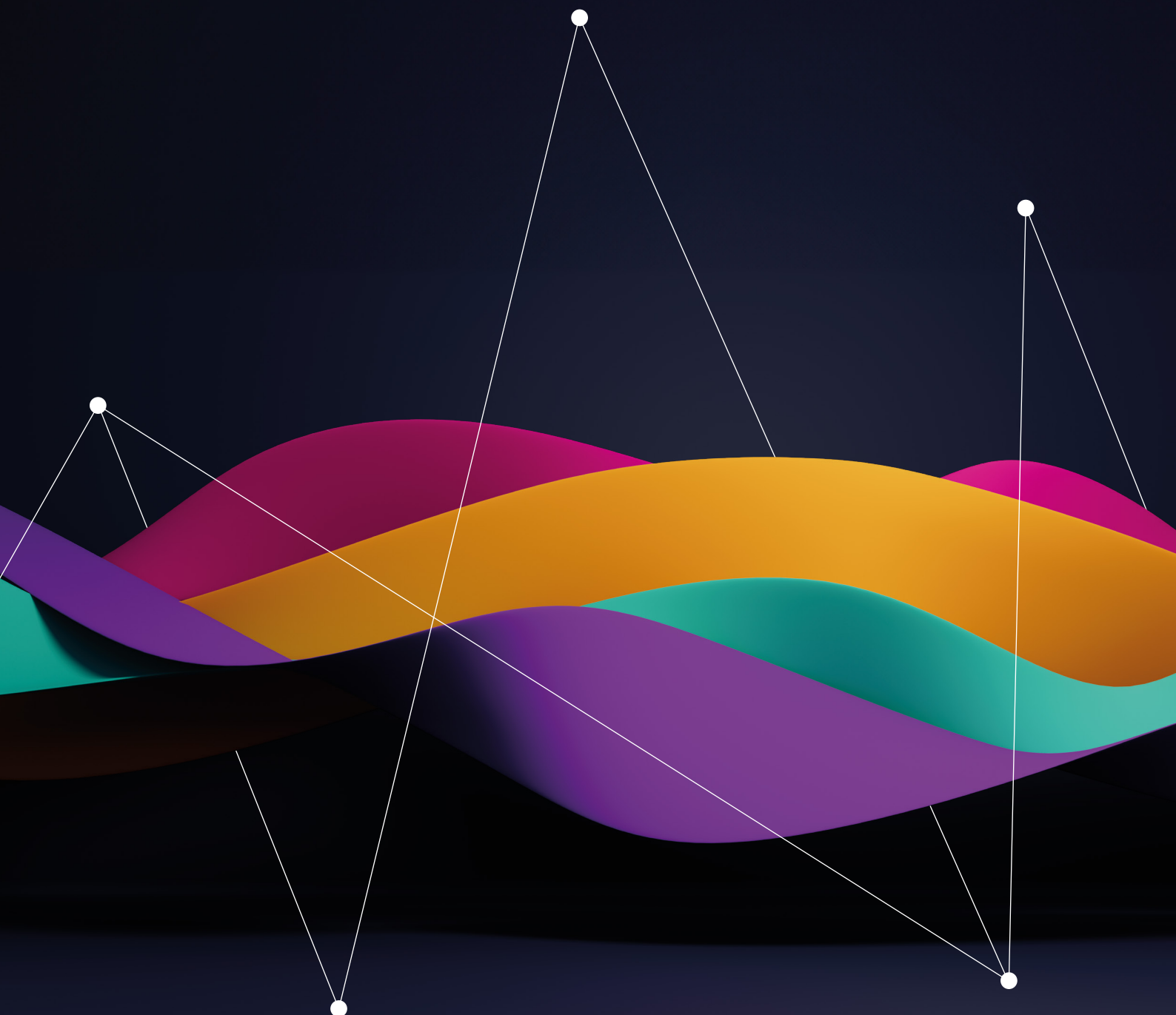


Your investment update

Q4 2026

Succession Model Portfolios

Powered by 7IM



SUCCESSION
— MODEL PORTFOLIOS —

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Capital at risk

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Ben's brain teaser

One sector outshone the rest this past month. Can you guess which global sector delivered the strongest returns in September?

