

# Your investment update

Q1 2026



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## Capital at risk

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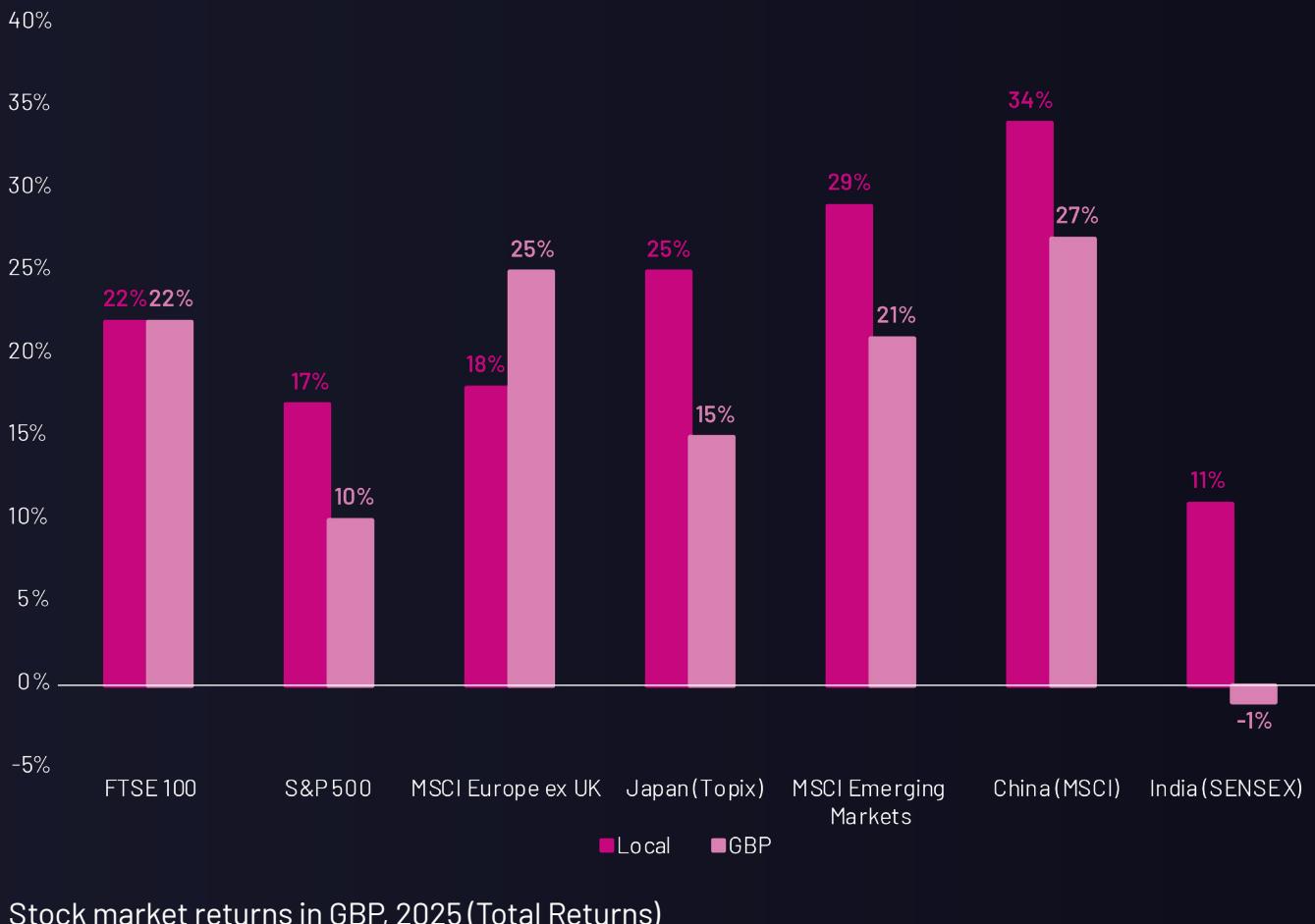
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# Unsung heroes of 2025

Welcome to our Quarterly Update. For this edition, we'll start with the equity regions that performed well in 2025. They may not be what you think. After that, things get a bit philosophical with Ahmer's take on how to invest. We end on a cheerful note with Ben's ideas for what could go well in 2026 and beyond.

Words like 'best' and 'worst' often get more attention than they should. The headline "Equity markets have worst day in two months" sometimes means "stocks were down 1.5% today", which usually isn't something that should spur frantic trading.

