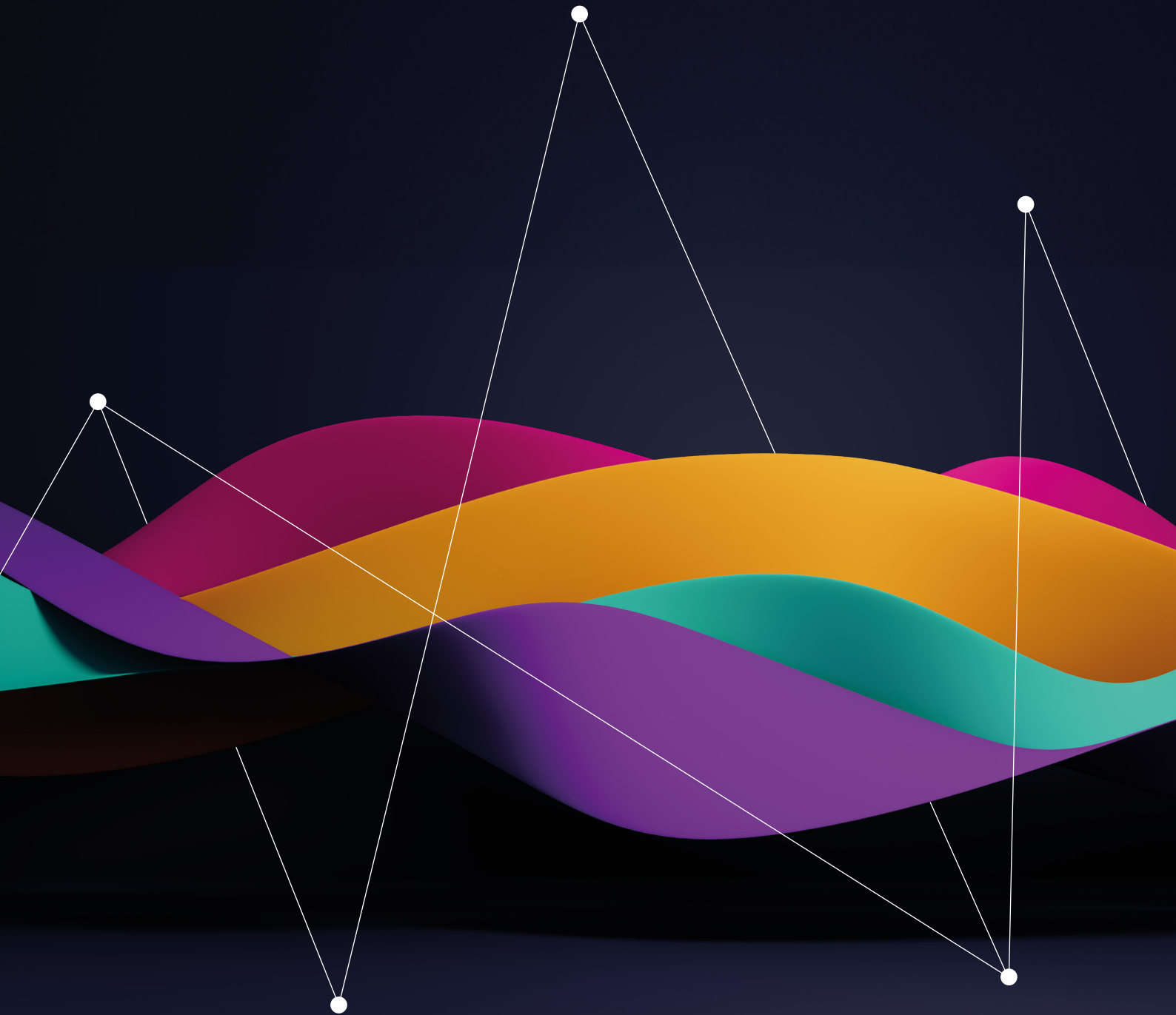


Your investment update

Q4 2025



Succeeding together

7iM

Capital at risk

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Hello!

