Your investment update

Q3 2026

Succeeding together

Capital at risk

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Contents

Ben's brain teaser

Over the last 50 years, roughly how many calendar years has the global stock market delivered a positive return?

A) 25 years

B) 30 years

C) 40 years

D) 48 years

Find out at the end of this update.

Our key views

Strait of Hormuz open, Strait of Hormuz closed. Old prime minister, new prime minister? Claude Opus 4.7, Claude Opus 4.8.

It's good to be aware of the news, but you don't always need to act. Doing nothing is a choice – and often the best one for investors.

Case in point: Q2 2026. Equities bounced back strongly, but the winners are shifting. Markets rewarded the companies that are receiving Artificial Intelligence spending and penalised those doing the spending. In the short-term it makes sense. One group has profits today, while the other is investing for profits tomorrow. It's not sustainable for the long-run, though; if the spending doesn't have value, it'll stop at some point.

In the coming pages, Ben Kumar tackles the emotions around investing, looking at steadily dripping money into the markets vs. investing it all in one go. Later on, Sam Hannon looks at the forces that have made smaller companies underperform over the last 5 years and whether a reversal is due.

If you've got a summer holiday planned, try taking a break from the news. Don't worry – we'll be keeping an eye on what matters; that's our job.

Shanti Kelemen
Co-Chief Investment Officer

"Doing nothing is a choice – and often the best one for investors."

Over the coming months we expect:

- Investors to focus on economic growth, the outlook for inflation and how much people are spending — in other words, back to usual.
- More scrutiny on the cost of AI. Providers have raised prices and companies want to make sure they are getting good value.
- Bonds markets in wait and see mode. Inflation drivers are shifting with energy prices, plus there's a new Chair of the US Federal Reserve.

Drip feeding

“How quickly should I invest?"

It’s one of the questions we’re asked most often.

There could be any one of a million reasons – someone has sold a house or a business, taken a pension lump sum, received an inheritance – and suddenly there's a meaningful pile of cash sitting in a current account, causing a psychological problem.

People are left in a horrible dilemma. They know they need to invest. The idea of missing out on gains, the money just sitting there doing nothing, inflation eating away at it?
Not appealing.

But at the same time, the RISK is horrible. What if the market falls by 10%? Or more? How stupid would it feel to see that cash pile dwindle away?!

Investing feels awful, but so does doing nothing.

So, what to do?

Many people end up doing something which the finance industry calls cost averaging; more commonly known as drip-feeding. Don’t invest all at once. Instead put some in now, some in later using a staged approach.[1] This spreads the risk of something negative happening the instant you’ve invested your money, gives you a bit of breathing space and a buffer.

It’s the financial equivalent of NOT ripping the plaster off, but doing it gradually, in a warm bath. But does it work?!