- A) Information technology
- B) Materials
- C) Energy
- D) Utilities

Find out at the end of this update.



Our key views

Something old, something new, something borrowed, something blue.

As wedding season draws to a close, the above struck me as a fitting way to talk about the investment world over summer 2026.

Markets spent the third quarter revisiting an old idea (that inflation still matters), obsessing over a new idea (AI might matter even more!), and worrying about something borrowed (government debt). All of which made investors feel a little blue come September.

We don't expect any of those things to be resolved soon, for better or worse. The world doesn't let go of worries easily.

But it's worth bearing in mind a few positive notes to accompany the doubts. Global growth is good – better than expected, even. Large construction projects like data centres or defence factories create jobs in the short term, boosting confidence. Company earnings are delivering above expectations in most sectors. And despite what households might tell consumer confidence surveys, they're still spending money.

It's definitely not all doom and gloom in the bond markets, either – as Sam Hannon will point out. Nor is AI coming for jobs as quickly as people have feared. Shanti applied that lens to the financial planning world and reckons people have a part to play yet!



Ben Kumar

Head of Strategy – Wealth,
Public Policy & Investment



Something old,
something new,
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borrowed,
something blue."

Over the coming months we expect:



Investors to keep climbing the wall of worry. They'll continue worrying about AI, conflict, bond markets and politics, while also fearing they could miss out on gains.



AI excitement. Late October to late November, big tech report their earnings. The last big datapoints. As well as a potential stock market debut for Anthropic.



Food inflation starts to get noticed. Most inflationary impulses are under control, but the visibility of food and fuel prices will create uncomfortable headlines.

Bonds are back in town



Sam Hannon
Investment Manager

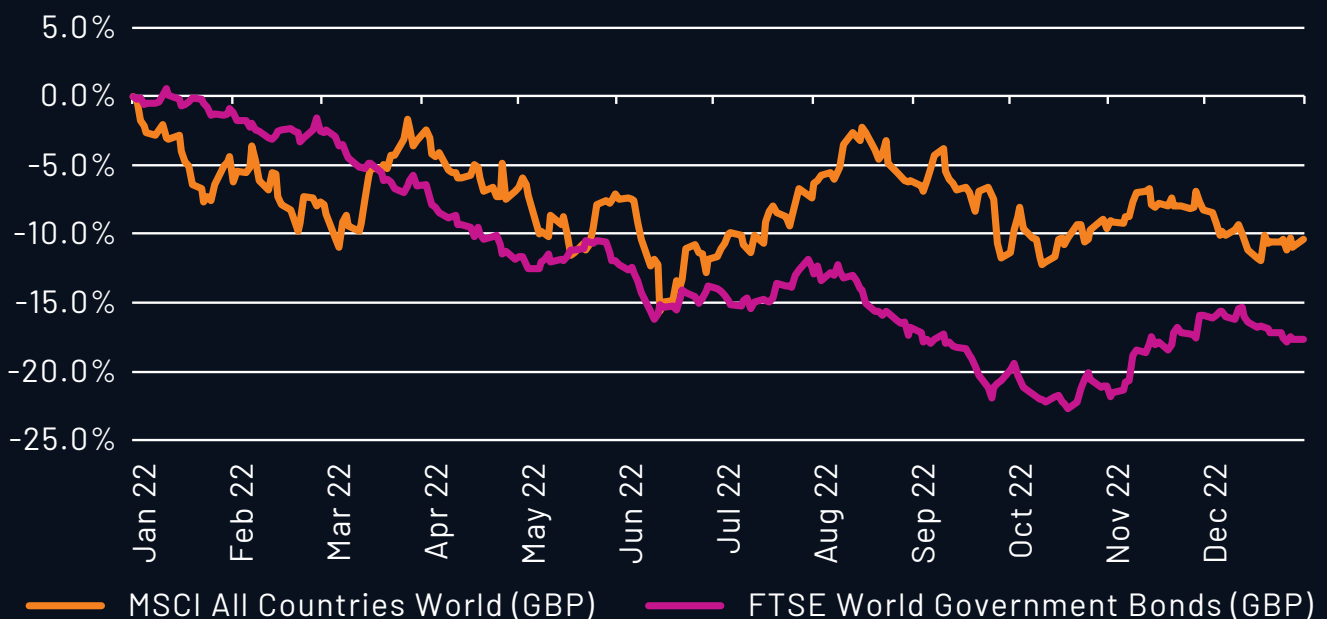
Bonds are in the headlines again. Which is never usually a good thing. After all, bonds are meant to be boring.

