IMS Capital

Quarterly Review

Q1 2026

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Market Commentary

Recent events have certainly highlighted the benefits of not (over)reacting to individual headlines. Since the US's military operation in Venezuela to oust president Maduro at the very start of the year, the focus has been on Donald Trump's renewed obsession with Greenland. This reached a peak during the World Economic Forum (WEF) at the end of January.

In the leadup to the event, Trump had become increasingly bellicose about his desire to "protect" the island by taking complete control of it. This threat was discussed in various speeches across the week, but when the US president took to the stage he appeared to have somewhat moderated his view. Although taking Trump at his word has often been shown to be a risky strategy, markets seemed to be encouraged by this de-escalation and they moved higher in response.

When one particular theme is dominating every news bulletin, it can be easy for other headlines to slip under the radar. We've been keeping an eye on a number of other themes over the last quarter which we think could impact on our investment positioning.

One of these is the fact that the UK's main index has finally passed the 10,000 point. While it's not overly useful as an economic signal, it is a good reminder that the fortunes of the UK's biggest companies are not directly related to the performance of the UK economy. On that point, recent data showed that the UK's GDP rose by 0.3% in November, having fallen slightly in October. Although this is not exactly representative of an engine firing on all cylinders, it is a move in the right direction.

Elsewhere, Japan embarked on its shortest ever general election campaign after a snap election was called. In markets, Japanese politics matters mainly through what it does to confidence in policy, and to the yen. The country was one of the top performers in 2025, helped by improvements to corporate transparency over recent years and we'll be monitoring developments to help us to understand if this trend will continue.

Shares in many of the biggest names in tech and AI have had a tough start to the year. This is partly a reflection of what's happening in terms of expectations for interest rate cuts, but it's also a continuation of the bubble theme. Microsoft's CEO was also at the WEF and while there he made a plea to business leaders to increase the adoption of AI.

His message was clear: if the benefits of the technology are not shared more broadly, it could be increasingly hard to justify the levels of expenditure we've seen. AI seems set to remain a key theme in 2026, with markets rewarding proof of payback, and punishing those still asking for patience.

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Performance Update

Markets experienced another positive quarter, with most of the portfolios performing well, in both absolute and relative terms. Europe and emerging markets led the way, helped by a strong rotation into cheaper, more cyclical areas. However, US equities endured a relatively weak quarter as scrutiny increased over the level of spending by the world's largest firms on the roll-out of their AI strategies. A weaker US dollar also reduced one traditional support for US market exceptionalism and encouraged some reallocation into cheaper international markets. The result was not a collapse in US equities, but a relative soft patch versus other regions.

In Europe and parts of emerging markets, returns were bolstered because several sectors performed strongly in tandem. Banks benefited from an improving interest rate backdrop and increased consumer confidence in parts of Europe. In addition, defence stocks continued to attract flows as security spending priorities remained elevated, while energy and oil-linked names were supported by firmer commodity sentiment. The weaker US dollar also added a currency tailwind for many non-US assets in dollar terms, amplifying relative returns for UK-based investors.

In fixed income, returns were generally positive but less than on equities, with government bonds and high quality corporate credit benefiting as expectations for interest rates became more balanced and inflation concerns eased from earlier peaks. However, there were pockets of volatility as political concerns caused some government bond yields to spike.

Portfolio	**3 month performance**	**12 month performance**	**36 month performance**	**60 month performance**	**120 month performance**	**12 month historical yield**
IMS Defensive Income	1.20%	7.59%	20.43%	19.57%	52.73%	4.41%
Performance Comparator	*1.29%*	*7.11%*	*17.59%*	*11.97%*	*38.62%*	n/a
IMS High Income	2.39%	12.25%	32.07%	41.71%	100.10%	4.12%
Performance Comparator	*1.53%*	*9.17%*	*25.47%*	*28.26%*	*77.95%*	n/a
IMS Cautious	1.96%	9.80%	23.93%	27.21%	73.94%	3.35%
Performance Comparator	*1.65%*	*8.95%*	*22.40%*	*22.62%*	*60.34%*	*n/a*
IMS Balanced	2.37%	10.23%	26.80%	31.61%	97.87%	2.87%
Performance Comparator	*1.40%*	*9.39%*	*28.59%*	*34.12%*	*97.35%*	n/a
IMS Growth	2.64%	11.02%	30.95%	36.85%	124.52%	2.37%
Performance Comparator	*1.52%*	*9.14%*	*27.76%*	*33.97%*	*101.22%*	n/a
IMS Adventurous	2.88%	12.54%	n/a	n/a	n/a	1.75%
Performance Comparator	*0.03%*	*6.68%*	*n/a*	*n/a*	*n/a*	*n/a*
IMS Future Focused Cautious	0.26%	6.65%	21.82%	n/a	n/a	2.91%
Performance Comparator	*1.65%*	8.95%	*22.40%*	*n/a*	*n/a*	*n/a*
IMS Future Focused Balanced	-0.08%	6.28%	23.04%	21.54%	98.91%	2.32%
Performance Comparator	*1.40%*	*9.39%*	*28.59%*	*34.12%*	*97.35%*	n/a
IMS Future Focused Growth	-0.27%	6.57%	24.30%	n/a	n/a	1.80%
Performance Comparator	*1.52%*	*9.14%*	*27.76%*	*n/a*	*n/a*	*n/a*

All data are to 31/01/2026. 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 made a number of adjustments at an asset allocation level and through our fund assessment process. One of the changes was to increase the weighting to US equities across many of the models. This was achieved by introducing a new fund which allocates equally across most companies in the main US stock market. This pairs well with our core passive US equity fund which is market-cap weighted and therefore is concentrated in the largest firms. Although the AI theme has eased over recent months, there is broad consensus that it will continue to be a major driver of returns. We want to retain sensible exposure to companies such as Nvidia and Microsoft, but this change should also ensure that we don’t miss out on growth in other areas of the world’s largest economy.

Full details are available on the relevant Fund Change Summary documents which are available on our website.

Tel: +44 2392 239800
Fax: +44 2392 263432
Email: info@imscapital.co.uk

www.imscapital.co.uk

5 Lancer House
Hussar Court
Westside View
Waterlooville
Hampshire
PO7 7SE