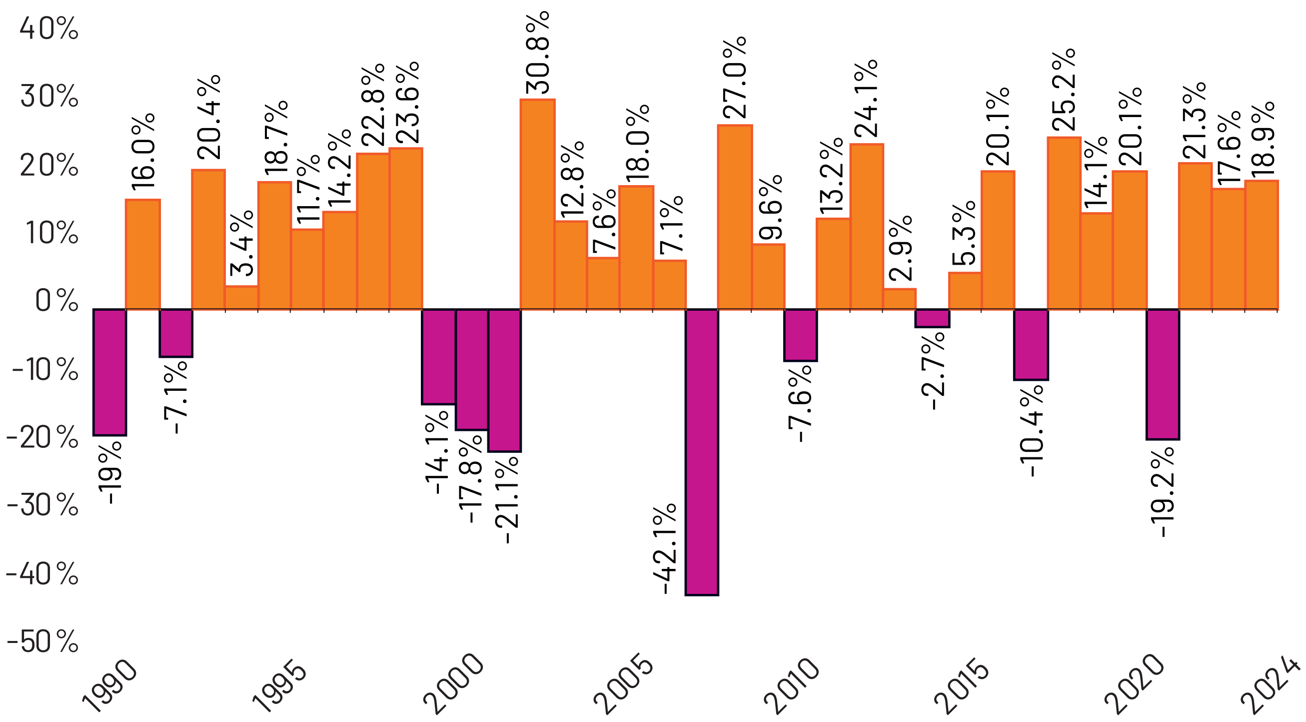
Well. It depends on what you mean by work. This is a wonderful example of theory vs. practice, economics vs psychology, and academia vs. the real world. The rational choice isn’t necessarily the right one.>>

[1] A common approach is investing one third in now, one third in three months and one third in six months, but there are others

The numbers:

In general, markets go up over time – roughly at a rate of two positive years to every negative one (although it rarely happens exactly like that, see the chart below).

Annual Returns of MSCI World since 1990: 66% up years, 34% down years



Source: Factset

If you invest your cash pile all at once, more often than not, you'll be in positive territory within 12 months; when we looked at a classic 50/50 equity and bond portfolio, we found it lost money 18% of the time on a one-year view.[2] The average return was 9%.

Which sounds... OK in theory. A one in five chance of "losing" money. At a casino, you'd take those odds all night. But at a casino it's not (hopefully) a once-in-a-lifetime sum on the table.

The problem is that drip-feeding doesn't really change the picture. If you stage in over six months, you lose money... 18% of the time. Exactly the same! And the average return was 8%. So drip-feeding costs you a full percent of performance, without really changing your odds of a loss.

Other studies find the same thing. Investing all at once beats drip-feeding most of the time, and the drip-feeding strategy very rarely offers any real protection from a falling market.>>

[2] A 50% FTSE All-Share Total Return Index and 50% FTSE Actuaries All Gilts Total Return Index, with data back to 31/01/1975

But.

We think drip-feeding is a great idea.

We think it makes sense for most, if not all investors. How can we say that honestly?

It's because the question "how quickly should I invest?" isn't really a maths question.

It's an emotional one.

Economists say invest all at once. But humans – irrational, emotional awake-at-3am humans – say, "what if I'm unlucky ". And it's humans who stress. Humans who decide whether to bail out. Humans who stay in cash to avoid losing money and are still there six years later.

The power and control of drip-feeding helps people avoid this mistake. Rather than worry about being exactly optimal, it helps us get them roughly right. It gives someone a way to start, when starting is the hardest part.

It might cost you around 1% to invest gradually over time. But refusing to invest AT ALL costs far more than that. Each year you don't invest makes it harder to finally get going. Not investing at all is the worst outcome. Investing and then backing out is nearly as bad.

So, when someone asks me, "how quickly should I invest?", the answer is about psychology, not economics: whatever gets you invested and sleeping at night. That usually comes down to a conversation, not a calculator...

Ben Kumar
Head of Strategy – Wealth, Public Policy & Investment

> The question 'how quickly should I invest?' isn't really about maths – it's about emotion."

