Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

November 2023

Contents:

Performance Update

Stock markets endured a difficult month as geopolitical tensions in the Middle East continued to weigh on investor sentiment. The major stock markets fell, with the FTSE 100, Euro Stoxx, FTSE 250, and S&P 500 falling 3.69%, 2.92%, 6.33% and 1.53%, respectively. Our portfolios fell between 0.66% and 5.61%.

Higher interest rates and bond yields have spooked equity markets, with the S&P500 falling into correction territory. A correction is when it falls by more than 10%, which it did between 31st July and 27th October.

The yield on US Treasury 10-year bonds rose significantly from 4.57% to 4.93%. This increase in bond yields affects equities as a higher yield entices investors out of equities and into bonds. Smaller companies also tend to fall more than larger companies as they tend to have more debt and, therefore, suffer the most if interest rates rise.

Bonds fell over the month except for UK Gilts and UK corporate bonds. This tells us that UK interest rates have probably peaked. The critical question now is when will the Bank of England start cutting interest rates. Economists now predict that rates will remain at this level for an extended period. Still, some expect a rate cut in 2024, with further cuts in 2025, reducing the level to 4.5% by the end of 2025. This coincides with inflation below 2% or lower by the end 2025. However, if we get a recession, expect rates to come down much quicker. This could be a perfect time for investing in bonds.

Oil prices remain relatively well-behaved despite geopolitical tensions and have come down around $5 during October, which indicates that Iran will not escalate the war in Israel. This is helping reduce inflation, with eurozone inflation slowing to just 2.9% in October, down from over 9% at its peak.

The price of gold increased by over 7%, and the trend following portfolios increased exposure. Gold typically performs better when interest rates fall and during economic stress and geopolitical uncertainty.

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

Portfolio	Performance % 1 month	Performance % 6 months	Performance % 1 year
Foundation	-0.66	-0.84	1.27
Cautious	-0.98	-0.32	1.45
Balanced	-1.26	-0.90	0.48
Adventurous	-1.56	-1.05	-1.01
Dynamic Equity	-2.87	-2.44	-2.35
Income Generating	-2.74	-4.42	0.96
Fourth Industrial Revolution	-5.61	-1.31	-0.66
Retirement Investment Solution 1	-1.44	-1.00	-0.60
Retirement Investment Solution 2	-1.69	-1.27	-1.02
Retirement Investment Solution 3	-1.92	-1.52	-1.40

Please note that these figures do not include the platform or Watson Moore’s fees.*All figures are sourced from Financial Express to 31.10.2023.

Trend Following Signals

The table below shows whether the asset class has 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	x	Emerging Market Equity	x
UK Equity	x	Commodities	x
Europe ex UK Equity	x	UK Corporate Bonds	✓
US Equity	✓	UK Corporate Bonds (Short dated)	✓
Japan Equity	x	UK Index-Linked Bonds	x
Pacific Equity	x	Global Bonds	x
Gold	✓	UK Gilts	x
Global Property	x	Emerging Market Bonds	x
Global Infrastructure	x	Overseas Corporate Bonds	✓

Out of the leading 23 markets we monitor, only 7 are above trend.

Cautious, Balanced and Adventurous portfolios

The portfolios continue to have a higher weighting to cash and are thus more defensive than usual. Equity exposure was further reduced as Japan and global equities fell below trend. Gold moved above trend, and the Cautious and Balanced portfolios increased their weighting. The chart at the bottom of the page shows how much less volatile and more defensive the Cautious portfolio (blue line) has been compared to a good industry benchmark, the AFI Cautious sector.

Dynamic Equity portfolio

The six asset classes that display the most significant momentum remained the same, and therefore none were changed.

Foundation portfolio

Japanese equities fell below trend, so exposure was decreased. However, gold and commodities moved above trend, and exposure increased. The chart below (similar to the Cautious portfolio) shows how much more defensive the Foundation portfolio (green line) has been over the last two years when compared to a comparable benchmark (red line).

Income Generating portfolio

The portfolio has some exposure to smaller UK companies as they are currently generating high levels of dividend income. UK smaller companies suffered sharp falls during the month, which impacted the portfolio. However, the UK equity funds we invested in have made positive gains over the last year and are performing well.

Fourth Industrial Revolution portfolio

Every fund within the portfolio fell as interest rate expectations increased in the US. The portfolio will benefit when we hear that global interest rates have peaked and are expected to come down. The portfolio has fallen 0.66% over the last year and remains highly volatile.