“What, me? Worry?” said the market in summer 2025. Humans love complaining. It’s much easier to talk in detail about bad things.

If the holiday was a disaster, you’ll hear endless stories about the bland food, bad weather, and rude teenagers at the poolside. If it’s a great holiday, then it was just great. There’s not much more to say.

Markets often get discussed in a similar way; analysts will excitedly tell you about ten ways the world may end this year but have little to say about why markets could go up. So, what are the reasons for markets to rise? They were on full display in Q3 2025 for those who took the time to look: the global economy grew, interest rates fell, lower commodity prices have cut costs, communications are faster and it’s easier for consumers to find the things they need.

At 7IM, we do keep an eye on risks – in fact, there’s an independent team that challenges us – but looking at the data things look ok. We’ve had our ‘normal’ allocation of stocks in portfolios and aren’t seeing reasons to bunker down in bonds.

I joined 7IM in September and have had a few weeks to reflect on what makes the team here different. There are three things that stand out for me. First, the team owns the entire investment process. That means we’re accountable for everything and will always tell you why we made decisions. That’s rarer than it should be these days, with more firms outsourcing their asset allocation and fund research.

Second, the investment process has been designed to be led by numbers, which helps guard against behavioural biases. We all have those biases, and they can lead us to make poor decisions.

Lastly, the amount of thought that goes into how we communicate with advisers and clients is well above what I’ve seen in other firms. To be relevant, we can’t just dryly give the facts. We need to engage and entertain the people whose money we manage – which hopefully

you’ll feel in the following pages.

I’m looking forward to meeting the people we manage money for in the next few months. And if I do ask about your holiday, please give me all details even if it was a good one!



Shanti Kelemen

Co-Chief Investment Officer

Performance Review:



Matthew Yeates
Co-Chief Investment Officer

As British summers go, that felt – as someone who spent most of it at weddings – pretty good!

And the data backs it up; warmest on record, with 112% of the average amount of sunshine. Of course, we only know with hindsight whether the summer was a good one; day to day, we're all still looking at weather apps and considering our clothing choices.

Managing portfolios is quite similar. We find out at the end of the quarter whether it was a "good" one, but on the way through, it's never quite clear, so we spend as much time eyeing the umbrellas as we do checking we've got sunscreen.

At the end of September, it turns out to have been a remarkably fine summer for investors. The quarter was mercifully short on further disruptions; and while trade policy and geopolitics didn't get any better for investors, it certainly didn't get any worse. That environment allowed companies to get on with business, and we saw the best three-month period for US earnings growth for nearly two years.

Of course, the big US tech stocks were leading the charge, but unlike in the past two years, the rest of the US industrial complex also delivered decent growth. US banks, retailers and manufacturers all recorded strong results, which translated into decent share price performance.

In fact, the sunshine spread around the world, with almost every major global stock market recording a return over the three months of between 3% and 9%. It was no surprise to see our broadly diversified portfolios deliver strong returns somewhere in the middle of that range; around 6% for a balanced risk profile¹.

So, is this as good as it gets? As I unpack the winter coats, it can be tempting to think about hunkering down in portfolios as well, taking profits and moving to cash. But that's never the sensible thing to do (no matter how cold that first blast of autumn wind feels!). >>

¹We use balanced portfolios as a common reference point; please get in touch for specifics on your own circumstances.

As we enter the last part of 2025, we're seeing no signs that something nasty is lurking around the corner. Economic indicators look reasonable. Interest rates are stable or falling (usually good for assets, outside of a recession). Company balance sheets are very healthy – with much of their debt put into place in the low-rate years, and a long way away from maturing.

We don't think there's anything drastic which needs investment action; no need to chase risky assets, but no need to be scared of them either. If that changes (in either direction), we can and will act. For now, though, let's hope for a burst of autumn sun, and a mild run-up to the holidays!

“In fact, the sunshine spread around the world, with almost every major global stock market recording a return over the three months of between 3% and 9%.”



Investing for the 'Vibeflation?'

Last quarter, we talked about the 'Vibecession' – the disconnect between how people feel the economy is going and how it's actually going.