2025 defied the norms in many ways, one of which was that most of our attention wasn't focused on the best performing equity regions. Despite mentions of Artificial Intelligence (AI) and US technology companies being everywhere, US equities weren't the best performer. The US dollar fell by 7.0% vs. sterling and 11.8% vs. the Euro. That made it harder for US equities to perform well for sterling investors, as the currency returns detracted from the equity market returns.>>



Measured in sterling terms, the best performing equity regions in 2025 were UK equities (+27%), European equities (+26%) and emerging markets (+22%). There are three key lessons from how they came out on top:

- 01 It matters how much you pay for a company relative to the earnings it generates (also known as 'valuation'). UK, Europe and emerging market equities all started the year with attractive valuations.
- 02 Macroeconomic factors continue to drive markets – inflation, interest rates and economic growth all played key roles. Looking at the data objectively helps to make good decisions.
- 03 Trends are global and investing globally makes sense. AI may be synonymous with a few US companies, but a much wider group of global companies are building the infrastructure behind it.

## Emerging market equities

While AI is often associated with US equities, just under half of the returns for emerging market equities in 2025 came from AI and related technology themes. Asia is home to several large technology companies that play key roles in AI. Taiwan Semiconductor Manufacturing and Samsung are leading manufacturers of the chips used for AI. Clustered around these manufacturers are companies that provide components and testing services. China has its own technology giants (Alibaba, Tencent, Baidu) that run social media platforms, payment networks, and infrastructure. They're increasingly incorporating AI into their offerings.

The key lesson from emerging markets in 2025 wasn't just AI. It was a mix of AI and 'traditional' drivers of market growth. These markets started 2025 with low share prices. Remember the narrative of China being 'un-investable' in early 2024?

Despite the US imposing tariffs, emerging market economies were resilient. Over the past 30 years, trade between developing countries rose from 9.8% to 24.6%<sup>1</sup> as a percentage of global trade. This shift made them less vulnerable to falls in demand from the US and Europe. Average income per person has almost doubled in the past decade, boosting consumption of goods and services.<sup>2</sup> In regions without major tech firms, like Latin America, strong commodity prices supported markets.>>



<sup>1</sup>World Trade Organisation, "Thirty years of trade growth and poverty reduction". 24 April 2024.

<sup>2</sup>International Monetary Fund, "World Economic Outlook" October 2025

Lastly, but importantly, there was a hidden boost from a weaker US dollar. It's common for companies and governments in emerging markets to borrow in US dollars. So, when the dollar's weaker, less local currency is needed to pay interest on debt. Leaving more money to spend elsewhere!

### **UK and European equities**

Valuations played a key part in the UK and European equity market returns, helped by interest rates and geopolitics. Ten of the top 20 performing stocks in the FTSE 100 Index came from the financial sector. Higher interest rates allowed UK banks to earn better margins on lending and deposits, while default rates stayed low. In Europe, six of the top ten performing companies were in the financial sector.

Geopolitics rarely helps investment returns. But US pressure on Europe to increase defence spending lifted related companies. Firms like BAE Systems and Rolls Royce gained, as did Thales and Rheinmetall in Europe.

Acquisitions were a theme for the year, due to inexpensive valuations. Packaging firm DS Smith was bought by International Paper for £7.8 billion. Direct Line Group was bought by Aviva for around £3.7 billion. Even failed bids can raise share prices through interest and speculation. Firms like Anglo American, Rightmove and BP all saw talk of offers over the year.

### **Lessons for the future**

Some of the best investment opportunities often lie beyond the headlines. Investors who looked past US equities were rewarded in 2025. Valuations can't predict returns over 1-2 years, but they help shape longer-term results.

The best performers of 2025 show that valuations matter. Europe, the UK and emerging market equities began the year with much lower valuations than US equities. They then beat expectations and delivered strong returns. When you invest in areas that have lower valuations, the returns aren't always steady. It takes patience and a strong investment process to get the benefits.

We're big believers in diversification – across equities, bonds and alternatives we use in our investment strategies. It's important to look at the numbers rather than the commentary. Our investment process is driven by data, which helps us avoid behavioural biases. If everyone's talking about something, we become more familiar with it and might be more inclined to invest. But some of the best opportunities are those that aren't covered in the press.



