IMS Capital

Quarterly Review

Q1 2025

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Market Commentary

The re-election of Donald Trump has already started to reshape the investment landscape in 2025, with his renewed push for aggressive trade policies injecting fresh uncertainty into global markets. His administration's threats to impose tariffs on imports from China, Mexico and Canada have revived the spectre of protectionism that defined much of his first term. These measures, aimed at bolstering American manufacturing, risk driving up costs for businesses and consumers, disrupting supply chains, and stoking inflationary pressures. As markets adjust to these realities, the question becomes whether these bold moves will deliver the intended benefits or merely fuel instability at a time when equity markets in the US, UK and Europe are all testing new highs.

The US equity market, long the engine of global investment returns, remains resilient but increasingly concentrated. A small handful of companies dominate performance, with the largest players exerting an outsized influence on market direction. This reliance on the so-called "Magnificent Seven" introduces a fragility that could amplify volatility, particularly as Trump's tariff plans create new economic headwinds. A stumble from just one or two of these giants is likely to ripple across portfolios, especially for investors heavily exposed to the top of the US market.

In 2024, the seven largest American companies delivered average returns of 60.5%, led by Nvidia, which surged more than 170%. Their success helped the S&P 500 achieve its second consecutive year of gains exceeding 20%, a feat last seen in 1997-98 during the run-up to the Dotcom bubble. The parallels are hard to ignore. Then, inflated valuations were driven by excitement about the transformative potential of the internet; now, the focus has shifted to Artificial Intelligence. While the narrative has changed, the risks associated with such extreme market concentration remain the same, particularly if valuations are tested by economic or policy shocks.

As we move further into 2025, Trump's policies and their global implications are likely to remain a central focus. While US equities continue to lead global returns, the reliance on a small cohort of tech companies and the uncertainties surrounding tariffs pose significant risks to the market's momentum. However, this is far from a prediction of doom and gloom.

Markets have endured periods of concentration and uncertainty before, often emerging stronger and more balanced as a result. A shift toward a broader market, where gains are spread more evenly across sectors and companies, would reduce risks and create a more stable foundation for long-term growth.

Our portfolios are deliberately constructed with this in mind. By diversifying across regions, sectors, and asset classes, we aim to deliver robust returns under a variety of market conditions. This approach positions us well to navigate the challenges of 2025, while remaining ready to take advantage of opportunities as the market evolves.

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Performance Update

We have long been concerned about the growing dominance of the Magnificent Seven because their high valuations and interconnectedness make them particularly vulnerable to market swings. This concern was reinforced late in the quarter when a Chinese firm unveiled its new Artificial Intelligence (AI) model, DeepSeek. Despite reportedly being built at a fraction of the cost of its US rivals, DeepSeek was able to perform on par with - or even beat - some of the best American AI systems. The news sent shockwaves through the market, triggering a sharp decline in Nvidia's shares, a key player among the Magnificent Seven, and raising worries about the future demand for advanced computer chips.

Although stocks staged a minor recovery the next day, the initial shock weighed on US markets, while by contrast many European indices finished the month at record highs. US smaller companies also performed well relative to the S&P 500, highlighting a shift in market leadership away from mega-cap technology stocks. These trends were beneficial for our portfolios, which gained over the quarter, with most ahead of their respective performance comparators.

Interest rates also provided support. When the US Federal Reserve met in January, it held rates for the first time since it started cutting in September, signalling no urgency for further reductions. This contrasted with the European Central Bank, which cut another 0.25% and indicated greater openness to easing. The Bank of England is expected to follow suit in February which helped gilt yields retreat from recent highs.

Portfolio	3 month performance	12 month performance	36 month performance	60 month performance	120 month performance	12 month historical yield
IMS Defensive Income	2.99%	7.88%	8.19%	13.87%	39.59%	4.50%
Performance Comparator	*2.15%*	*6.82%*	*3.70%*	*7.32%*	*25.55%*	n/a
IMS High Income	4.55%	11.81%	17.36%	31.05%	74.99%	4.18%
Performance Comparator	*3.95%*	*10.92%*	*11.69%*	*22.31%*	*57.16%*	n/a
IMS Cautious	4.16%	9.06%	10.29%	18.82%	55.38%	3.38%
Performance Comparator	*3.04%*	*9.10%*	*8.06%*	*15.50%*	*42.17%*	*n/a*
IMS Balanced	5.18%	11.30%	12.73%	25.58%	76.27%	2.79%
Performance Comparator	*4.86%*	*12.75%*	*15.41%*	*29.46%*	*73.58%*	n/a
IMS Growth	5.64%	12.39%	16.84%	33.26%	96.74%	2.34%
Performance Comparator	*5.00%*	*12.84%*	*15.30%*	*31.21%*	*76.56%*	n/a
IMS Adventurous	6.26%	14.96%	n/a	n/a	n/a	1.60%
Performance Comparator	*7.16%*	*16.95%*	*n/a*	*n/a*	*n/a*	*n/a*
IMS Future Focused Cautious	2.70%	2.38%	n/a	n/a	n/a	2.99%
Performance Comparator	*3.04%*	3.75%	*n/a*	*n/a*	*n/a*	*n/a*
IMS Future Focused Balanced	3.29%	10.45%	9.85%	26.48%	84.60%	2.31%
Performance Comparator	*4.86%*	*12.75%*	*15.41%*	*29.46%*	*73.58%*	n/a
IMS Future Focused Growth	3.42%	2.93%	n/a	n/a	n/a	1.85%
Performance Comparator	*5.00%*	*6.01%*	*n/a*	*n/a*	*n/a*	*n/a*

All data are to 31/01/2025. Source: Financial Express Analytics

Portfolio Change Summary

At every review, the Argentis Asset Allocation Committee (AAAC) meets to set sector weightings for the coming quarter. The underlying Strategic Asset Allocations are provided by Morningstar, a global investment research company with a presence in over 30 countries. They are responsible for providing the long-term growth assumptions which form the core asset allocations that make up our models. The AAAC overlays these allocations with our qualitative insights to reflect current market conditions, ensuring a balanced approach between long-term strategy and short-term opportunities.

Alongside asset allocation, we rigorously assess each fund in our portfolios using a multi-metric ranking system that combines short and long-term performance indicators. This helps us compare funds against their peers and maintain appropriate diversification. Our models incorporate a blend of cost-effective "core" passive holdings focused on key regions like the UK, Europe, and the US, complemented by actively managed "satellite" funds. These satellite funds target specific sectors, styles, or company sizes to add diversification and capture unique opportunities. Sometimes, this means retaining funds that may appear to underperform in isolation, particularly when their investment style is out of favour with prevailing market trends. After all, if all funds performed the same way, they might also decline simultaneously, reducing the resilience of the overall portfolio.

While passive funds often outperform in stable markets, satellite funds play a crucial role during shifting conditions by providing exposure to areas of the market that can behave differently from broad indices. We rely on detailed fund research to ensure they remain suitable, which often reduces the need for frequent portfolio changes when their long-term value remains intact. This approach also helps minimise "time out of the market", which refers to periods when investments are not actively generating returns due to buying and selling. Staying invested allows us to capture growth opportunities as they arise, rather than missing potential gains during market upswings.

At this review we increased the weighting towards US equities in the High Income and Future Focused models. These portfolios make use of different global equity funds than is the case in the other models because of their mandates and this has resulted in a lower allocation to America. The change on High Income sees the cash allocation reduced which will help to boost the underlying yield while in the Future Focused models, the trade is being funded by a reduction in the global equity allocation. We also sold one of the UK equity holdings in the Cautious portfolio to align the overall weighting with the portfolio mandate.

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