'Vibeflation' doesn't quite have the same ring to it, but it turns out there is also a disconnect between the actual rate of inflation and where people think prices are.

This summer TikTok trends have narrowed their focus on inflation. Millennial and Gen Z influencers reminiscing about the days of stable prices are now shocked at \$8 cereal boxes or sky-rocketing egg prices. As one influencer put it, "inflation is inflationing." Wise words.

The disconnect comes with how we look at the data. The actual numbers would suggest things are getting better. Inflation rates are down from where they were post COVID and close to the Federal Reserve's long-term target of 2%. But people don't view prices in terms of year-on-year growth. They think of prices as cumulative. Something that used to cost "around a fiver," now costs "around a tenner." Reframe it this way and we find that the total inflation basket in the US is up 25% in the last five years. Having no inflation for a year doesn't feel that helpful, because prices

are still 25% higher.

So maybe the influencers are onto something. In the real world, household surveys continuously find inflation at the top of household concerns (see **Callout.**)¹ And closer to home, the inflation vibes are just as negative. Not helped by UK bond yields drifting higher this year, this is prompting concerns on how this inflation anxiety is going to play out in markets.

Inflation leaves scars

First, let's unpick the inflation anxiety. Behavioural economist Ulrike Malmendier is a leading researcher into the psychological impacts of economic crises and finds that inflation, in particular, leaves a lasting scar².

There are three main way these scars come about. First, even though inflation refers to a big basket of goods and services, consumers tend to focus on key items important to them, like energy bills and groceries... people don't tend to get too emotional about their home insurance inflation. >>



Ahmer Tirmizi

Head of Fixed Income Strategy

The last State of the Union address even had a notable mention of egg prices.³

Second, the items we tend to focus on happen to be the most volatile of them all. In any given year, eggs, energy or wheat prices can have big fluctuations if bird flu hits, war breaks out or freak weather occurs. While economists use 'Core CPI' to strip out food and energy, to look at underlying trends, the rest of us don't think like economists.

Third, it would be fine to focus on volatile prices if we focused on the ups AND the downs. But it turns out, we disproportionately focus

on the worst outcomes. There aren't many TikTok trends about how pleasantly surprised people are about how well-priced everything is.⁴

The UK - scars from the 1970s

While the inflation scars are still with us, there are some positive signs. Wage demands are settling down, oil prices are lower this year than last, and milk prices are steady, following a notable surge a few years ago.⁵ Inflation rates are close to targets in the US and Europe. And this is having real world consequences as central banks respond with lower rates. >>

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Millennial and Gen Z influencers reminiscing about the days of stable prices are now shocked at \$8 cereal boxes or sky-rocketing egg prices. As one influencer put it, "inflation is inflationing." Wise words."



¹ <https://news.gallup.com/poll/660071/inflation-top-financial-problem-fewer-cite.aspx>

² https://www.richmondfed.org/publications/research/econ_focus/2024/q1_q2_interview

³ <https://www.politico.com/live-updates/2025/03/04/trump-joint-address-to-congress/no-egg-price-fix-00212777>

⁴ <https://www.bundesbank.de/resource/blob/837930/67120bc9074bd263e-ce0b0083ed6fcc5/mL/2022-06-23-elt-ville-keynote-2-malmendier-data.pdf>

⁵ <https://www.theguardian.com/environment/2022/mar/25/dairy-farmers-milk-production-inflation-prices-costs>

However, the UK feels different. Inflation seems a little harder to dislodge and bond market yields are diverging from the US. And it feels like a never-ending story – one year it's milk prices, the next year its car insurance and this year it's air fares!⁶ Some are even comparing this to the 1970s... those inflation scars run deep.

There are plenty of issues that the UK will need to resolve, as noted by the independent Office for Budget Responsibility (OBR).⁷ However, we should remain balanced. While some have implied a 1970s balance of payments crisis is on the cards (with an IMF bailout), we think this is too far. Back then the UK economy was vulnerable to oil prices (where the OPEC shock saw oil prices rise three times), leading to the country running out of Dollars. This time around, the Bank of England is a lot more flexible and the trade deficit is more stable.

