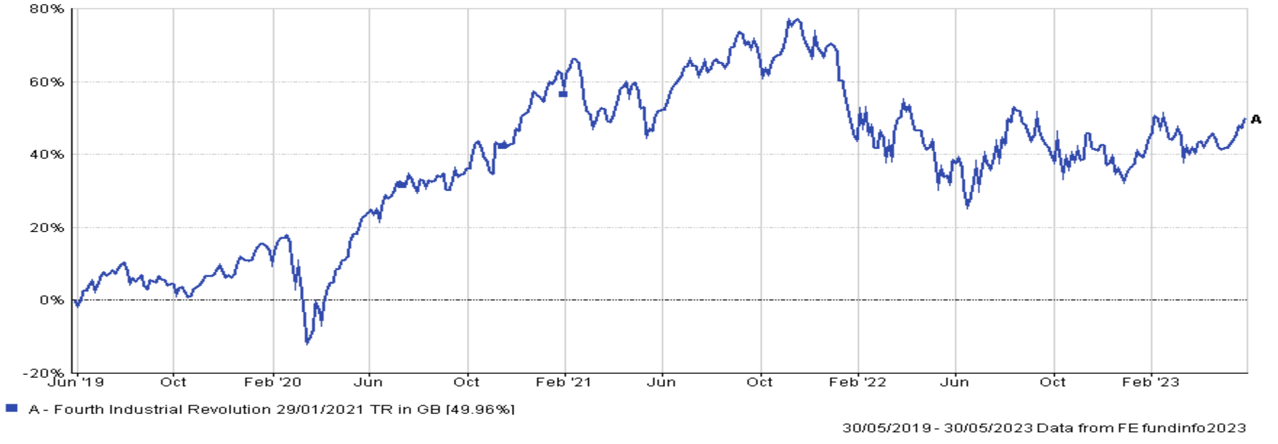
Income Generating portfolio

As interest rates are expected to go up further in the UK, we experienced a loss of 2.17% for the portfolio. This is because investors value the income generated from companies and bonds less as interest rates rise. For example, the holding in the L&G Global Infrastructure fund fell 4.52% and the VT Gravis UK Infrastructure fund fell 4.65%. Both funds rely on safe predictable income from infrastructure investments e.g. toll roads and property. The VT Gravis fund is now producing an income of 4.92% which is very attractive. The best underlying performing fund was the L&G Global 100 Index trust which grew by 2.15% but only yields 1.6%. This fund has a high weighting towards technology companies, so the yield is much lower. This also demonstrates how diverse the portfolio is.

The current yield is 3.11% which is attractive. Hopefully, we will start to see interest rates come down and the portfolio should benefit significantly.

Fourth Industrial Revolution portfolio

The portfolio rose 5.99% as the largest global technology companies rose significantly. The best-performing underlying fund was the L&G Global Technology fund which rose 13.04%, closely followed by the L&G Cyber Security fund which rose 11.61%. The chart shows how far the portfolio fell after the Covid-induced gains but is now displaying a steady recovery in which we are seeing higher lows:



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. Exposure to equities fell over the month, and exposure to bonds remains relatively low. The Solutions are thus taking less risk during these volatile times.

Summary of Portfolios

May was an important economic month as it showed that inflation in the UK was not coming down as quickly as expected. Inflation did indeed fall to 8.7% from 10.1%, but it was well above economists' forecasts of 8.4%. Markets don't respond well to these types of shocks, which is why the Government's borrowing costs have started surging to levels last seen in the Liz Truss era. The yield on 10-year UK Government Bonds started the month at 3.72% and ended at 4.18%. Under Liz Truss they hit a high of 4.51%. This means that we expect interest rates in the UK to peak much higher at 5.5%, with inflation a little out of control as food prices are 19.1% higher over the year to April. Rishi Sunak has even talked about imposing price caps on certain basic goods at supermarkets which is one of the least conservative policies you can have, and a sign of desperation.