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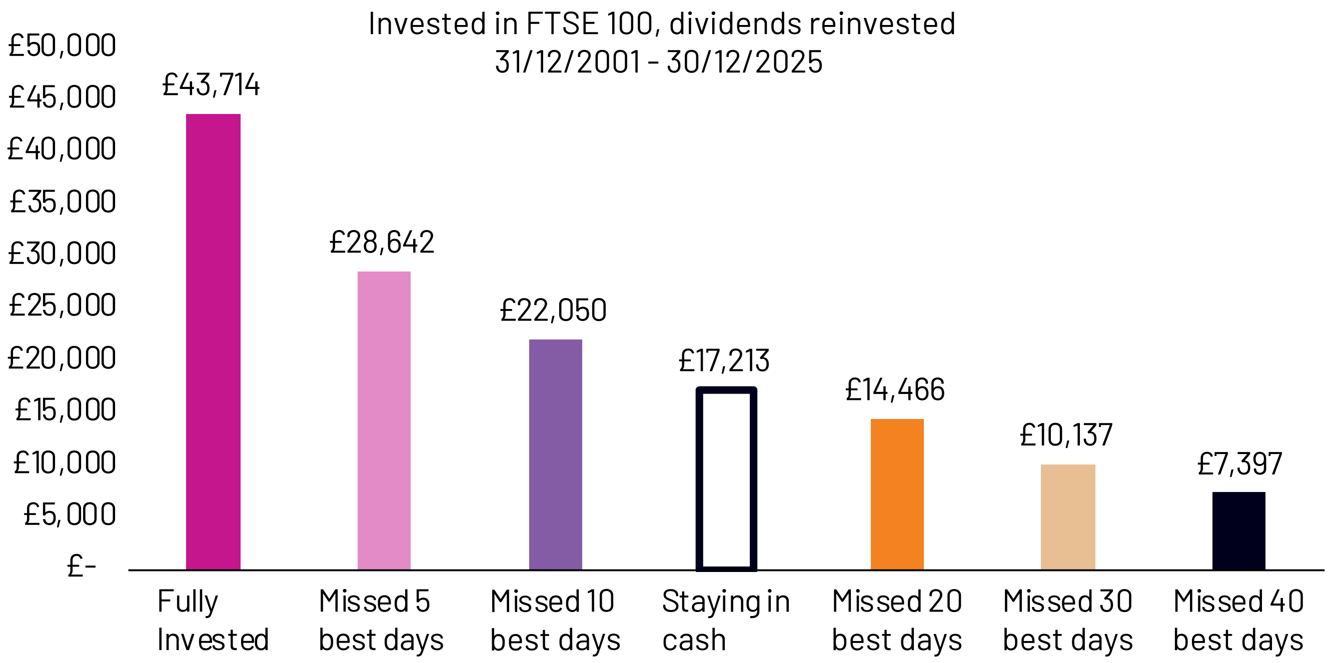
*Past performance is not a guide to the future.

Look less, fear less!

What £10,000 would have turned into over 25 years



This chart highlights a powerful reality: miss just a few of the market's best days, and long-term outcomes can look very different.

Those who remained fully invested over the period achieved the strongest outcome, benefiting from every period of market growth. However, missing just a small number of the best days – even as few as 10, 20 or 30 – leads to a meaningful drop in overall returns. Miss more, and the gap widens noticeably.

By the time you reach missing around 40 of the best days, the difference is striking. What started as strong long-term growth becomes significantly reduced, simply because those crucial periods of recovery and momentum weren't captured.

The challenge is that these "best days" are incredibly difficult to predict. They often occur during volatile or uncertain periods – sometimes immediately after market falls – when it might feel most tempting to step out of the market

This is exactly what the chart brings to life: trying to time markets isn't just difficult, it can be costly. Missing a small number of key moments can have a lasting impact on long-term outcomes.

The takeaway is clear. Staying invested – even when markets feel uncertain – has historically been one of the most effective ways to participate in long-term growth. Being consistently invested means giving yourself the best chance of capturing those critical days that drive returns over time.

The small-cap premium: Dead, dormant or due a revival?

Sam Hannon
Investment Manager

The next Nvidia could be lingering in a small-cap index."

A central pillar of investing is that taking more risk should mean more reward over the long term. But it does not always work that way. Markets are imperfect, and investors are not always rewarded for taking more risk within a timescale that makes sense. Smaller companies are a good recent example: many investors have taken the risk but not seen the reward.