For much of the 2010s, government bonds were the dull but necessary part of a portfolio. Their role was simple, yet effective: help protect and offset against the ups and downs of equity markets. But with interest rates and yields at record lows, protection came at a high price.

Then 2022 hit the bond market like a hurricane.

Inflation surged, fuelled by energy prices and strong consumers with excess post-COVID cash. Central banks ignored it... until they didn't, then sharply raised rates to make up for their sluggishness.

Bonds fell. Equities fell. The relied-upon relationship between equities and fixed income fell apart. Diversification failed precisely when many investors needed it to work. Things got messy.



Total return in GBP. Time period - 01.01.2022 to 31.12.22

Today, with bond yields rising again, investors are nervous. So recently bitten, they're now twice shy. But today isn't the same as 2022.>>

Higher rates, rising inflation and increased government borrowing have already pushed bond yields higher. Investors now demand a better return before lending money to governments. Any further rate rise, while painful, would therefore be less of a nasty surprise than four years ago. That makes the risk/reward trade-off more interesting than the headlines might suggest.

Governments are also competing with technology companies for investor demand. Alongside increasing government bond issuance, companies such as Alphabet and Meta are borrowing heavily to build AI infrastructure. With more bonds on offer, investors can pitch one against another, putting further pressure on yields.

Bond yield maths

Yields are materially higher than during the “free money” era, and that changes the mathematics of investing.

Higher starting yields mean more income, greater future return potential and more ability to absorb an initial rise in interest rates. A government bond yielding 5% offers a very different proposition to one yielding 0.5%.

Rates have to move aggressively upwards for investors to really lose out, because income cushions the losses. At the same time, any fall in interest rates can boost returns quickly.

UK Gilt	Estimated change in 1 year total-return for a shift in Interest Rates						
	+3%	+2%	+1%	0%	-1%	-2%	-3%
2 Year (4.5% yield)	2.3%	3.0%	3.8%	4.5%	5.3%	6.0%	6.8%
5 Year (4.7% yield)	-5.9%	-2.5%	1.0%	4.7%	8.6%	12.7%	16.9%
10 Year (5.2% Yield)	-13.6%	-7.8%	-1.6%	5.2%	12.5%	20.5%	29.2%
20 Year (5.8% yield)	-23.7%	-15.4%	-5.6%	5.8%	19.2%	35.1%	54.0%
30 Year (5.8% yield)	-25.8%	-17.3%	-6.9%	5.8%	21.5%	41.0%	65.6%

This is for information only and does not constitute financial advice. Rates are based on specified assumptions and tested on a single date, and actual returns may differ materially.

Where does this leave investors today?

Bond yields can rise for many reasons, including fears of persistent inflation. The Middle East, Russia, El Niño and other factors could keep price pressures elevated. And if inflation rises, rates may rise too.

You could argue one of the main reasons yields remain high is the strength of the US economy.>>

Households and businesses remain in good financial health, which helps them cope with higher borrowing costs. Company profits are growing strongly, helped by continued spending on AI infrastructure. Employment also remains resilient. Rather than replacing workers, AI appears to be helping many people become more productive.

Bonds look more attractive today. They can provide income, help protect capital and often hold up better when economic growth slows.

But what if growth stays resilient? What if inflation persists? What if yields keep rising?

In those circumstances, investors may need something to diversify the diversifiers. This is where alternatives come in.

What on earth is an alternative?

Traditionally, portfolios classify anything that isn't an equity or bond as an alternative: infrastructure, property, commodities and even niche investments such as song rights.

We use a narrower definition. A true alternative should behave differently from shares and bonds. If it rises and falls for the same reasons, it is not providing much diversification.