Whilst this news is bleak, US inflation is now at 4.9% and their economy is still strong. This is the most important global economy that affects our wealth. There is also good news with the prices of most commodities falling - energy costs have fallen 35.9% and broad commodities (including metals and agriculture) are down 17.1% over the last 6 months (in sterling terms). And probably the most important commodity currently, European Natural gas (QTT1), has fallen from a high of 312 to just 45 today. It was 57 at the start of May and this shows how weak Putin is becoming as the price of natural gas did surge at the start of the war.

Whilst the UK's headlines are not great, the overall global news is not too bad, and inflation is definitely on the slide. If the UK suffers further bad news, then expect sterling to fall further, which will help increase the value of our overseas investments. In addition, the US is starting to outperform again, and Japan's stock market is at a 33-year high.

Asset Class Review

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

UK Bond Yields surge higher – back to Liz Truss levels

Remember the disastrous but short period when Liz Truss was prime minister, and our economy was close to collapsing after bond yields were sent spiralling after her uncosted borrowing plans were unveiled in the mini-Budget last September? Well bond yields are nearly back to the same levels due to the fact that inflation in the UK is not falling as expected. This means the UK Governments borrowing costs are now much higher and mortgage rates will not be falling back in the short term.

Japan- Loving inflation

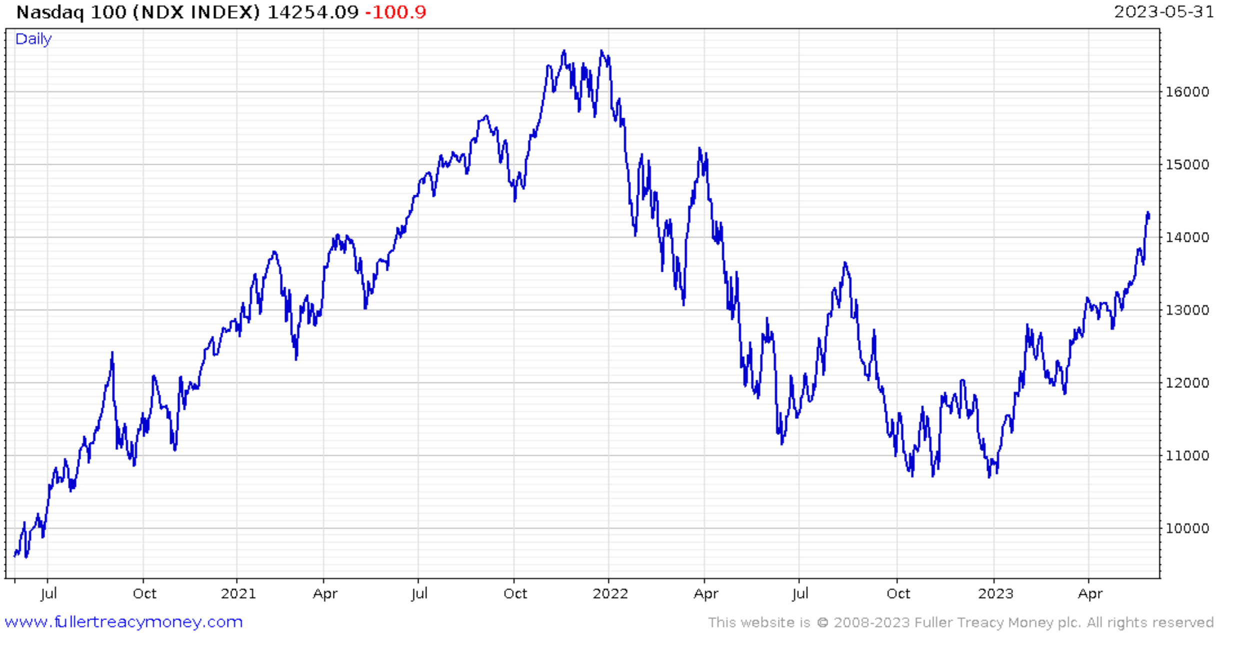
The Japan stock market (Nikkei 225) is now back at a 33-year high. Japan has for years endured a deflationary environment which means that prices are falling. Whilst this sounds great, consumers put off purchasing large items as they know that they can purchase them at a lower amount next year. This caused the economy to slow and the stock market to weaken. Japan inflation is now at 3.2% and is racing higher due to the fact that their economy is starting to grow significantly.

