Your investment update

Q2 2025
Succession Model Portfolios
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Capital at risk

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Routines, distractions and rules

The first piece of advice that new parents receive (typically from the grandparents!) is that babies need routine. Regular schedules for mealtimes, bedtimes and play times. Only then will they settle well and enjoy healthy growth.

Martyn Surguy

Chief Investment Officer

And the same can be said for markets and investors. A stable world order, dependable relationships between assets, and the avoidance of surprises all provide a favourable backdrop for returns. Disruption to *any* of these is potentially dangerous as it often leads to panic, restlessness and abandoning the core principles of investment success.

Unfortunately, at present, the schedule is being hugely disrupted. The established geopolitical order has been turned on its head by the actions of the new Trump administration. US economic policy seems to be following a hokey-cokey approach, notably around tariffs. Global trade is threatened like never before. Key industries and sectors face supply chain challenges. And the market darlings in the tech sector which have driven market returns for the last couple of years have well and truly come off the boil – questions are being asked about payback from AI investment and eye-watering valuations.

It's often said that, if you can keep your head when everyone else is losing theirs… it's just possible you haven't grasped the severity of the situation. But keeping your head in the severest of situations is always the key to a successful investment outcome. Extreme market events or newsflow shouldn't be accompanied by wholesale changes to strategy. The key disciplines of staying the course, ignoring emotions, not forgetting to rebalance and, of course, diversification will always serve the long-term investor well.

This is very much how we are navigating the challenges we are facing. Ensuring that a sensible spread of assets is accompanied by the discipline to rebalance or fine tune when opportunities are presented is vital. It's encouraging, too, that after a period in the doldrums, the rewards of global and sector diversification are much more apparent – something that Matthew Yeates notes in his performance commentary.

Elsewhere in this publication, Ahmer Tirmizi puts tariffs in their historical perspective, while Ben Kumar explores the ways in which we should challenge conventional wisdom about investment allocations.

Interesting times at present, but you can be sure we will not lose sight of the imperatives of preserving capital, and where possible taking advantages of the opportunities presented to grow it further.

Enjoy reading!

Performance Review: The times they are a-changing

As someone who welcomed a newborn into the world at the end of last year, I'm in the perfect position to add some colour to Martyn's points about routine.

Matthew Yeates

Deputy Chief Investment Officer

Because in the earliest days of a child's life, routine feels fruitless. You see little return, in terms of smiles or reactions, for your sleep-deprived efforts.

But, around the start of this year, things changed for me. The smiles began, haven't stopped since and suddenly the sleepless nights seem so much more "worth it". The output changed, even though the input didn't. Which is a perfect analogy for what we've seen so far this year with markets and portfolios.

Through much of 2024, global stock markets remained resilient in the face of numerous challenges. In fact, "resilient" is perhaps an understatement with regards to the performance of US companies – for an investor based in the UK, US equities outperformed their European peers by over ***20%*** in 2024.

For 7IM portfolios, this kind of concentrated outperformance creates a perception problem. It makes our diversified investment approach seem fruitless. Why bother with the routine of diversifying? Why not simply allocate more to the biggest market, and watch it keep growing? It's easier, and less tiring to do so...

But then something changed. Over the first three months of 2025 for diversified investors, it's been more about smiles – *the entire outperformance* of the US in 2024 has been erased.[1] The same process, different result.

The broadening of market returns this year has been felt through all parts of our portfolio. In equities, positions such as Equal Weighted US Equities (in our case, the S&P 500) alongside non-tech sector holdings such as healthcare, have all contributed in early 2025. >>

> Over the first three months of 2025 for diversified investors, it's been more about smiles – the entire outperformance of the US in 2024 has been erased. The same process, different result."

Bond markets have been quite volatile in 2025, but US bonds in particular have increased in value through the period, as expectations for future interest rates fell – again, highlighting the need for diversification (don't abandon *all* US assets). And our alternatives allocation, which allocates to strategies that can benefit from market rises as well as falls, is in positive territory year to date.

While a quarter is only a short period, we're pleased to see 7IM's well-established and diversified process delivering positive returns, despite a tricky period in markets. Should the rotation away from the US continue, our portfolios are prepared.

Looking forward, while routine is important, it shouldn't be at the expense of flexibility. Our portfolio positioning will evolve when necessary; for example, taking some profits in healthcare companies and reallocating towards financial stocks. We're still underweight mega-cap tech, but doing something different with the proceeds.

We welcome your feedback on our investment update and look forward to keeping you fully informed in 2025.

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[1] Take the EuroStoxx 50 total return index versus the S&P 500 total return index, both in GBP terms.

What's the impact of tariffs? Anyone... anyone?

