Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update

January 2024

Contents:

Performance Update

The major stock markets rose significantly, with the FTSE 100, Euro Stoxx, FTSE 250, and S&P 500 growing by 3.85%, 3.81%, 8.20% and 3.78%, respectively. Our portfolios rose between 3.60% and 7.45%.

We experienced a strong "Santa Rally" in December, with solid gains across mainstream stock markets. The significant change in investors' expectations of the future direction of interest rates and further falls in inflation helped boost sentiment. Many stock markets have broken to new all-time highs or are close to doing so. This is hugely positive, as once a market is at a new high, the momentum tends to drive it higher.

The Bank of England is now under pressure to cut interest rates as inflation fell to a two-year low, as lower fuel prices and food costs helped consumer price inflation in the UK fall to 3.9% in November. This was a fall from October's 4.6% level, and analysts had only expected a fall to 4.3%. Inflation has thus fallen recently much more than analysts expected, and the so-called "experts" at the Bank of England seem to have woefully miscalculated.

The yield on UK 10-year gilts fell substantially again, from 4.17% to 3.57%. This decrease will affect the pricing of fixed-rate mortgages, and they have already started to fall. We will begin to see fixed-rate mortgages below 4% again shortly.

Bonds rose over the month, with UK Gilts and UK corporate bonds advancing 4.94% and 4.15%, respectively. This is the perfect time for investing in bonds, and our trend-following portfolios are benefitting as they have their maximum exposure to bonds after having very little exposure over the last two years.

Gold has hit a new all-time high and looks set to move higher. Oil, however, now stands at below $77 after being over $94 last September. Other major commodities are also falling in price, helping to reduce the inflation rate.

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	3.61	5.88	6.44
Cautious	3.69	5.65	8.00
Balanced	3.43	5.36	7.67
Adventurous	3.66	5.85	6.83
Dynamic Equity	4.30	6.89	6.17
Income Generating	4.69	6.24	6.45
Fourth Industrial Revolution	7.45	7.77	20.15
Retirement Investment Solution 1	3.35	4.88	5.51
Retirement Investment Solution 2	3.48	5.11	5.49
Retirement Investment Solution 3	3.60	5. 32	5.47

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 31.12.2023.

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

Of the leading 23 markets we monitor, 22 are now above trend.

Cautious, Balanced and Adventurous portfolios

We are fully invested in equities and bonds, as both asset classes are on solid uptrends. Usually, at least one asset class performs poorly, so it is very unusual for us to be fully invested. Infrastructure and property moved into upward trends for the first time in a while, as the expected fall in interest rates made the predictable income from both asset classes extremely enticing. We experienced some substantial gains in December, and we must now expect more considerable monthly gains or losses in these portfolios over the short term.

Dynamic Equity portfolio

No changes were made to this portfolio, but we expect smaller companies to move much higher up our momentum table over the next few months, and therefore, we could increase exposure. We have exposure to smaller European companies, and this was the best-performing asset class within the portfolio.

Foundation portfolio

The portfolio is nearly fully invested, with only commodities below trend. In December, seven asset classes moved above trend; this month, there were five. Commodities fell below the trend in December, so we removed the asset class in the first week of December. They were the only asset class to show a subsequent decline, falling by 3.43%. This is an example of how trend-following can help protect your wealth.

Income Generating portfolio

The portfolio experienced another strong return as bonds and equities advanced. UK smaller companies benefitted significantly again, and our holdings in the L&G Mid Cap Index, Unicorn UK Income and Man GLG Income funds rose 8.84%, 6.74% and 4.60%, respectively. We believe that this portfolio will benefit significantly as interest rates start to fall. The yield is currently 3.45%, which will become more enticing when the Bank of England cuts interest rates.

Fourth Industrial Revolution portfolio

The portfolio is our top-performing one over the last year. The chart below shows the performance since COVID-19 emerged on our radars. You can see how it has been ranging sideways since early January 2022 but has now broken higher and is advancing very quickly. The portfolio is benefitting from the predicted cuts in interest rates, which could also make it our best-performing portfolio in 2024.

The portfolio added the L&G Artificial Intelligence ETF last month, which invests in companies involved in the long-term megatrend that should radically transform how we live and work. The fund invests around 83% in the US and within companies that have a distinct portion of their business and revenue derived from the field of artificial intelligence. The fund has the potential to make significant gains over the long term but has been extremely volatile, falling over 40% at one stage. By adding the fund, the Fourth Industrial Revolution portfolio will become more diversified and introduce a new set of companies to the portfolio that are at the forefront of the exponential growth of technology in our lives.

Retirement Investment Solutions

The Retirement Investment Solutions invest in three of our portfolios, the Foundation, Dynamic Equity and Multi-Asset Trend Following. Exposure to equities and bonds increased this month, and we are nearly fully invested. The exception is commodities.

Summary of Portfolios

There seems to be much good news on the investment front, which has helped fuel a "Santa Rally". Inflation is falling quicker than expected; unemployment is not rising as expected; most economies are expected to avoid a recession, and interest rates are set to fall. Many markets are at all-time highs or close to their all-time high. Usually, once a market surpasses a previous high, it attracts investors and pushes prices even higher. Stock markets are advancing higher, and bond markets are recovering well. We could be in the Goldilocks period in which the economy slows but not too much. But be warned, the last time we had this level of optimism was in January 2020, which shows how hard it is to make predictions.

We are entering a year of elections, with the most important in the US. During a US election year, the S&P 500 has finished higher 14 times out of 16, recording an average gain of 10.5%. It did not record a positive return two times during the global financial crisis and the dot com bubble. Stripping these two events out, the average gain has been 15.3%.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at stock markets breaking to all-time highs or close to breaking to new highs.

