Watson Moore
INDEPENDENT FINANCIAL ADVISERS LIMITED

Monthly Investment Update
March 2024

Contents:

Performance Update

It was a great month for most major stock markets, with the FTSE 100, Euro Stoxx and S&P 500 rising by 0.45%, 3.59%, and 6.05%, respectively. The FTSE 250 disappointed though, falling 1.31%. Our portfolios had a good month, rising between 0.56% and 4.99%.

US consumer prices increased at their slowest rate in nearly three years, with inflation in the US now just 2.4%, falling from 2.6% the previous month. Experts predict that June will be the month the US will cut rates, with the UK not far behind. However, stronger-than-expected economic activity, as well as stickier inflation, will mean that interest rates will not fall as quickly and as far as experts were predicting a few months ago.

Despite the positive inflation news in the US, the yield on UK 10-year gilts increased from 3.79% to 4.12%. This caused UK Gilts and UK corporate bonds to fall 1.62% and 0.76%, respectively. Yields on US 10-year government bonds also increased, rising from 3.88% to 4.25%, causing losses on overseas bonds.

Stock markets rallied as investors continued to express excitement over how artificial intelligence will improve company profit margins and lead to higher global economic growth. The US S&P 500 hit a new all-time high, the Japanese Nikkei hit a 34-year high, and the Euro Stoxx 50 is moving closer to its all-time high. UK stock markets are lagging.

There is now talk of a bubble developing in the seven biggest US stocks. The market capitalisation of Meta, Tesla, Nvidia, Amazon, Alphabet, Microsoft, and Apple is now bigger than the stock markets of Canada, France, China, the UK, and Japan combined.

The UK fell into recession, which is defined as two consecutive quarters of negative growth. The UK economy fell by 0.1% and then 0.3%, so it is a mild recession. Sterling remains stable, house prices are rising again, wages are rising, and tax cuts are expected to stimulate the economy.

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	0.83	4.87	5.40
Cautious	1.56	6.00	7.65
Balanced	2.42	7.34	8.75
Adventurous	3.63	9.84	10.98
Dynamic Equity	4.99	13.03	14.32
Income Generating	0.56	5.47	4.35
Fourth Industrial Revolution	4.62	12.89	19.03
Retirement Investment Solution 1	2.33	6.59	7.99
Retirement Investment Solution 2	2.79	7.58	8.94
Retirement Investment Solution 3	3.20	8.49	9.80

Please note that these figures do not include the platform or Watson Moore's fees.*All figures are sourced from Financial Express to 29.02.2024.

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	✓

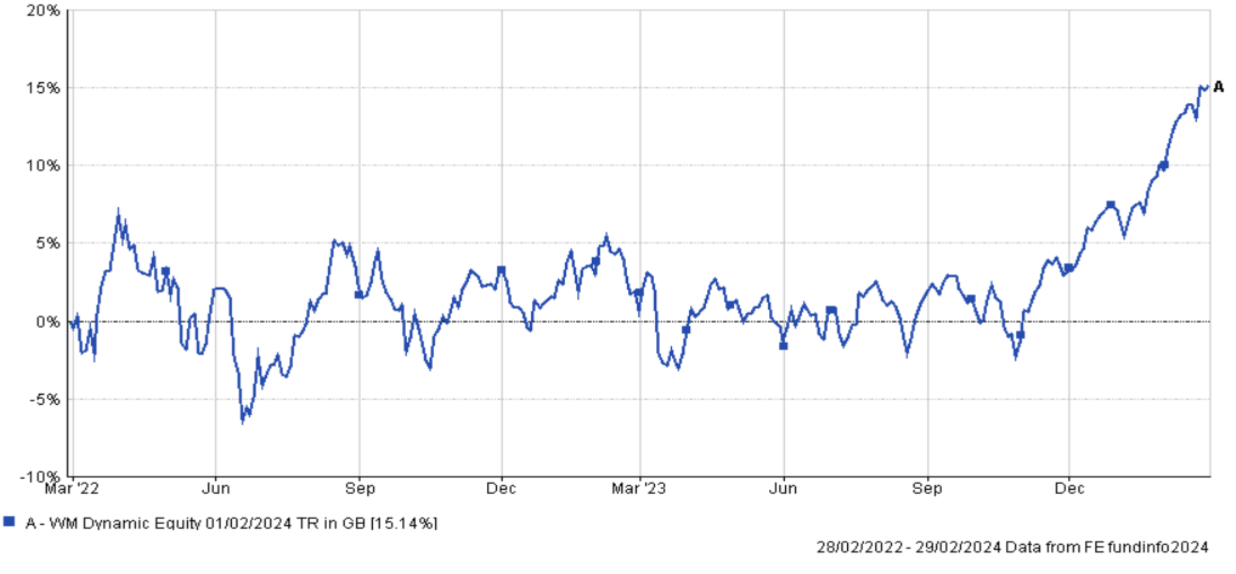
Of the leading 23 markets we monitor, 22 are now above trend.

