# Your investment update

Q3 2025

Succeeding together

7IM

**Capital at risk**

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# Halfway through another landmark year

2024 was a landmark year for elections – 49% of the world's population voted, the highest in human history.

Yet, it's often not the election itself, but what follows, that defines a period's true significance. In that sense, 2025 already feels even more significant. It's turning out to be a landmark year for politics.

In April, Trump's unexpected tariff moves rattled markets. For someone seen as a business-friendly president, the policies felt more like economic weapons than growth tools. But just as quickly as the tweets and headlines arrived, so did the "DEALS". Markets have since rebounded sharply.

Meanwhile, the Middle East has re-entered a period of conflict, posing serious challenges for commodity markets – especially oil. And of course, the escalation comes just a few years after the second Russian invasion of Ukraine; again, something of a throwback to a previous era. Both events remind us that while most political developments don't transcend economics in the long term, living through them in the short term can be extremely disconcerting, with humanitarian concerns rightly taking precedence.

In such turbulent times, looking for "big wins" isn't a sensible thing to do. When the world can change quickly, concentrating investment into one area is even riskier than normal. Having the ability to generate returns from multiple sources becomes essential.

Later Ahmer digs into the interaction between markets and confidence – and how modern means of communication may be dragging down the economic "vibe". And then Sam will highlight why the utilities sector – far from the AI and tech spotlight – looks compelling to us as part of that effort to diversify.

So please, read on. And perhaps grab a coffee or tea; an iced version might be best. As I write this, the tennis at Wimbledon has just recorded its hottest opening day ever. I felt for the players, the crowd and the ball boys and girls.

**Matthew Yeates**

Co-Chief Investment Officer

For the record, I wasn't there. Instead, I spent the evening juggling reading, writing this intro, and keeping a child cool in a Victorian terraced house with no air conditioning.

Thanks for taking the time.

When the world can change quickly, concentrating investment into one area is even riskier than normal. Having the ability to generate returns from multiple sources becomes essential."

# Performance Review: Smoothing out a rough journey

**Ben Kumar**

Head of Equity Strategy

There's more than one way to look at something; I often try to consider the journey vs. the destination.

Prompted by Matthew's comment, let's take the British weather over the last quarter.

The last three months have been the warmest and sunniest spring in recorded history. Pretty much every day on the journey has been sunglasses, al fresco living and "this is nice isn't it". But here, at the start of July, in a destination sense, we've arrived at a place where officials are starting to worry about droughts and the ability of infrastructure (Victorian terraced houses!) to cope with the heat. Lovely journey, but are we quite where we want to be?

For investors, the experience in the financial markets over the last three months has been the reverse. Most individual days were filled with stress and doubt, and yet every major global equity market has ended the quarter in positive territory!

A quick recap: on the second day of April, Donald Trump strode into the White House's Rose Garden and set about upending the global trading orthodoxy. This wasn't the specific China targeting of his first term, but instead applied to every country in the world, at once.

Trade delegations flocked to Washington to secure deals, only to be left waiting as the US government focussed on creating its new domestic "Big Beautiful Bill"; ultimately resulting in Elon Musk leaving his efficiency role.

And just as the financial markets were trying to puzzle out the impact on US borrowing, the always-simmering relationship between Israel and Iran erupted into full-scale conflict – eventually dragging the US into a tactical strike.

As quarters go, you don't get a journey like that too often. And in the first few days, stock markets were down by more than 10%.

But by the end of June, after a 20% rally from the low point, US equity markets hit all-time highs. It wasn't just the US, though. The FTSE 100 hit an all-time high earlier in June, and finished the quarter up 3%, as did European equities. >>

China, India and Japan all had positive returns, and South Korea delivered a remarkable 20% gain over three months.

Other than a brief flicker of life at the start of April, government bond markets tracked gently sideways – returning about 1.5%; roughly their coupon payment, which is just fine by us! The US Dollar declined versus most other currencies, continuing a trend we've seen all year – but again, gently, rather than sharply.

In terms of portfolios, we try to think both about the destination (strong positive returns for a given level of risk) and the journey (delivering the returns in a way which doesn't worry our investors). We believe that diversification is the only reliable way to deliver this type of outcome.

Which meant we were pleased to see that our balanced portfolios[1] were able to deliver a return roughly the same as that of the FTSE 100 (~3%), yet only fell by around 5% when the journey was at its worst over the last three months.