Shanti Kelemen  
Co-Chief Investment Officer

# How to invest: Rules, not stories



**Ahmer Tirmizi**

Head of Fixed Income Strategy



**After the pandemic, the economic forces were confused and contradictory, eating away at the predictive power of traditional models. Economically, nothing went drastically wrong, but at the same time, nothing went amazingly right.”**

## Building a world model

It can be easy to be swept away by the narrative when you're thinking about investing. Heroes and villains, world-changing technologies and catastrophic politics, bullish cases and bearish views. The problem with this in investing is that you can always find a tale to support your perspective. A buyer and a seller – both with a story to tell.

Which is why we prefer to build evidence-based models. We look for rules, not stories. Collect as much actual economic data as we can, compare it to investment opportunities, and then use statistics to establish likely outcomes.

It's often termed "macro" investing, and over the long term it works. Economic rules are pretty reliable – following them offers a better than average chance of getting the investment positioning right.

## Muted macro, supercharged stories

However, over shorter periods of time, the economic signals are often swamped by the daily noise. You only get twelve inflation readings a year, compared to twelve thousand "cost of living crisis" articles.

And if macro signals are faint at the same time as the stories are strong, it can feel like the rules no longer apply. Recent years have felt a bit like that; whether looking at stock markets or bond markets.

## The tale of tech

Let's start with stocks. In a typical economic-led market, the rules are clear. If growth is strong, companies in cyclical businesses like hospitality, luxury goods and banks do well. If growth is weak or falling, stable companies such as healthcare or utilities shine.

But in the past two years, that rule hasn't seemed to hold. After the pandemic, the economic forces were confused and contradictory, eating away at the predictive power of traditional models. Economically, nothing went drastically wrong, but at the same time, nothing went amazingly right. Growth was mildly good or sort of bad, and so were the model signals.>>

Enter tech. The largest sector in the US index didn't just outperform – it told a blistering tale while doing so. The world-changing potential of AI made boring old economics seem irrelevant. Investors stopped asking "where's GDP headed?" and started asking "who's training the best LLM?" or "who has the most data centres?" or "who keeps delivering positive profit surprises?" These questions seem easier to answer, and are often more fun to talk about than the complexity of the global economy.

But history tells us macro matters – eventually. If economic data starts to swing around once more, the best guide will be the macro rules which have worked for decades, rather than waiting to see who's on the cover of TIME magazine.

Given the lack of signal, our equity positioning this year hovered around our usual amount; neither adding to nor avoiding risk. One could argue that we missed the chance to add to equities in a strong year, but that would be looking back at the story, rather than the rule. We prefer to stick to our rules.

### **What's bugging bond markets?**

Bonds play an important defensive role in portfolios, protecting against downturns and slumps. Our models look for economic indicators which suggest the likely state of the world, and whether it might be susceptible to change.

If tech was the story which supplanted economics in equities, for bonds the culprit was politics. Our model had a disappointing year. Not disastrous, but disappointing. In a year where rates drifted gradually lower, the model didn't quite move fast enough.>>



Our rules look at monthly or quarterly data series. In 2025, monthly data just couldn't keep pace with events (largely coming from the Oval Office).

Just consider summer 2025. Donald Trump announces tariffs in April, then starts on-off pauses and resumptions which continue to swing sentiment around. The US then bombs Iran, before announcing a number of trade deals. Add in talk of Beautiful Big Bills, Federal Chairs being fired and a government shutdown, and you've got a backdrop where fundamentals were drowned out by headlines. The rules, calibrated for macro momentum, simply couldn't keep pace with political flip-flops.

This isn't a flaw; it's a feature. Adjusting the exposure between short or long dated bonds is designed for sustained trends, not tweet-driven turbulence. When businesses get more optimistic, inflation bites, or growth accelerates, the model shines. But in a year where macro was muted and politics noisy, neutrality often beat conviction.

### Two stories, one Lesson

Tech and bonds tell different tales, but the moral is the same: context matters. Models thrive and rules work when their assumptions hold. When those assumptions break, performance wobbles. That's not failure; it's reality. No model captures every regime.

For equities, the recent regime shift has been tech's dominance, AI hype, and a market chasing innovation over inflation. For bonds, it was episodic: political shocks hijacking a macro-driven framework.

The essence of rules-based investing is about probabilities, not certainties. It's about applying rules consistently, even when headlines tempt us to improvise. Because while gut feel can win a battle, process wins the war.

### Looking ahead – what brings macro back?

So, what brings the rules back into play? For bonds, the catalyst might well be inflation's second act, a credit wobble, or an increasingly powerless Donald Trump. For equities, it might be tech fatigue or a growth scare that puts the wider economy back in the spotlight. Either way, macro volatility will return. It always does. And when it does, systematic models will regain their edge.