Ahmer Tirmizi

Head of Fixed Income Strategy

In the Venn diagram of iconic pop-culture references and important economic history lessons, there aren't many things in the middle bit. But those of a certain age will know of one – the classic 80s movie *Ferris Bueller's Day Off*. In it, Ferris decides to bunk off school (play hooky if you're American).

This class, on tariffs in the 1930s, was the final straw:

"In 1930, the Republican controlled House of Representatives, in an effort to alleviate the effect of the...

... Anyone... anyone?

the Great Depression, passed the...

... Anyone... anyone?

the tariff bill, the Hawley-Smoot Tariff Act, which...

... Anyone... raised or lowered? Anyone?

***Raised** tariffs in an effort to collect more revenue for the federal government.*

Did it work...?

... Anyone... anyone?

*It did **NOT** work, and the United States sank deeper into the Great Depression."*

A lecture delivered by a nasally, anodyne, monotone professor, to a classroom of bored, tired and uninterested students. The irony, as we're finding out right now, is that tariffs are far from boring.

A brief history of tariffs

Let's see if we can do a little better than Ferris' teacher with the story of tariffs.

In the 1930s, one of the Republican governments campaigns was to protect an old industry – in this case, farming – from insidious global forces who were giving America a bad deal, hollowing out the heartland of the US and benefitting coastal elites... sound familiar?

Two congressmen (Willis Hawley and Reed Smoot) proposed targeted import tariffs on key US-made goods like wool and sugar. Get people to buy American. >>

But soon, every other industry wanted in on the action. Corn growers from Iowa wanted protection. Orange farmers were demanding their piece. In Ohio, breeding goldfish was **big** business and the sole (pun unintended!) goldfish-breeding company used its mussel (pun intended!) to demand 35% tariffs on foreign goldfish imports, despite little evidence of any competition.

After all the horse trading, there ended up being over 800 separate tariffs (with most farmers at the back of queue). And in the complex web of the global trade system, there were inevitably unintended consequences.

Take the US egg industry, which was a net *exporter* at the time, selling more to the world than it was buying. After the ensuing egg war (sounds fun?) with Canada, America went from selling 1m dozens, down to just 13,000 dozens. Confusing quantities, but that's a lot of broken dreams if you're an egg farmer!

Multiply that out across hundreds of goods and it's easy to see how the Hawley-Smoot tariffs made the Great Depression worse – more uncertainty, lots of unintended consequences, and lots of vested interests.

Trump 1.0 attended their classes

It took decades to untangle the tariffs, the counter tariffs and the counter-counter tariffs. Ultimately, the world even established the World Trade Organisation (WTO) to avoid this happening again.

After the Great Depression, Congress handed over tariff-making power to the President. Best to have it with one person, rather than hundreds of interests at work in the House and Senate. And Presidents took it seriously – so much so, that you could win any debate about trade by invoking Hawley-Smoot.

In the early 90s when Al Gore and Ross Perot were debating the merits of North Atlantic Free Trade Agreement (NAFTA), Al Gore won the live TV debate by simply taking out a picture of Hawley and Smoot. Shows the importance of preparation! >>

First time around, Trump seemed to get the message. When it came to tariffs on China between 2016-2018, they were measured, predictable and well-flagged. Steel, aluminium and a couple of other specific goods. The goldfish lobby didn't get a look in.

And it meant the Chinese response was precise and considered. Some prices went up, some companies felt the pain, but the overall impact was minimal – growth was steady, inflation was under control, while interest rates were still supporting the economy.

On the surface, Trump could claim success. The share of imports coming from China had fallen from 22% all the way back to about 14%, back to the same level as the early 2000s (around the time China's economy really started growing). All the while, growth was humming along and the stock market was booming.

However, behind the scenes, nothing changed. China's share of global exports remained the same as ever, while the total amount of US imports from the world, remained steady. How is this so?

Basically, detours. As Federal Reserve economists found **https://www.federalreserve.gov/econres/notes/feds-notes/global-trade-patterns-in-the-wake-of-the-2018-2019-u-s-china-tariff-hikes-20240412.html,** the tariffed goods were just rerouted. Chinese solar panels came in via Thailand, Chinese washing machines via Mexico, Chinese steel via Europe.

Trump 1.0 – or the people advising him – knew about Hawley-Smoot.

Trump 2.0 played hooky

It's not quite so clear that the people in charge today attended the same class, though.

The lessons of Hawley and Smoot appear to be forgotten. There's a tit-for-tat tariff war with Mexico and Canada, tariffs on the EU in the pipeline and even a suggestion for an all-encompassing 20% tariff on all imports. It's all chaotic. You tax my steel so I'll tax your wine so you'll tax my whiskey so I'll tax your cars so etc..

Even if this round is still about headlines, escalating a trade war can have unintended consequences. Who will be today's egg producers?

We can already see the market sifting through the winners and losers (see "Unintended consequences" section overleaf).