We're also optimistic about the potential to keep generating positive returns looking to the future – as the attractiveness of expensive US and technology assets are being called into question, we see the opportunity for less-loved parts of the financial system to do well (such as the utilities sector Sam talks about later, non-US businesses operating in similar areas, and currencies other than the US Dollar).

In terms of portfolios, we try to think both about the destination (strong positive returns for a given level of risk) and the journey (delivering the returns in a way which doesn't worry our investors). We believe that diversification is the only reliable way to deliver this type of outcome."

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

# How to invest for the "vibecession"

## As an economist, the word "vibecession" makes a part of me curl up and scream.

**Ahmer Tirmizi**

Head of Fixed Income Strategy

In an unexpected move this year, social media influencers suddenly decided to get into economics – only recently #recessionindicators was trending. But Tik-Tokers weren't using traditional measures like the yield curve, but instead giving their "takes" on other potential indicators.

Some actually seemed plausible; like Beyonce tickets still being available with weeks to go. Some were slightly more speculative, such as the rise of new lifestyle trend of eating less actually being cover for financial distress.

Or there's this left-field suggestion - "Alix Earle's babysitter bun at Coachella is recession indicator". I think I recognise all the individual words in there, but I can't for the life of me get them into a sentence I can stomach. Maybe I should ask a teenage relative. Or maybe I should move on with life.

Now, so far, these haven't been successful predicators of a recession. While social media has taken over our lives, it turns out it's not telling us any economic truths (except for maybe one presidential account on Truth Social).

Yet let's not write it off completely. Because what those on social media – and in the boring old real world – are saying is that it might not be a recession, but it feels like one. A poll last year found that 55% of Americans thought the US economy was shrinking (it wasn't), while 49% thought unemployment was at a 50-year high (it's not).[1]

The Vibecession was born.

### Recession vs Vibecession

Economists are always on watch for a recession. Most use traditional measures. Yield curve inversion is one of the most famous ones. If short-term bond yields are higher than long-term bond yields, that's a worry, because it ominously implies that lenders are worried about a risk that's just round the corner.

A newer measure is the Sahm rule, which notes that when US unemployment rises beyond a certain threshold, it's not long before a recession follows. >>

[1] Majority of Americans wrongly believe US is in recession – and most blame Biden | US economy | The Guardian

Or there are more sophisticated approaches that bring together the most important data of the economy into one measure called the Leading Economic Index. Watchers of this particular index look for the three Ds (duration, depth and diffusion) for signals of a recession.

However, these "reliable" indicators have a failure in common. They all signalled a US recession in 2022... and it didn't happen. Economists have been scratching their heads since.

Increasingly, people are looking for alternative data sources. Like rising lipstick sales instead of more expensive luxury products – looking nice for less. Or falling sales of men's underwear, who are more likely scrimp on 'non-essentials' in hard times. Yes, really.[2]

And then, US economic influencer Kyla Scalon, came up with her take. A combination of the pandemic, inflation, higher rates, surging rents and income inequality made people feel worse off, even if they weren't. Bad vibes rather than bad growth, so according to Scalon, a "vibecession".[3]

### A serious look at the vibes

The vibecession has since gained traction; it even found its way into Bloomberg opinion columns, PwC economic updates, and even the Harvard Business Review.[4]

The research is trying to solve a puzzle: if the US economy is doing great, then why are people so pessimistic? GDP is at all-time highs, unemployment is close to all-time lows and consumers are, in inflation-adjusted dollar terms, spending more than ever. So why then do consumer confidence surveys continue to plumb new depths?

There are three key findings. First is that while overall consumer spending and income growth is at all-time highs, not all Americans are benefitting. Splitting US households into quartiles, the survey finds that while the top two are racing ahead, the bottom two are worse off than they were before the Covid-19 recession.[5] >>

[2]https://edition.cnn.com/2022/03/26/economy/recession-underwear-alan-greenspan

[3]https://kyla.substack.com/p/the-vibecession-the-self-fulfilling

[4]https://hbr.org/2025/01/research-what-explains-the-vibecession

[5]https://www.federalreserve.gov/econres/notes/feds-notes/a-better-way-of-understanding-the-u-s-consumer-decomposing-retail-spending-by-household-income-20241011.html

The second is the about the politics. Research has shown that voters are more optimistic when the party they voted for are in government, while more pessimistic during administrations of the opposition party. And that sense is only getting more extreme (a recent YouGov poll found similar results for UK households[6] which certainly chimes with anecdotal evidence!).

