IMS Capital

Quarterly Review

Q2 2025

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Market Commentary

The last review began with the line “the re-election of Donald Trump has already started to reshape the investment landscape in 2025”. Looking back, that was somewhat of an understatement. Trump’s ‘Liberation Day’ tariff announcement at the start of April caused the biggest shock to markets since the Covid pandemic, leading to a sharp downgrade in global growth expectations.

A tariff is essentially a tax that a government adds to goods imported from abroad. The idea is to make foreign products more expensive, with the theory being that it encourages people to buy locally made products instead and provides a boost to domestic manufacturing. Because the US is so wealthy, it tends to buy more from other countries than it sells to them. This is known as a trade deficit.

Trump has been talking about trade imbalances since the 1980s, when his attention was focused on Japan. As such, investment markets fully expected him to revisit this theme after he won a second term. What they didn’t expect was the scale of the tariffs he revealed. Rates ranged from 10% to 50% for many countries, with China hit with more than 100%.

Despite being the largest economy in the world and home to the most valuable companies to have ever existed, Trump said his aim was to stop the “looting” of his country and to protect US industry. Cynical observers might have thought that the move was the first stage in a negotiating strategy which was given some credence when a 90-day pause was enacted just a week later.

While the delay helped to calm markets, the lingering sense of uncertainty was harder to unwind. This wasn’t helped when Trump criticised the head of the US Federal Reserve for not cutting interest rates. As with the tariff announcement, these comments were also quickly walked back after share prices fell in response, but they raised concerns about whether the bank could stay independent from political influence. US government borrowing has already become more expensive which is likely to be of particular interest to the US president as it will make it harder for him to push ahead with his plans for further tax cuts.

Markets in Europe haven’t fallen as sharply as those in America. One reason is that the weakening US dollar has lessened the blow for UK-based investors. Another is that US stock markets are dominated by large tech companies which could be directly impacted if trade tensions with China continue to escalate.

This is something we’ve flagged consistently in previous updates, and our allocation to the region, shaped by those concerns, has helped our models hold up well. While some investors may be surprised by their relative resilience, this reflects the benefits of a carefully constructed, diversified approach. Markets will move, policies will shift, and uncertainty will persist, but a portfolio built for resilience remains one of the best ways to stay on course.

Performance Update

As noted above, we have been concerned for some time about the growing concentration in US (and by extension global) markets caused by the rapid growth of the so-called Magnificent Seven. The re-election of Donald Trump initially served to move share prices higher on the back of his pro-growth and low regulation rhetoric. However, this theme had soon started to come under pressure as markets began to question the viability of the firms' business models in the face of higher tariffs.

Once the actual level of Trump's proposed tariffs was announced, this question started to be asked a lot more forcibly. The big issue is the lack of certainty; firms don't know which countries are safe to build the infrastructure required to produce their goods or sell their services into. We've already heard that Apple plan to move manufacturing from China to India and big changes like this cost money and they take time. This suggests that their earnings will be lower which in turn leads to lower share prices.

Our models performed well on a relative basis over the quarter thanks to our comparatively low allocation to US equities. For context, the difference between our core US market tracking fund and the UK equivalent was about 14% over the quarter. This illustrates the importance of maintaining sufficient diversification.

Another factor that helped moderate losses were our holdings in absolute return-style funds, as well as the cash allocation which is present in most models. Funds like this come into their own when markets are volatile which is why we hold onto them even when conditions are more clement.

Portfolio	**3 month performance**	**12 month performance**	**36 month performance**	**60 month performance**	**120 month performance**	**12 month historical yield**
IMS Defensive Income	-0.67%	5.39%	9.62%	17.77%	37.99%	4.49%
Performance Comparator	*-1.41%*	*4.21%*	*4.94%*	*11.24%*	*22.85%*	n/a
IMS High Income	-2.32%	5.35%	15.58%	38.35%	68.29%	4.20%
Performance Comparator	*-4.32%*	*3.10%*	*8.47%*	*28.04%*	*46.57%*	n/a
IMS Cautious	-2.23%	3.96%	9.77%	23.52%	50.20%	3.46%
Performance Comparator	*-2.86%*	*3.62%*	*7.08%*	*22.17%*	*35.42%*	*n/a*
IMS Balanced	-4.65%	2.55%	9.63%	29.84%	64.56%	2.83%
Performance Comparator	*-5.77%*	*2.56%*	*9.86%*	*34.14%*	*58.49%*	n/a
IMS Growth	-5.80%	1.56%	12.19%	37.21%	79.90%	2.37%
Performance Comparator	*-6.10%*	*2.05%*	*9.16%*	*35.20%*	*59.86%*	n/a
IMS Adventurous	-8.33%	0.21%	n/a	n/a	n/a	1.61%
Performance Comparator	*-10.05%*	*0.32%*	*n/a*	*n/a*	*n/a*	*n/a*
IMS Future Focused Cautious	-2.52%	0.11%	n/a	n/a	n/a	2.99%
Performance Comparator	*-2.86%*	0.09%	*n/a*	*n/a*	*n/a*	*n/a*
IMS Future Focused Balanced	-4.61%	2.30%	8.49%	27.74%	70.16%	2.30%
Performance Comparator	*-5.77%*	*2.56%*	*9.86%*	*34.14%*	*58.49%*	n/a
IMS Future Focused Growth	-5.66%	-2.43%	n/a	n/a	n/a	1.85%
Performance Comparator	*-6.10%*	*-1.41%*	*n/a*	*n/a*	*n/a*	*n/a*

All data are to 30/04/2025. Source: Financial Express Analytics

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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 chose to replace the Japanese Equity funds used in the Balanced, Growth and Adventurous models with the passive fund which is already in use in the Cautious portfolio. We had retained an active position in the other models because they have a larger allocation to the sector, however, our analysis has shown that we can achieve an improved risk/return outcome by making the switch. This also helps to bring down the overall cost of the models. In the Future Focused range we have introduced a new passive UK Equity fund. This acts both to reduce the ongoing cost as well as to improve the diversification profile. No changes were made to the income models.

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