Trump 1.0 came alongside the kind of market returns that the President was hoping to see. US companies (small and large) taking a larger share of the pie than the rest of the world. MAGA.

Trump 2.0, on the other hand, has seen the opposite impact. Chinese and European stocks are surging on the back stronger fiscal spending while US tech stocks and smaller domestic companies are falling. MEEGA (Make Everyone Else Great Again). The beneficiaries have been the opposite of what Trump intended.

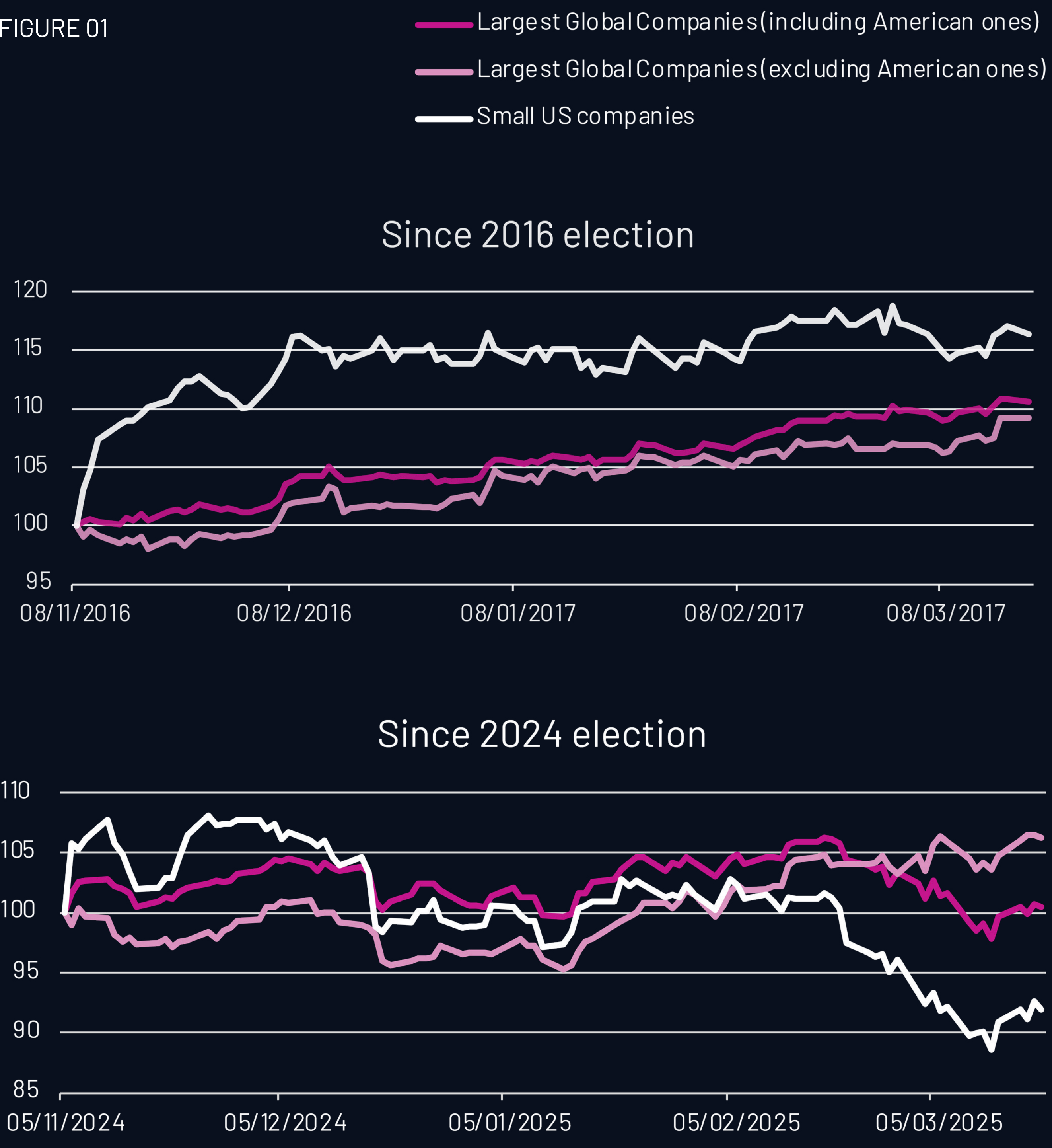
As investors, 7IM often benefits from things not going to plan. We hold a wide spread of investment strategies precisely because of unintended consequences – the global system is too complicated to consistently predict for any length of time and can change quickly. So, at the moment, our allocation to US equal weight rather than concentrated large-tech exposure, our allocation to government bonds, and to non-US markets are all looking very sensible.