The final factor is where you get your vibes from. The source of information has a big impact on perception. The most optimistic households get their information from traditional news outlets like CNN, while the most pessimistic households get their news from newer media. Ironically, social media has created the vibecession it's now trying to analyse.

**Don't let the vibes affect your investment plan**

We've stressed before that a recession shouldn't affect your investment plans. For example, if you had invested in the FTSE 100 at the peak of the market before the financial crisis in 2008, you'd have made 4% per year more than cash, despite a 50% fall in the interim.

Or there's the point that market drawdowns don't last that long. Looking at the US market back to the 1920s, we find that the average drawdown lasts less than a year – not much time compared to a standard investment plan. Or the point that missing out on a few of the best days over 20 years can seriously impact your returns. Don't move to cash even if you're worried about a recession.

And what about the vibecession? Same thing.

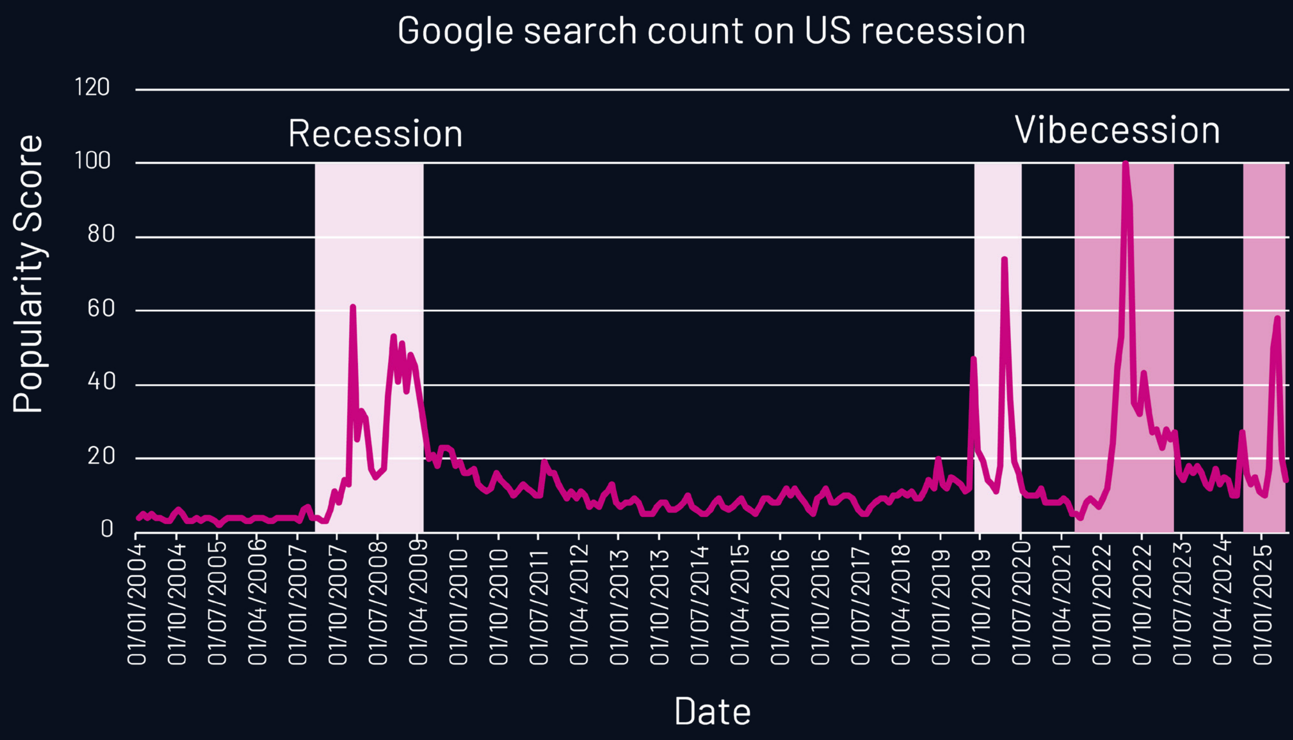
If we take 2022 as the start point of the "vibes" downturn, global equities have outperformed cash by 20% despite a 20% fall on the way. Or this year, where despite wild swings in markets, global equities are positive – with non-US equities strongly up (highlighting that a diversified approach, as we favour, can be even better at weathering these periods).