Cautious, Balanced and Adventurous portfolios

The sales from last month were reversed. Infrastructure was purchased for the Cautious and Balanced portfolios, while Emerging Market equities were added to the Balanced portfolio. The Adventurous portfolio remained unchanged. All three portfolios benefitted significantly from their exposure to equities.

Dynamic Equity portfolio

There were no changes to the portfolio, with the best-performing asset classes continuing to advance higher. The chart below shows that the Dynamic Equity portfolio has gained 15.14% over the last two years. However, all of this advance has occurred since November 2023. This is a very similar pattern for all of our portfolios.



Foundation portfolio

Infrastructure moved above trend, meaning every asset class other than commodities is above trend. Bonds suffered falls in February, which acted as a headwind for the portfolio. However, the portfolio made gains of 0.86% due to equities advancing higher. The exposure to gold also helped the portfolio move higher.

Income Generating portfolio

The portfolio advanced higher, but its exposure to bonds and UK equities provided a headwind. The yield on the portfolio stands at 3.44%, which will become very enticing when interest rates start to be cut.

Fourth Industrial Revolution portfolio

The portfolio gained 4.62% and is up 19.03% over the last year. The holding in the L&G Artificial Intelligence fund grew 7.51% in February and was the best underlying investment. Cyber Security was the worst-performing sector, rising only 0.31%. It is up 26.72% over the last year, however. We are in a period in which there is strong momentum in many of the underlying holdings within the portfolio, and returns continue to be strong.

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 performed exceptionally well last month, helping the three solutions achieve positive gains despite bonds falling.

Summary of Portfolios

Our portfolios benefitted in February from the continued upward trends in global equity markets, especially in the US. We experienced new highs in Japanese, European and American stock markets, and the “Momentum” asset classes continue to perform well. The companies most closely linked to artificial intelligence are rising significantly, and the momentum is certainly with them. Whilst there is now talk that this “boom” will suffer the same fate as the technology boom in the late 90s, we could still be at the start of this boom, with a few years left of solid gains.

Bonds remain volatile, with losses experienced in most bond funds as interest rates are not expected to be cut as quickly as expected. Inflation came down in the US, but their economy remains robust, causing central bankers to be more cautious about overheating the economy with aggressive interest rate cuts. We continue to hear about the Goldilocks economic situation in which inflation falls slowly, interest rates are cut, economic growth remains positive, and stock markets advance.

Asset Class Review

This section will give you an insight into our current thinking. This month, we look at four companies whose share prices have accelerated over the last year. These four companies are the best performers from around 150 of the world's biggest multinational companies.

Toyota – up 97%

The share price has grown by 97% over the last year as the world's largest automaker has benefitted from its strategy of investing in hybrid vehicles instead of electric vehicles. This has resonated with consumers' desire to drive electric cars and their reluctance to go fully electric due to range anxiety. However, the company also has plans to compete in the full electric market as it has announced a significant investment at its Kentucky plant to build a battery electric SUV for the US market. You can see how the share price has surged higher in 2024.

Eli Lilly – up 139%

Eli Lilly is one of the world's biggest pharmaceutical companies. The share price has rapidly advanced in 2024 due to the excitement surrounding the launch of its new weight loss drug, Mounjaro. This is expected to become the world's biggest drug in history. It also has a potential blockbuster drug in the pipeline that will help with Alzheimer's treatment. We are at an exciting time when scientists are beginning to develop solutions to "mass" health problems, and the companies that can own the treatments are set to benefit significantly.

Rolls Royce – up 148%

Rolls Royce is an incredible recovery example, having fallen significantly due to the effects of COVID-19 on the airline industry. 31% of its revenue is also related to its defence business, and this has benefitted from the Ukraine war and the global demand for weapons. It is now the UK's 21st biggest company. BAE Systems is another UK company that has benefitted from its defence business as the share price is up 37% over the last year.