We make space for alternatives by reducing our exposure to bonds. Within the alternatives basket, we combine in-house strategies that use liquid investments rather than illiquid holdings such as property or infrastructure. This helps us keep costs low and, more importantly, understand how the strategies should behave in different market environments.

Using several strategies can help protect against downside when equity markets fall. It can also provide protection and opportunity when the traditional diversifier, fixed income, doesn't do its job, as we saw in 2022.



Do you want the job forecasting markets?

The chart above highlights a simple but powerful reality: today's winners are often tomorrow's laggards. The best-performing asset class has changed repeatedly, shifting between US equities, emerging markets, property, bonds and cash.

It's tempting to invest a lot into what's performing best. This chart shows how difficult it is to consistently predict which areas of the market will outperform.

Diversification helps address this uncertainty. By spreading investments across a range of asset classes, regions and investment styles, we can make portfolios less reliant on one area doing well.

The lesson from this chart is clear: market leadership is rarely permanent. A diversified approach means you benefit from opportunities wherever they emerge and reduces the impact of periods of underperformance in parts of the market.

2018	2019	2020	2021	2022	2023	2024	2025	YTD 2026
1.1%	25.6%	14.9%	29.3%	1.5%	19.1%	26.9%	24.3%	25.7%
0.9%	19.2%	14.4%	27.2%	0.8%	13.4%	9.6%	24.2%	11.7%
0.7%	17.2%	9.1%	18.2%	-8.8%	9.8%	9.4%	10.8%	11.3%
0.1%	13.8%	8.0%	1.4%	-10.6%	8.0%	7.5%	9.3%	7.2%
-2.2%	13.7%	4.6%	0.0%	-11.7%	5.8%	5.2%	7.1%	1.9%
-3.3%	11.0%	0.4%	-1.7%	-13.2%	4.8%	2.9%	4.4%	1.7%
-9.4%	5.5%	-10.3%	-2.0%	-16.2%	4.1%	2.7%	3.4%	0.9%
-9.5%	0.8%	-11.6%	-3.3%	-19.3%	4.0%	1.7%	2.0%	0.8%

Key

Cash	Real Estate
Emerging Market Equity	UK Corporate Bonds
Global Govt Bonds	UK Equity
Global High Yield Bonds	US Equity

Performance is total return and in GBP. The only exception to this is Emerging Market Equity, where returns are unhedged for a GBP investor.

This is due to the cost and constraints on hedging Emerging Markets currency.

Source: 7IM / Factset June 2026.

Is AI any good at UK financial advice?

We asked five free AI tools financial advice questions. Here's what they got right and what they missed.

Most people don't talk about money. Just 9% of UK adults have a financial adviser¹. Friends and family may not fill the gap. Discussing salaries, savings and investments can still feel taboo.

AI offers another option. You can ask about money, pensions and tax without judgement.

We tested that idea by giving five well-known AI tools the same five UK financial planning questions, from a simple ISA query to a £3 million estate-planning challenge. We left out details such as age, marital status and income to see whether they would ask. We scored each first answer for accuracy, suitability, regulatory awareness, safety and transparency, with no follow-up chat.



Shanti Kelemen
Co-Chief Investment Officer

Rank	AI system	Best at	Overall (/5)
1	ChatGPT (OpenAI)	Getting the facts right; the hardest questions	4.30
2	Claude (Anthropic)	Knowing where advice should stop	4.15
3	Microsoft Copilot	Retirement drawdown; solid all-rounder	4.14
4	Google Gemini	Showing its sources; the easy question	3.91
5	Meta AI	Warm, approachable tone	3.91

Weighted average across all five scenarios. Higher is better. These products change constantly, so this is a snapshot, not a permanent ranking.

Our verdict? They're useful for learning, but they're not a good substitute for a human adviser.

What they're good at

AI is excellent at explaining. Ask how an ISA or pension tax relief works, and you'll usually get a clear, jargon-light answer. Factual accuracy was the strongest area across the board.

The tools were also kinder than expected. In our bereavement scenario, a 62-year-old widow received a £400,000 insurance payout. Every tool responded sensitively. ChatGPT advised her not to rush, to watch for scams and to leave the pension alone until the tax position was clear. Meta AI offered support contacts.>>

¹ Financial Conduct Authority, June 2025

The weak points

Facts that changed with little fanfare.