Retirement Investment Solutions

The Retirement Investment 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 this month, whereas exposure to gold increased. The portfolios remain much less volatile due to their higher-than-average cash exposure.

Summary of Portfolios

Two years ago, no one expected interest rates to rise this high, and this has negatively impacted the performance of many asset classes globally. The main asset class that fell were bonds, which experienced a significant crash. Bonds fall when interest rates rise more than expected, with the rises over the last two years causing many bond asset classes to fall by 20% or more. Equities have been less affected but have suffered from significant volatility. For example, the FTSE 100 was 7451 on 1st January 2022 and 7321 on 31st October 2023. In between, it has gone from above 8000 to below 7250. It has fallen slightly overall but has been relatively volatile.

The good news is that interest rates in the UK appear to have peaked. Inflation remains elevated, but we are expecting a slowdown in the UK economy, which will mean the Bank of England does not need to increase rates again. In the US, rates may have peaked, or if they do go up further, it should only be one increase. The US economy remains more robust, but there are signs of it weakening.

We still believe that there is a significant lag between interest rate rises and a slowdown in the economy. We are now beginning to experience that slowdown. There is a strong possibility that the "goldilocks" slowdown (in which inflation is tamed, interest rates fall, and economies do not experience a strong recession) will be the catalyst for a recovery in asset prices.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at the weakness in equity markets.

US Treasury yields – continue their upward trend

We have been monitoring this chart as it shows the risk-free rate of return against which most asset cases are priced. The higher the yield goes, the more chance that other asset classes fall, as this is the income that you can receive simply by holding one of the safest assets in the world. Last month, the yield hit 5% before falling back a little. The move higher almost certainly caused stock markets to fall.

US stock market- trending downwards

After a strong recovery, we are seeing the US market give up some of the gains from this year. There is a clear short-term downward trend with lower highs and lows since the summer.

Europe- displaying a similar pattern to the US

The Euro Stoxx 50 has experienced a near 10% fall from the high in the summer, and there is a clear downward trend in the short term. The market is approaching 4000, which is a significant round number, and this could signal an area of support and an excellent time to buy.

UK smaller companies – back to a level around the Brexit vote

Smaller UK companies have been one of the most unloved asset classes in the world and have fallen sharply recently. 17,000 is a level that the market has traded at previously and then bounced back from. The dividend yield is over 4%, which makes this stock market attractive. If we get a global stock market recovery, this market could be the one that gains the most.

In Summary

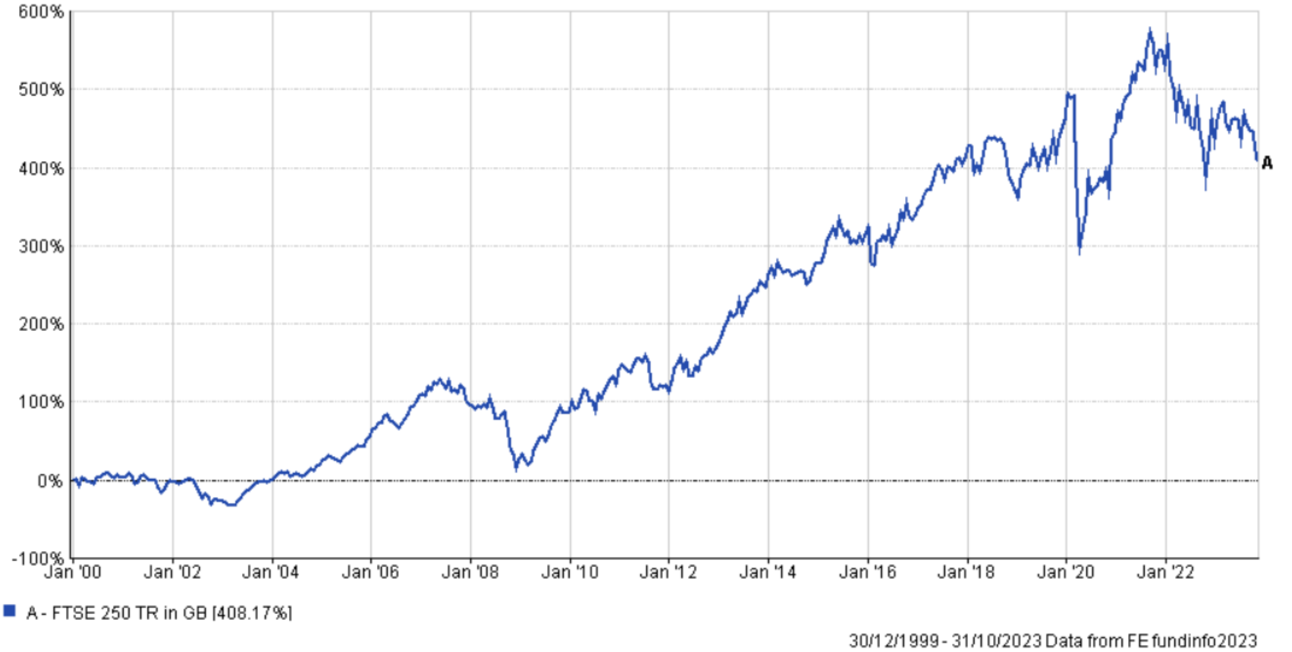
We have experienced declines in global equity markets over the last few months. The catalyst has been that interest rates in the US (shown through an increasing bond yield) are potentially going to go up more than previously expected. This means that investing in stock markets is less compelling. If and when we see the yield on bonds begin to fall, then this could act as a catalyst for stock markets to recover back above their summer highs.