Meta– up 182%

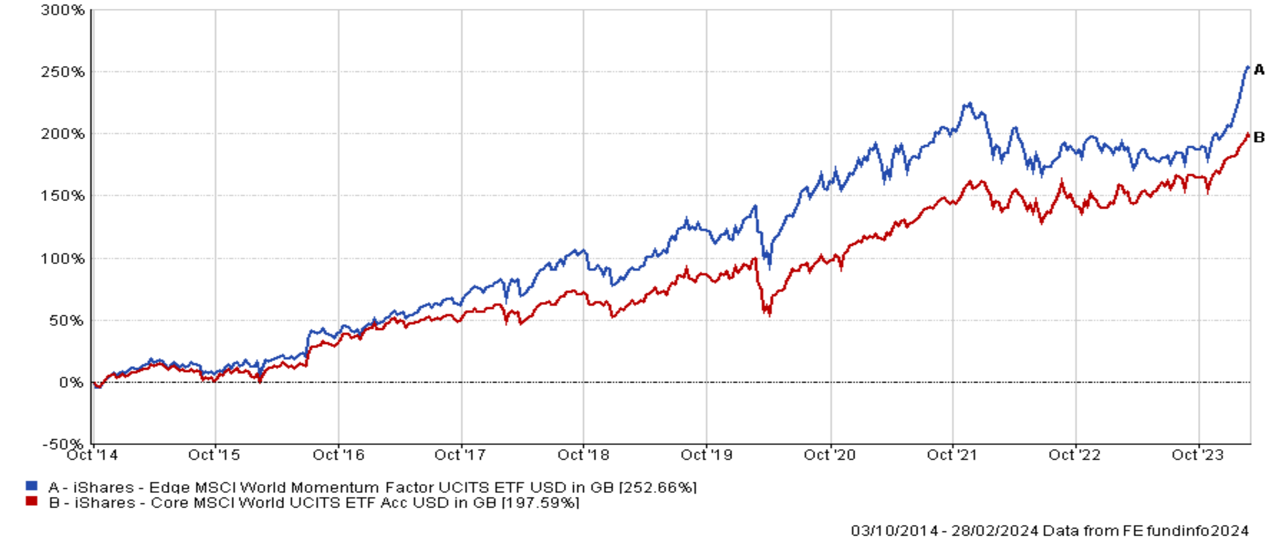
Meta owns Facebook, Instagram and WhatsApp and has benefitted from the recovery in digital advertising. It has just started paying a dividend, which helped increase the company's value by £196 billion in a single day! It is also heavily invested in artificial intelligence, and this should provide the catalyst for expected future revenue growth. We excluded NVIDIA from our list as it is predominantly involved in just building the "chips" that are powering artificial intelligence. The shares are up 248% over the last 12 months!

In Summary

It is extremely interesting to look at which companies have performed the best over the last 12 months as they are involved in the sectors that are the most important ones affecting the world currently – defence, artificial intelligence, curing diseases and the drive towards clean energy. Companies that have been involved in these sectors have generally performed well, and the momentum remains with them. These 4 companies are all held within the iShares MSCI World Momentum ETF and have helped with the Funds' outstanding recent performance (see Momentum Returns).

Momentum Returns

Momentum investing is a strategy that involves buying companies or stock markets that have performed the best over the last year in the hope that they will continue to perform well. This strategy forms part of most of our portfolios, and one way to invest in this philosophy is via the iShares Edge MSCI World Momentum Factor ETF. This Fund will select roughly 350 companies that have performed the best over the last 6 to 12 months. It then invests in these companies based partly on their market capitalisation, i.e. the biggest companies will have the biggest allocation. The selected companies are held for six months, then the process is repeated. The chart below shows how the MSCI World Momentum Fund (blue line) has outperformed the MSCI World (no momentum) Fund (red line) since the launch:



As you can see, the recent outperformance has been significant, and the Momentum Fund has outperformed by nearly 11% over the last six months. Whilst the iShares Edge MSCI World Momentum Fund has only been open since 2014, if we back-test the investment philosophy in the previous 30 years, Momentum has outperformed by 2.83% per annum.

However, from time to time, Momentum underperforms significantly as trends can reverse suddenly, leading to losses. The most recent underperformance came between 1 December 2021 and 1 June 2023, in which Momentum underperformed by 12.81% (see chart below). This coincided with a volatile period for stock markets.

The current companies that make up the top 4 biggest weightings in the Momentum Fund are all technology companies benefitting from the excitement surrounding artificial intelligence. They are Nvidia, Meta Platforms, Amazon and Microsoft. There are also two pharmaceutical companies in the top ten, Eli Lilly and Novo Nordisk, which are benefitting from new weight loss drugs. These companies continue to perform well and should remain in the Fund at the next “momentum” rebalance.

Momentum has historically led to significant outperformance, which has just returned after a period of underperformance.

Final Comment (same as last month!)

Equities continue to advance higher, and our portfolios are benefiting. Despite all the “bad” news currently hitting our headlines, significant developments in artificial intelligence are causing the potential for substantial economic growth. Every company, as well as the global population, can potentially benefit from artificial intelligence being embedded in our lives. This could be a fascinating time for our wealth, but we must remember that every boom and “momentum” rally ends with a fall.

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

Tel: 01708 250624

Email: chrismoore@watsonmooreifa.com

www.watsonmooreifa.com