Markets scars don't last as long

And it looks like markets agree. While UK bond yields have drifted higher than the US this year, the pound is also stronger vs the Dollar. Hardly panic stations.

Last quarter, we cautioned against allowing an overly pessimistic view of the economy impact investment choices. And we'd say the same about inflation.

Take UK Gilts as an example. Returns were severely impacted by the inflation surge post-COVID. Yields went from near-zero to over 4% (remember that bond prices and yields move in opposite directions). While those scars last with us as consumers, the market has already moved on. And the same applies to global bonds.

The simple reason is that prices are lower and bond yields are higher since then, so much so that the 'real yield' – the yield after you take account of inflation – is higher. Or put another way, since the inflation scare, the market has set yields to be significantly above long-term

inflation. The result is that over the last three years, an investor in global bonds, which would include gilts, would have made double-digit returns. The markets aren't so concerned about the Vibeflation.

And this feeds into all asset classes. Take the 7IM Moderately Cautious portfolio, where long-term guideline expected returns have gone up from 3.5% pa to 5.5% pa in the last three years. This is by no means a guarantee that returns will come immediately. But it is key that investors should ignore the vibes and make sure that while there is the risk of higher inflation, they've got their money working to deliver more than inflation rates.

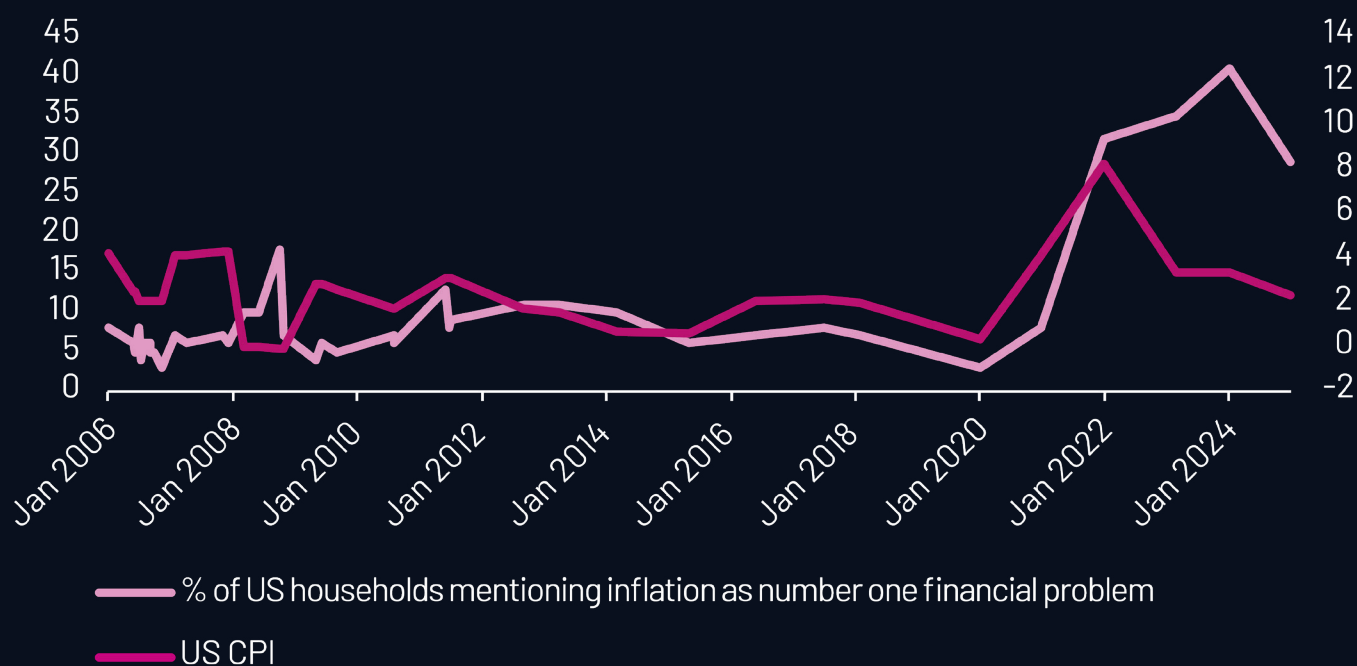
While those inflation scars take time to heal, portfolio returns can be a soothing balm.