Excessive pessimism about the future may continue. If you're on social media, it almost certainly will. News about the tariff war may have died down, only to be replaced by geopolitics. Soon something else will pop up to replace it, whether the forthcoming US fiscal bill, the impact of AI on employment, or simply worries about climate, given how hot it's been!

Whatever does occur, a good investment approach isn't about the vibes. It's about the plan. >>

> There's a disconnect between the economic fundamentals and people's perception of the economy – the "vibecession" has been coined to describe this phenomenon."

[6]https://yougov.co.uk/politics/articles/51906-where-does-public-opinion-stand-after-the-2025-spring-statement




Searches for a 'recession' go up during actual recessions, naturally. We saw this happen during the financial crisis of 2008 and also during the shorter, sharper recession driven by the Covid-19 lockdowns in 2020. But we've seen concerns spike since then, despite the absence of a recession. There's a disconnect between the economic fundamentals and people's perception of the economy – the "vibecession" has been coined to describe this phenomenon.

# Utilities – Boring is beautiful

**Sam Hannon**

Investment Manager

> Utilities, right now, look pretty good to us. A stable business model, with a lot of demand coming down the track, with nowhere else to go."

If you were ever to give a team of decent software developers a brain scan, you'd see them all have "Boring is Beautiful" etched into their frontal lobes.

It's an industry reminder that the most exciting, complicated and impressive lines of code aren't, well, good. Simple, reliable and repeatable gets the best outcomes.

Investors often ignore the boring – they're hooked on looking for "the next big thing". The internet in the 1990s, gold and railroads in the 1800s, the South Seas in the 1700s and tulips in the 1600s. The endless opportunity and the potential for extraordinary share price growth can be tantalizing for all involved. But boring can be beautiful in investment too...

Last quarter, Ben mentioned that certain "sectors" display distinct characteristics, meaning they can behave in reliable(ish) ways during the ebbs and flows of economic cycles. And one of the sectors that we like is often defined by its boring nature. The utility sector.

But – as with coding – boring isn't necessarily a bad thing!

Periods of market volatility or geopolitical uncertainty or technological change often breed an environment of confusion. Not knowing where to invest, or what to invest in, often leads to poor investment outcomes. Flustered investors move to cash, or exclude entire regions, or frantically buy something they haven't researched. It's at these times where boring becomes beautiful. Stability becomes prized, and comfort is king.

Utilities do just this. They keep the world moving, providing the essential services: electricity, water or natural gas, that are key to servicing, well, everything.

And this is the crux of why utilities are so stable in times of uncertainty. Their services are not optional; consumers and businesses will continue to use electricity and water, regardless of the economic environment. Even during a recession, people pay their utilities bills. >>

Keeping the world supplied with essentials means that businesses within the sector usually have stable and reliable revenue streams. In a good economic growth environment, this gets dismissed as dull. But when things get dicey? Bring on the boring.

However, the sector isn't entirely without excitement.

AI is quickly becoming an emerging source of productivity and economic growth (or at least of a lot of adverts promising that). And although most providers would have you believe that AI runs on data, really, it runs on electricity.

Already, data centres are using as much electricity as the whole of France. By 2030, that will be as much as the 1.4 billion people in India (third-largest electricity user). And of course, it's not just the amount of power, it's the transmission too. The fabled "grid" is also the domain of utilities providers.