Let's first clear something up. While the phrase 'small company' might conjure up pictures of local builders or nail salons – that's not what we're talking about. The average size of a business in the MSCI World Small Cap Index is $2.8 billion!

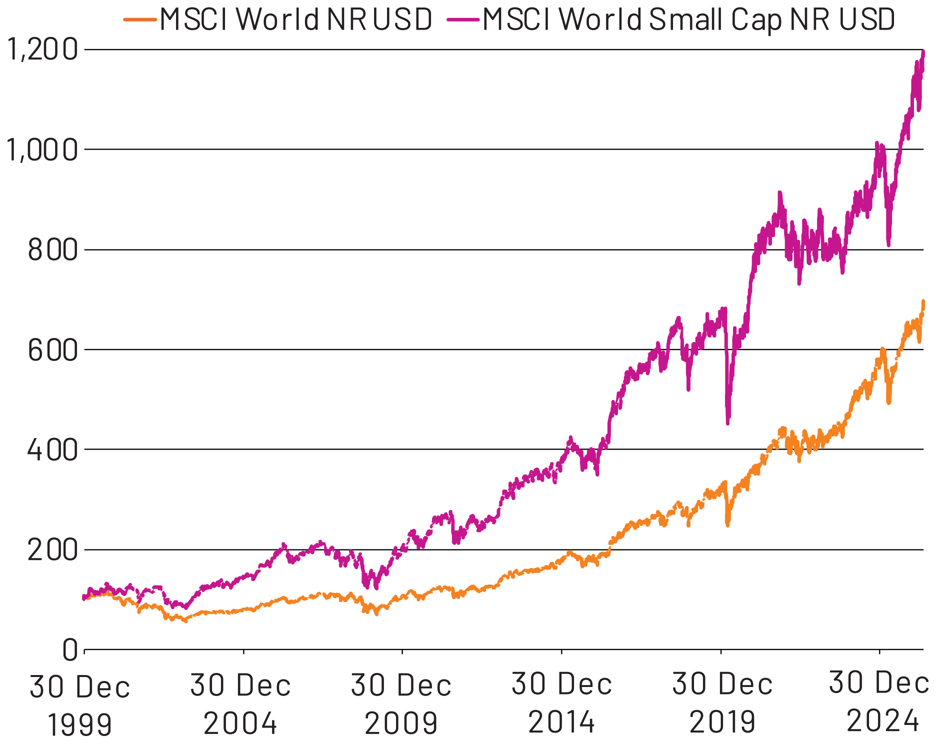
But next to today's trillion-dollar market giants, a couple of billion dollars is still quite small. That size gap makes them more exposed to downturns, changing customer habits and new technologies. Borrowing can be a problem, and reputations can disappear overnight.On the flipside, they have more room to grow, can be more agile, and can exploit new business models. Over the long term – the theory suggests – those advantages outweigh the drawbacks.

The long-term data supports the theory. In the period between 1928-2025, small-cap stocks outperformed large-cap stocks by roughly 1.5 percentage points annually.[1] That might sound trivial, but over a lifetime, it's the difference between an investment growing into £500,000 or £1 million. The numbers look good for past 25 years as well.

But over the last decade, the rewards have dried up.>>

[1] **Why Small Caps Belong in Your Portfolio | Dimensional**

Small vs. Large Company Returns, 1999- present



Source: Refinitiv. Uses MSCI World Small Cap NR USD and MSCI World NR USD indices.

Large companies have continued to grow, leaving small companies in their dust. The market heavyweights – technology companies like Nvidia, Apple, and Alphabet – have defied the laws of financial gravity, growing bigger each year.