Several tools told us savings are protected up to £85,000 per bank. That limit rose to £120,000 on 1 December 2025 but didn't get much press. Only ChatGPT had it right. Likewise, most unused pension funds are due to be counted in your estate for inheritance tax from 6 April 2027 and not every tool flagged it. AI is reliable on changes as long as the internet is shouting about them.

Not personalised. Every tool pushed low-cost tracker funds. That's a defensible starting point, but it's also the safest thing an AI can say, largely because the internet is full of articles making that case. It isn't a considered view of your situation.

Bad at challenging assumptions. If you ask how to cut inheritance tax by giving money away, you'll get the gifting rules.

None of the tools asked whether you could afford to give the money away in the first place. Ask how to invest £300 a month for retirement and you'll hear about accounts and funds, not whether £300 is anywhere near enough.

Cashflow modelling is the best way to test assumptions like these. It's a method of checking whether your retirement income is likely to last a lifetime. Nearly every human adviser offers it. Only Claude mentioned it.

Complexity was underpriced. Where tools quoted costs for complex structures such as a family investment company, the figures were generally well below what we see in the real world. They tended to quote a set-up fee without the legal work, administration and ongoing upkeep that follows.>>



The harder the question, the wider the gap

AI system	S1 Easy	S2 Mod.	S3 Hard	S4 Hardest	S5 Hardest
ChatGPT	4.18	4.25	4.18	4.40	4.48
Claude	4.48	4.35	4.15	3.78	4.00
Microsoft Copilot	3.95	4.40	4.33	4.13	3.88
Google Gemini	4.50	4.25	3.68	3.68	3.43
Meta AI	4.48	3.83	3.65	3.80	3.78

Weighted score per scenario. Scenarios four and five test vulnerability and complex tax planning.

On the easy ISA question, all five tools performed well and were hard to separate. On the toughest scenarios, the scores moved apart.

Only ChatGPT improved as the questions became harder. Gemini fell furthest, giving roughly the same length of answer to a simple ISA query and a complex retirement and estate-planning puzzle. That wasn't enough to address the complications. Strong basics tell you little about how a tool will handle real life.

So, should you use it?

AI can explain facts clearly, but it doesn't go deep enough. It can't reliably exercise judgement: spotting the wrong question, testing an assumption or saying, 'I need to know more.'

Even if AI gets there, the human part remains. Knowing what to do isn't the hardest part of financial planning. Following a plan for 30 years is harder. That's where we think human advisers are best placed. They can keep you on track and help you adjust as the world changes, and as you change.

This article is for information only and does not constitute financial advice. Scores reflect the specific AI products tested on a single date and may change as those products are updated.



AI can explain facts clearly, but it doesn't go deep enough. It can't reliably exercise judgement..."

Changes in our strategies

Since July, the following changes have been made to portfolios*.

Since July, we have made no changes to our equity and bond allocations.

Equities – unchanged

Stock markets have been supported by strong consumer spending and solid company profits. Despite ongoing uncertainty, companies have continued to adapt and perform well. So, we're confident in our current positioning and aren't making any changes to our overall exposure to shares. We continue to favour equities over bonds.

Within our Global Sector Strategy, we increased our investment in technology and added consumer staples. We reduced our exposure by selling industrials and communication services.

Bonds – unchanged

Investors are still debating how quickly interest rates might move from here. Inflation has eased, but the economic outlook remains uncertain.

Bonds continue to provide attractive levels of income and help diversify portfolios. As a result, we've made no changes to our bond allocation.

*These changes only apply to our portfolios with tactical asset allocation. Our asset allocation for Pathbuilder and passive models is reviewed on an annual basis.

A

One sector outshone the rest this past month. Can you guess which global sector delivered the strongest returns in September?

Answer: Information Technology

A month is a long time in markets! In July, Energy was the standout performer as rising oil prices grabbed investors' attention. Fast forward to August, and Materials took the crown as confidence in the AI buildout returned. By September, the baton had passed again, with Information Technology leading the charge as strong earnings, booming cloud demand and relentless excitement around AI reminded investors why tech continues to dominate the market narrative.

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