Until then, balance is key. For equity investors, that means respecting momentum without abandoning diversification. For bond allocators, it means trusting the process, even when signals feel slow.

Maintaining investment discipline is hard. But over time, the benefits compound into something far more rewarding than chasing stories.

# Reasons to be cheerful: 2026 and beyond

It can sound smart to be negative about the future; scepticism often sounds like wisdom.

And so, at the start of the year, there are often a lot of predictions/warnings for things to watch out for. But the short-term future is incredibly tough to forecast (as Donald Trump proved in Venezuela at the start of 2026), so a lot of the thinking and analysis ends up being wrong or redundant by Easter time!

Worse, the focus on the coming year often means the big picture of progress is ignored. Take solar panels, for example; every year, they get around 8% cheaper. Not worth talking about in any given 12-months. But on a twenty-year view, solar panels now cost one tenth of what they did in 2005.

Or take global life expectancy, which has risen by ~3 months a year since the millennium. Tough to get excited about on an annual basis. But that's an average of 6 years extra life, globally. Multiply that by the 8 billion people in the world. That's a lot of extra life!

With that in mind, we want to put an optimistic spin on our 2026 outlook by picking out the changes which might be small now but could really add up in the future.

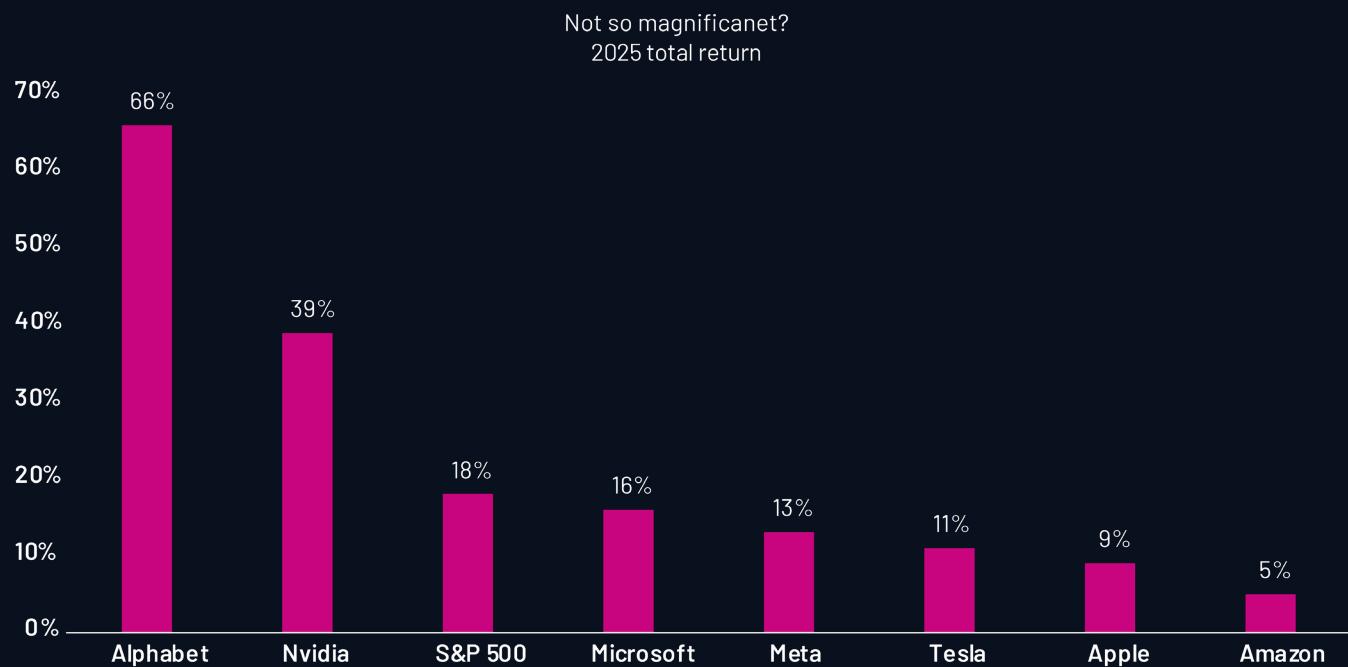
## **Broadening, not bursting**

You know the Magnificent Seven, right? Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla? The big tech companies carrying the weight of the entire US market?

Well, that might be how you remember them. But in 2025, only two of the seven have beaten the wider US market (in the film, only three cowboys survived the shootout...).>>



Ben Kumar  
Head of Equity Strategy



Source: FactSet/7IM, data to 31/12/2025

That's good news! Because it supports the idea that there IS a world in which the US stock market can keep moving up. Banks, utilities, miners, and smaller tech companies can help drive growth.