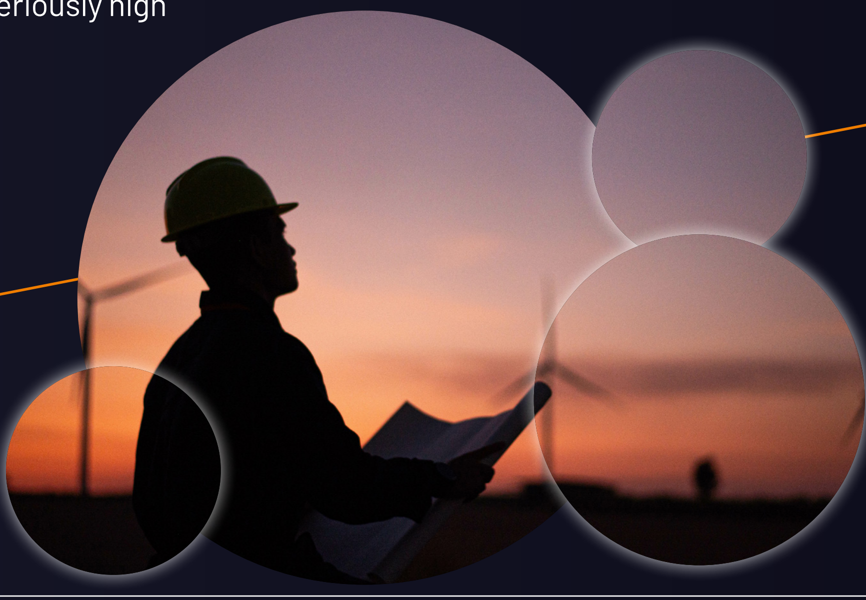
And, unlike most industries the big tech companies encounter, they can't just do it themselves. Engineering a power grid is a little different from launching a new app. It requires centuries of infrastructure development, government regulation, and seriously high barriers to entry. So, for once they outsource (see overleaf)

This is the beauty in the boring of the utilities sector. It is such a large cog in the wheel of the world that the companies are often localised monopolies. Single companies within the sector are given the exclusive rights to provide a specific service or product that the government believes is key to the day to day running of an economy.

Utilities may not offer the thrill of the tenfold overnight return, or the buzz of building the digital future. But they bring something far more valuable to a diversified portfolio: dependability.

Investing isn't always about finding the next big winner but finding the right areas of the market for the right periods of the economic cycle. Utilities, right now, look pretty good to us. A stable business model, with a lot of demand coming down the track, with nowhere else to go.

Sometimes, boring really is beautiful.



## Constellation Energy

Constellation Energy is a US-based energy supplier, but its specialty lies in being the largest operator of nuclear power plants in the US, and more notably, the largest non-governmental operator of nuclear power plants in the world.

This makes it a perfect partner for the likes of Microsoft. As a big name in the AI boom, it has seen its global emissions skyrocket (+23.4% in 2024) as a result of its mounting energy requirements from its AI and cloud computing operations.

To meet the demand, Microsoft needs a reliable and dedicated source of power – if it's low emission as well, so much the better. But for all the technical brilliance of Microsoft's engineers and MBAs, they don't do power. So they outsource.

Constellation Energy and Microsoft have joined forces in re-launching the Three Mile Island nuclear reactor to fuel the AI demand it is expecting to achieve in the coming years.

Sources:

International Energy Agency; Organization of the Petroleum Exporting Countries

https://datacentremagazine.com/critical-environments/microsoft-constellation-restarting-a-nuclear-reactor

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# Meet the teams

## Investment Management Team

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

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Head of Portfolio Management

MEcon, CFA, 28 years of industry experience.

**Adam Bloss**
Junior Quantitative Investment Analyst

MSci Theoretical Physics, 1 year of industry experience.

**Duncan Blyth**
Head of Private Client Portfolio Management

BSc Actuarial Mathematics & Statistics, CFA, 28 years of industry experience.

**Hugo Brown**
Quantitative Strategist - Alternatives

BEng, CFA level 3 Candidate, 6 years of industry experience.

**Peter Crews**
Head of Investment Product

IMC, LLB in European Law, 20 years of industry experience.

**Sam Hannon**
Investment Manager

IMC and ACSI. 8 years of Industry experience.

**Ben Kumar**
Head of Equity Strategy

CFA, MSc Behavioural Economics, 12 years of industry experience.

**Nell Larthe de Langladure**
Investment Product Associate

BA in Policy, Politics and Economics, 1 year of industry experience.

**Tony Lawrence**
Head of Model Solutions

CFA and CAIA, 23 years of industry experience.

**Brian Leitao**
Investment Manager

MSc Financial Economics, BSc Mathematical Economics and Statistics, 8 years of industry experience.

**Asim Qadri**
Investment Manager

CFA, BSc in Economics, 10 years of industry experience.

## Investment Management Team

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Senior Quantitative Investment Strategist

MSc Accounting and Finance, 8 years of industry experience.

**Ahmer Tirmizi**
Head of Fixed Income Strategy

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

**Jack Turner**
Head of ESG Portfolio Management

CFA, 16 years of industry experience.

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MSc in Climate Change, Management and Finance, BSc in Management, 3 years of industry experience.

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CFA, FRM, MSc Mechanical Engineering, 3 years of industry experience.