No one knows what will happen next. Maybe the tariffs and other policies continue and intensify. Maybe they are completely reversed. Anything is possible. So, we should still prepare for unintended consequences. *Portfolio diversification…Anyone... anyone?* >>

Unintended consequences

Almost a full five months after the election, markets aren't quite going to plan for the US administration. Sudden changes to government spending, immigration and tariffs are impacting US companies, particularly the smallest ones. This contrasts with the same period for the 2016 election – US companies had a strong tailwind from the certainty that the administration wanted to help the smallest companies.

FIGURE 01



Source: Bloomberg Finance L.P.

Slicing the market cake

We all know, instinctively, that there's a right and a wrong way to slice a cake. Square cuts out of a round cake? Horrible. Diagonal slice off a corner of a square cake? Disgusting. Take a chunk out of the middle? Possibly an actual crime.

Ben Kumar

Head of Equity Strategy

There are countless ways to slice the investment cake. And unlike real cake, there's no clear "right" and "wrong" way.

But. In my opinion, national borders aren't the best slice.

You see, the investment world is obsessed with geography. *"UK stocks"* and *"US equities"* and *"Chinese markets"*, etc, etc..

In the 1600s, it made sense. The public companies listed in Amsterdam and London raised capital from local investors to fund projects in the country. Banks and insurers. Utilities. Railroads. Factories for new industries. Breweries [1]

And to be fair, you can still see that today in countries in the *early* stages of capital market development. Look at the listings on the stock exchanges in Nigeria or Cambodia or Peru (all classed as "frontier" or early-stage market economies) and you'll see cement companies and dairies, paint producers and ports, banks and breweries. Firms that do most of their business where they're based. >>

Sectors are lovely! They're nice and stable - they work by classifying a company by what it does rather than where it is. Vocation, not location."

[1] The exception is the trading companies (British and Dutch East India, most famously), but even these, the profits made by those companies were quite literally shipped back home and pumped into the domestic economies.

If you invest in one of these countries, typically the fortunes of the businesses you own depend on what's going on locally – so fair enough.

Outside of the developing countries, though, the link between companies and their country of listing has been almost *completely* lost. Both their investors and their business models are now global.

Where large companies choose to list their shares often has very little to do with their business models, or where they make their money. Instead, the decision typically tends to be a matter of tax optimisation, prestige and availability of global investors (or simply tradition and legacy!).

Looking at the UK's most famous (?) stock market, the FTSE 100, it includes many companies that started small and local. But now, the likes of BP, Diageo and Unilever have more interest in the habits of Chinese or American consumers than they do in what's going on in British high streets. Even the London Stock Exchange Group itself only generates around half of its money in the UK!

But because everyone gets geography, because we *understand* countries, as investors, we can end up making the wrong connections.[2] It feels rational to connect a country's prospects to that of the businesses listed there; but that's just not reality. I spend a load of time telling people that the FSTE 100 doesn't represent the UK economy, but every time I switch on the business news, there's a journalist implying that exact link!

Typically, the differences in performance between countries' stock markets come down to sector exposures – NOT the underlying economy. Whether as a result of historical accident, or different listing rules, or tax treatments, every country's stock market is *different*, tending to be dominated by one or two large sectors. Technology in the US. Healthcare and energy in the UK. Banks and mining in Australia. >>

[2] Nowhere more so than "Emerging Markets". South Korea is in the Emerging Market index, but ask anyone who's been to South Korea and they'll tell you that's not the case. It has the same GDP per capita as the UK!

Ok, so as an investment analyst maybe you start to get to know these significant sectors a little in order to try and get a handle on what's driving a certain market.

And once you do that… ***lightbulb.***

Sectors are lovely! They're nice and *stable* - they work by classifying a company by what it *does* rather than where it *is*. Vocation, not location. A national stock index can change behaviour as the big stocks change – the FTSE 100 was basically a banking index in 2007, for example, yet now it's nothing like that. An analyst who was grappling with Lloyds' balance sheet 10 years ago is now having to have a view on Rolls Royce.

Whereas if a company is an energy company, it is very unlikely it will suddenly end up in the healthcare space. Sector behaviour remains similar, regardless of which particular company or industry is flavour of the month.

Lightbulb again. If we need to have a view on a sector to help us invest in a country's stock market… why not just invest in (or avoid) that sector itself! Perhaps three years ago, there wasn't the product available to invest in. No point having a crystal-clear theory about utilities if you can't actually go and *buy* the utilities sector. You just couldn't slice the cake that way. But that's now changed.

And so will investment strategies in the future. We've been building processes and models based on sector analysis for a few years, and we've been increasingly able to implement them in our portfolios.

I'd be very surprised if investing was still being done *solely* on a regional basis in five years. Why would anyone limit themselves to geographic borders when the rest of the world has moved past them?!

Investing in sectors, you might say… is a piece of cake.

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

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