Pessimism v Optimism

Every day, we are bombarded by the media with bad news stories. There certainly has been a lot of material over the last few years, with the cost-of-living crisis, a war in Europe, the massacre in Israel, COVID-19, political instability and rising interest rates, amongst others. Occasionally, there is a good news story, but it is usually at the end of the news. The main reason is that our brains are wired to pay more attention to threats and danger, a basic survival instinct. Our ancestors had a better chance of survival if they concentrated on spotting the dangers and doing their best to avoid them. Pessimists, therefore, survived, and optimists (I think I can jump off that cliff and survive!) put themselves in more danger. The media know this, and a bad news story will gain more viewers than a good news story, which is the reason why the news always seems terrible.

A great example of this is occurring just now, with media headlines writing about how the "cost of living crisis" is causing financial hardship to millions of families in the UK. Whilst these are undoubtedly challenging times for many, if we compare living standards to those of 40 years ago, we can see how much better off we are now. For example, 40 years ago, we only had landlines, and making a call was expensive. Therefore, "I will give you two rings" was invented. This meant ringing a friend but putting the phone down after two rings (so you weren't charged as they didn't have time to answer) to let that person know you were leaving the house or had just arrived home safely. Today, we all have unlimited messaging and calls on our mobile phones and don't have to worry about the cost of communicating. Unfortunately, the media does not highlight the good news stories, and we have to search hard to find them despite almost weekly breakthroughs in medical science.

So, what has this to do with investing? Very simply, the investment media works similarly and highlights the bad news. How many times have you seen headlines similar to "billions wiped off the FTSE 100"? It is never billions wiped on the FTSE 100! It is, therefore, easy to be fearful and encash your investments during difficult periods such as now. But history tells us that optimists are rewarded. Looking at the performance of the FTSE 250 (smaller UK companies) from January 2000, we can see how the return has been 408% or 7.05% per annum. However, what we can also see from the chart is that from January 2000 to January 2009, as well as from January 2018 to now, the investment return was very poor. However, in the nine years in between, returns were exceptional and stood at 17.17% per annum. Therefore, an eternal investment optimist is rewarded. Still, a pessimist might just sell during the difficult times and miss out on some or all of the returns during the good periods. Whilst it may be challenging to experience low or negative returns in the short term, please remember that the good times will return, and sometimes they are outstanding!



30/12/1999 - 31/10/2023 Data from FE fundinfo2023

Final Comment

There continues to be much uncertainty regarding interest rates, causing asset classes to remain volatile. However, a falling oil price due to Iran appearing not to be escalating the war with Israel should help subdue inflation. With the global economy also slowing down, we could be close to the peak of global interest rate rises, and this would provide support to both bonds and equities.

Interest rate rises have paused globally, and there is now talk that they will remain at the current levels for an extended period before falling. Each country will have a different cycle, with the UK perhaps one of the first countries to cut rates.

Watson Moore Independent Financial Advisers Limited
Essex House
Station Road
Upminster
Essex
RM14 2SJ

Tel: 01708 250624

Email: chrismoore@watsonmooreifa.com

www.watsonmooreifa.com