⁶ <https://www.bbc.co.uk/news/articles/c741wkngndqo>

⁷ <https://obr.uk/frs/fiscal-risks-and-sustainability-july-2025/>

Inflation in the US, like in most other places, rose sharply and then fell just as sharply. The scars of this are still being felt by US households. When US families are asked about their biggest financial concerns, inflation is top of the list. While inflation rates have come down to pre-COVID levels, fears about inflation have not. The disconnect continues.

Inflation is returning to



Source: Gallup, BLS, 7IM

All-Time Highs



Ben Kumar

Head of Equity Strategy

This year (to the end of September) the FTSE 100 has notched up 28 new records.

28 “all-time highs” in nine months, a pace which compares pretty favourably to the previous 28 all-time highs which took seven years to achieve (2018 through to 2024).

It’s a similar story in the rest of the world, with the US and Europe, but also Mexico, Japan, South Korea and many other markets all reaching new levels. It’s a funny thing though; for lots of investors, the phrase all-time highs doesn’t prompt celebration or acknowledgement of a plan that’s working (why else do you invest, if not to grow the assets?!). Instead, it often leads to questions about selling, wondering whether things have gone too far, or worries about an impending crash.

An all-time high doesn’t mean anything

People overstate how important an all-time high is. Maybe it’s a lifetime of hearing analogies between markets and rollercoasters; we have some intuitive idea that a peak

is followed by a decline; what goes up must come down.

But markets aren’t rollercoasters, and all-time highs are often misunderstood and overemphasised.

The cynic in me blames lazy journalism. A market at all-time highs is worth 500 words. And a market off all-time highs? Sure, have another 500 words. The gift that keeps on giving.

But there are two simple truths to try and remember when the “all-time high” hype train gets going:

1. Stock markets go up over time.
2. Stock markets bounce around a lot.

Any time something hits an all-time high – that’s just point 1. And any time something falls from an all-time high – that’s just point 2.

Any single all-time high isn’t actually that important. It’s just part of the way markets work. >>

All-time highs are vital

The thing is people also underestimate how important all-time highs are. Without the occasional all-time high, your investment will go nowhere.

Take the Japanese stock market, the TOPIX. It's had 15 new highs this year. And it had three new highs in 2024. But before that?

The last time the TOPIX was at an all-time high before 2024, the Berlin Wall had just fallen, a show called The Simpsons had just launched, and the British music scene was dominated by Kylie Minogue and Jason Donovan: December 18th, 1989.

So, for 35 years (about 8000 trading days) Japanese markets made no progress.

Compare that to the FTSE 100: 264 all-time highs between 1989 and 2024. That's not so many really; around 3% of those 8,000 days.

And yet it resulted in the index being 220% higher than it was on December 18th, 1989 – more than triple your money.

To put it another way; NOT being at an all-time high most of the time (97%!) is ok. That 3% does a lot of heavy lifting. But once that 3% drops to zero, it's a very different matter – as the TOPIX showed for more than three decades.