After all, a much nicer way for valuations to normalise is for everything else to do better, rather than the existing leaders suddenly failing.

### Trump International

Donald Trump will be entering the "lame duck" period of his Presidency by the end of 2026. If the mid-term elections leach away some of his domestic policymaking ability, there'll only be one thing he can realistically focus on: the world outside the US.

He wants to leave a legacy, and (not to get all Shakespearean) the world is his stage. His aims span everything from winning the Nobel Peace Prize to annexing Greenland. One would seem to preclude the other...

But the Nobel Peace Prize might just be the bigger draw for Trump. So, despite the January flare-up in Latin America, might we see a further de-escalation of conflicts everywhere over the next few years? Regardless of the reason, surely that's something to hope for?!

### Japan's rise of the robots

Imagine if Japan finally puts the last four decades behind it. It's not necessarily a pipedream. Public approval of the government is above 70%, so there's enough runway to really change things for Sanae Takaichi (the first female leader). Foreign investors are already getting interested again, with a record \$55.6 billion inflows in 2025, so there's money flying around.

And perhaps most interestingly, there's the ability for Japanese industrial know-how to solve a problem which is going to be cropping up all over the world in the next few

decades. Specifically, how to use technology to tackle the issues created by a shrinking workforce and a growing number of ageing retirees.

Japanese society is slightly odd, in that while adoption of digital automation is low (payments and online government), adoption and acceptance of physical automation is extremely high. A perfect testing ground for how far robotics can help across the range of human society. And, conveniently, many of the top-quality robotics firms in the world are based in... Japan.>>

We welcome your feedback on our investment update and look forward to keeping you fully informed in 2026.



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### **Modern Chinese medicine**

Chinese medicine gets a bad rap. Understandably so if you're a rhino or a tiger – or indeed, someone with some medical training.

But that's ancient Chinese medicine. The modern stuff is worth taking seriously.

Our favourite example of a breakthrough this year is from Zhejiang University. "Bone-02" is a revolutionary bone glue. The problem with gluing bones together is that it all takes place inside the body; it's tough to get the glue to dry. But by studying how oysters stick to rocks (a very wet environment!), they worked out a way to produce a compound which takes just 3 minutes to set, requires no surgery, and is completely absorbed by the body after 6 months.

China had more biotechnology public offerings or IPOs than the US in 2025. And Chinese medical universities publish roughly the same number of articles/clinical trial results per year as their American counterparts. More medical miracles in 2026? Absolutely!

### **Unexpected UK boom**

Maybe the tallest order of the lot. But we can dream!

We can probably all agree on one thing – an economic boom in the UK doesn't feel likely right now. Business and consumer confidence indicators are firmly stuck on "bleak". But (and stick with us here) the route to growth is plausible particularly if the rest of the world is in good shape. Some may argue it might need a change of chancellor, but we'll leave that to other pundits.

Build. Build big. And build everywhere. Make it visible! Nuclear power stations and new electric grids and upgraded railway lines, as well as houses. Economically, construction creates lots of jobs (not just construction workers but truck drivers, and caterers, and hoteliers, and surveyors, etc.).

Psychologically, nothing is more tangible than a construction site as a sign of economic growth – something to point at as a symbol of good, rather than bad.

Oh, and of course, England or Scotland will win the FIFA World Cup, setting the stage for decades of footballing dominance.

**bb**

**Build. Build big. And build everywhere. Make it visible! Nuclear power stations and new electric grids and upgraded railway lines, as well as houses."**



# Meet the teams

## Investment Management Team

**Matthew Yeates**

Co-Chief Investment Officer

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

**Shanti Kelemen**

Co-Chief Investment Officer

MSc Management, PCIAM, 15 years of industry experience

**Uwe Ketelsen**

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.

**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 Langadure**

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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**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.

**Andrew Bray**

Quantitative Investment Strategist

CFA, BSc Mathematics, 8 years of industry experience.

## Investment Risk Team

**Joe Cooper**

Head of Investment Risk and Portfolio Analytics

CFA, MSc in Applied Economics, 14 years of industry experience.

**Matthew Hall**

Investment Risk and Performance Analyst

CFA level 3 candidate, MSc Finance, 5 years of industry experience.

**William Wood**

Senior Investment Risk and Performance Analyst

FRM, BSc in Physics, 6 years of industry experience.

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