Nasdaq 100- new all-time high

The Nasdaq 100 hit a new all-time high last month, breaking the high seen two years ago. The Nasdaq 100 is often used as a barometer of the performance of technology and growth companies, and they have benefitted from the expectations that interest rates will be cut this year. The index is very volatile, falling nearly 35% from the previous high to the low before recovering all of this loss.

The S&P 500 is nearly at a new high.

This is the world's most important stock market and, although not as volatile as the Nasdaq 100, is showing the same pattern. New all-time highs show that "momentum" is with the market. Once it exceeds the previous high, stock markets tend to rally much higher as buyers flood on a wave of optimism.

Europe – nearly at its 2007 high

Europe has struggled compared to the US as it isn't home to the world's most outstanding technology companies, such as Microsoft, Apple and Amazon. However, it is approaching the 2007 high and could advance much higher once it breaks through, catching up somewhat to the US.

Gold finally hits its all-time high.

Finally, gold has broken above its previous peaks and is now at an all-time high. This breakthrough should mean it goes much higher as the asset class hits the radar of momentum investors. Our portfolios have the maximum allocation to gold; hopefully, we will benefit significantly.

In Summary

A market moving to a new all-time high is highly positive as it signals that investors are optimistic about the future. Technically, it attracts more buyers and few sellers when it breaks to a new high. Therefore, the index can move significantly higher. Momentum, therefore, is currently in our favour.

What to Look out for in 2024

2023 proved a good year for our wealth, but what will happen in 2024? It is virtually impossible to predict the future; even if we correctly guess at different outcomes, stock markets can move totally differently from what we expect. For example, we made money on the day the news of the Brexit vote outcome. However, it is worth looking ahead at what could happen (as well as a bit of fun!). Here are some of the most important events that could play out this year.

- **Tory Tax Cuts** – the Conservatives are 20 points behind Labour in the polls, and with the election taking place probably towards the end of the year, they must "gamble" to try and get more votes. We currently have the highest tax rate in 70 years, with the highest effective tax rate at 60%. Reform UK is taking traditional Tory voters as the party entices voters with its low taxation policies. The Chancellor has brought the budget forward to the 15th of March, and we expect significant tax cuts and aspirations of how they want to lower taxes in the future.

- **President Trump the 2nd** – after all that has happened, Trump is the favourite to become the next President. His main rival is Biden. America, therefore, has two candidates most of the country doesn't want. The two appear to be going head-to-head, and Trump will likely win. In the 12 months after he won last time, the S&P500 went up 21.16%. We expect a Trump win and the stock market to move higher before the November election.

- **Peace(ish) in Ukraine** – nearly two years into Russia's full-scale invasion of Ukraine, Moscow controls about 17.5% of Ukrainian territory and a Ukrainian counter-offensive this year has failed to win any significant territorial gains against Russian forces who have defended the front with extensive minefields and swarms of drones. We are in a stalemate, and it wouldn't surprise us if a deal is done. The West is starting not to want to give as much financial support, and the initial problems of oil price surges and food shortages have dissipated. Putin realises that he will not be allowed to control the whole of Ukraine. Zelensky realises that pushing Russia out from the whole of Ukraine could see Russia's downfall and break up, which the West does not want (probably). Trump has also said that he would end the war in a day as he is friends with both Zelensky and Putin!

- **Interest rates cut dramatically** – inflation globally has dropped significantly, with the annual rate of inflation in the UK falling more than expected to 3.9% in November. In addition, the UK is possibly in a mild recession, possibly bringing inflation down quicker than expected. Most analysts think interest rates have peaked and will soon start to fall, with expectations that the Bank of England base rate will fall to 4.8% by July 2024 and 3.6% by the end of 2025. We think that higher mortgage rates and significant rent increases will cause an economic slowdown, forcing the Bank of England to cut rates much sooner than expected. If this happens, expect bonds to rise significantly.

- **UK Smaller companies rally** – last year, an investment in the FTSE250 rose by 7.75%, of which 7.68% was attributable to the growth in December. When interest rates are cut, it is generally viewed as a catalyst for economic growth. This, in turn, leads to a more robust economy and greater profits for companies. Smaller companies tend to benefit the most as they are more sensitive to economic changes and have less access to capital than larger companies. Lower interest rates make it easier for smaller companies to borrow money, which can help them grow and expand. Even though interest rates haven't yet been cut, the FTSE 250 benefits from the expectation of interest rate cuts. We believe that smaller companies will produce the best returns in 2024. Our trend-following portfolios have their maximum allocation to smaller companies.

- **Pints of Wine** – Did anyone read last month that Britons can now buy "pint" sized bottles of wine and champagne? Pint bottles were sold in the UK before Britain joined the European Common Market, but their production ceased as they did not comply with EU weights and measures rules. Imperial measurements became a symbolic fight for some Brexiteers, who wanted to see the EU's weights and measures directive and its requirement to use metric units to sell fresh produce reversed. This small win for Brexiteers demonstrates how little Brexit has affected our economy.

Summary

We enter 2024 at a much more optimistic level than 2024. However, January 2020 was also an optimistic time, which proves that it is tough to predict the future.

Final Comment

The "Santa Rally" has been based on positive economic news, causing stock markets to move to new all-time highs or close to their highs. We are also in a situation in which bonds are rallying, and they look set to advance even further, recovering their losses over the last two years. We, therefore, enter 2024 in an optimistic mood, but we also must remember that unexpected events can derail our optimism.

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