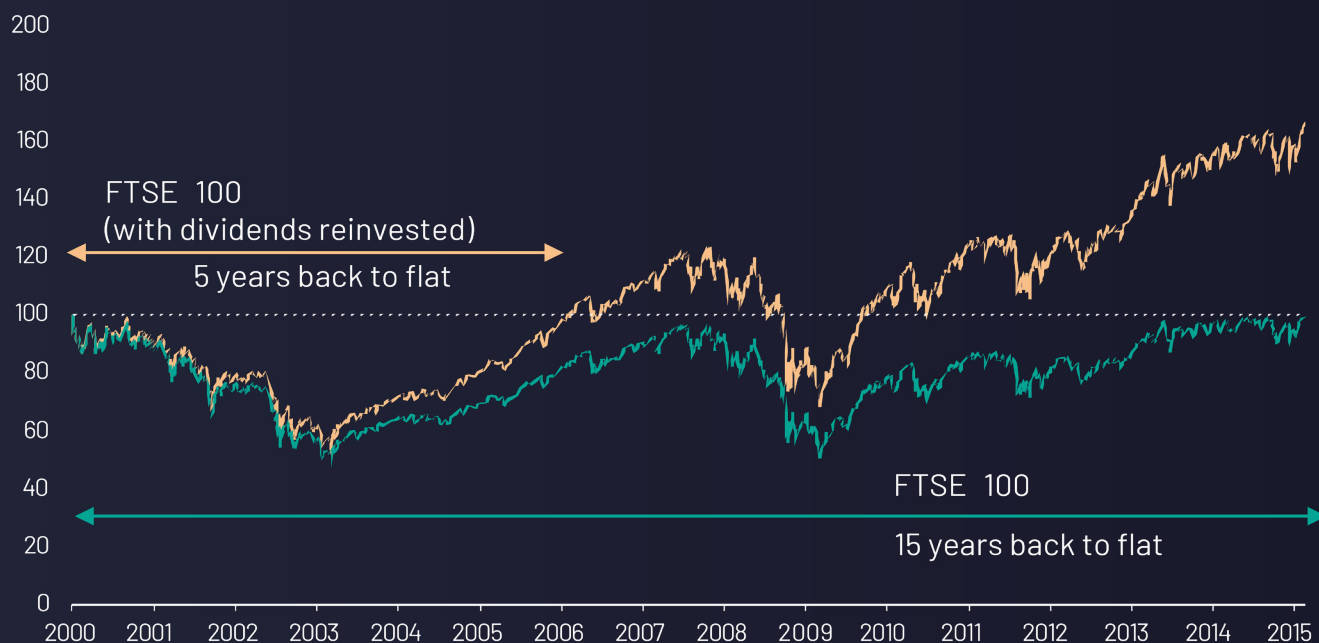
Don't forget the dividends

Compounding creates wealth more efficiently than any other method. Take your dividends and stick them straight back into the market. Make your money keep working for you, and it creates more money!

And most of the attention on all-time highs focuses on stock indices which DON'T INCLUDE DIVIDENDS!

Much like Japan, the FTSE 100 index had a period without any new highs – from December 1999 to February 2015. But if you'd been invested through that period and kept adding your dividend payments back to your holdings, the 15-year wait got a lot shorter. You still had to wait for 5 years, but that's the risk with any investing! >>





Source: FactSet

Managing money is about managing emotions

In the investment team, we don't pay attention to "all-time highs." I'd love it if the media did the same, but I suspect that's not going to happen any time soon.

So, instead, the best advice I can give is to reframe how you respond to headlines about the phenomenon.

New all-time high? "Great, that's why I invest – growth in capital over time, I certainly don't want my money standing still!"

Market no longer at an all-time high? "Excellent, my dividend reinvestments are buying more stock than they were yesterday!" Or even "Ah! The sale is on! What a fantastic opportunity to invest at a cheaper price!"

Now of course, depending on your time horizon, it might feel a little bit more pressing when stock markets fall. But that's what the rest of the portfolio is for (and why it's so important to get the right blend of investment assets for your stage in life). The bonds and alternative parts of the

portfolio are there to stabilise things – to give the equity side the time and space to get back on an upwards trajectory!

If you would like further information regarding any of our services:



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Meet the teams

Investment Management Team

**Matthew Yeates**

Co-Chief Investment Officer

CFA, FRM, BA Economics, 13 years of industry experience.

**Shanti Kelemen**

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MSc Management, PCIAM, 15 years of industry experience

**Uwe Ketelsen**

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MSci Theoretical Physics, 1 year of industry experience.

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**Asim Qadri**

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Investment Management Team



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MSc in Economics and Finance, 17 years of industry experience.



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CFA, 16 years of industry experience.



Wenqian Zeng

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Loic Yegba

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