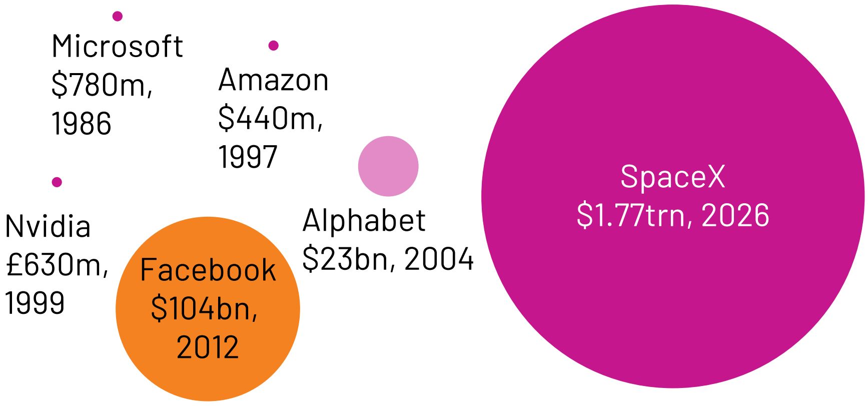
Larger companies (as measured by the MSCI World index) have returned 269% over the last 10 years. In contrast, smaller company stocks (as measured by the MSCI World Small Cap index) returned just 192%. What's changed in the past 10 years? Private equity and technology.

New companies have more choices for getting investment than they used to. The rise of venture capital and private equity allowed many companies to stay private for longer. When that happens, the fruits of their early growth go to private investors rather than smaller company shareholders.

Just six years after its founding, the giant semiconductor designer Nvidia listed on public markets in January 1999 with a value of $228.5m – it was a small, fast-growing company needing to raise more money, so it went public.

SpaceX was founded privately by Elon Musk in 2002, and stayed private until last month, when it listed with a value of $1.78tn. More money for private investors means less on offer for public investors.>>

Market Values at IPO



Source: Refinitiv. Figures shown are approximate equity valuations and are denominated in USD.

At the same time, large technology companies have exploited network effects: the bigger they get, the more useful they become. Social platforms are the obvious example. The more people join, the more valuable the platform becomes for everyone else. That makes it harder for rivals to compete – just ask MySpace.

Bigger companies can afford to invest billions, helping them get further ahead. We've also seen companies gobble up smaller rivals before they've had the chance to float and grow.

So, could smaller companies start outperforming again? Larger companies now look expensive. The valuation, as measured by looking at the cost of a share relative to the money they earn, is close to record highs. Valuations are not good at predicting short-term returns but can be useful over longer periods (10 years+).

Meanwhile, small companies look cheaper. Yardeni data shows that small companies trade on 15.8 times expected earnings. Large companies trade on around 20.9 times. This is known as the forward price-to-earnings ratio. It compares a company's share price with its expected earnings.

Technology may also start to erode the advantages of large companies. It used to take an army of high-paid computer programmers to create software. Now, AI can much of the heavy lifting.

Social platforms have also made it easier to tell millions about a new brand or product line. And it mightn't cost anything if the message is catchy enough.

And in markets, there's decades of evidence that smaller companies deliver higher revenue and earnings growth.

It isn't a question of one or the other. We invest in both at 7IM because we believe in diversification. Not every company stays private until it's worth hundreds of billions.

There's a huge range of options within both small and large companies. Some are boring, some are speculative, some are expensive, some are cheap. Who knows, the next Nivida could be lingering in a small-cap index.

And it may well turn out that the decade of underperformance was the "higher risk" which delivers the better reward in the long term.

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Changes in our strategies

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

Since April, we added more to equities...

Equities –
Although growth in some parts of the world has slowed a little, people are still spending and businesses continue to invest in areas like AI, which is helping to keep the economy moving. We're feeling positive about the outlook and have slightly increased our allocation to equities.

Within our Global Sector Strategy, we have reintroduced Technology, and reduced Communication Services and Materials to make space for it.

...and less to bonds

Bonds –
Inflation has started to ease, but there is still uncertainty around where interest rates go from here. In the meantime, bonds continue to pay good income and can help provide a steadier experience when markets become more unsettled.

Given the role they play in balancing portfolios, we remain comfortable with our current allocation and have not made any changes.

*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. The next review will take place towards the end of this quarter.

A

Over the last 50 years, roughly how many calendar years has the global stock market delivered a positive return?

Answer: C – 40 Years

It might not feel like it when markets are having one of those weeks... but history has a pretty optimistic track record.

In fact, around 70–80% of years have ended up positive — that's roughly 4 out of every 5 years finishing in the green.

Less frequent than you'd think, shorter than they feel at the time and often followed by a bounce back when you least expect it.

So, while it might seem like markets spend a lot of time falling... the reality is they spend most of their time quietly doing the opposite.

Or put even more simply: **markets don't win every year... but over time, they've got a pretty strong winning record!**

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