Putin losing the War

European gas prices fell significantly again last month, and this shows how Putin's grip over European energy costs is subsiding, after fears that Europe would suffer a winter of power cuts due to Putin turning off the gas taps. Gas reserves throughout Europe are 65% full, which is about 20% higher than last year. We should also start to see our energy bills drop over the next few months, which should help UK inflation fall.

Technology rebounding

The USA's Nasdaq100 houses some of the world's biggest technology companies and after surging during Covid, fell significantly as interest rates rose. We are now experiencing a strong rebound and this should lead other stock markets higher.



In Summary

Whilst there is a lot of bad news hitting the headlines and the UK is definitely suffering more than other countries, the global economy remains robust with the Japan and the technology stock markets doing extremely well relatively. Inflation must start to fall rapidly in the UK as energy prices tumble but rather surprisingly has not yet. This is causing problems for the UK economy with borrowing costs jumping in May.

What is Chat GPT and AI? and how can AI improve our lives?

ChatGPT is an example of artificial intelligence (AI) developed by OpenAI. It is a language model designed to generate human-like responses to text-based inputs. AI, in general, refers to the development of computer systems that can perform tasks that would typically require human intelligence.

Artificial intelligence has the potential to improve our lives in numerous ways:

1.Automation and Efficiency: AI can automate repetitive tasks, allowing humans to focus on more complex and creative work. This can increase productivity and efficiency in various industries, such as manufacturing, customer service, and data analysis.

2.Personalization: AI algorithms can analyze vast amounts of data to provide personalized recommendations and experiences. For example, AI-powered recommendation systems can suggest movies, books, or products based on individual preferences, making our interactions with technology more tailored and convenient.

3.Healthcare Advancements: AI has the potential to revolutionize healthcare by improving diagnostics, drug discovery, and treatment plans. AI algorithms can analyze medical data, identify patterns, and provide insights that assist in accurate diagnoses and personalized treatments.

4.Enhanced Safety: AI can contribute to improving safety in various domains. For instance, self-driving cars equipped with AI can reduce the risk of human errors and accidents on the roads. AI can also be used for predictive maintenance in industries like aviation, ensuring the safety and reliability of equipment.

5.Improved Accessibility: AI technologies can enhance accessibility for people with disabilities. For instance, speech recognition and natural language processing can enable individuals with mobility impairments to interact with computers using their voices. AI-powered assistive devices can assist individuals with visual or hearing impairments.

6.Environmental Impact: AI can aid in environmental monitoring and conservation efforts. For example, AI algorithms can analyze satellite imagery to detect deforestation or track wildlife populations. AI can also optimize energy usage in buildings, reducing waste and promoting sustainability.

7.Advancements in Science and Research: AI can assist scientists and researchers in handling large datasets, conducting simulations, and discovering new patterns or insights. AI algorithms can accelerate the pace of scientific discoveries across various disciplines.

It's important to note that while AI has the potential for significant positive impacts, it also poses challenges and ethical considerations. It is crucial to develop AI systems that are transparent, unbiased, and aligned with human values to ensure responsible and beneficial use of this technology.

You might have already guessed this, especially with the use of Z and not s in many of the words, but this wasn't written by us but by ChatGPT. We believe that Artificial Intelligence, including ChatGPT will make companies much more profitable over the next few years and this will hopefully help our portfolios grow.

Final Comment

There are a lot of moving parts in the global macro environment. The introduction of AI and the race for dominance is a wholly new development for example. We remain in a volatile period in which it is very difficult to predict where inflation and interest rates are going, and this is leading to asset prices moving in volatile ranges.

When inflation begins to come down in the UK then we should expect bonds to move significantly higher and income-generating assets to do the same. We are already seeing a recovery in US technology companies, and this could be replicated in many other asset classes shortly.

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