IMS Capital

Quarterly Review

Q3 2026

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Market Commentary

Recent months have been a reminder that markets and economic realities do not always tell the same story. The quarter began with investors focused on the fallout from the war between the US and Iran, particularly the potential impact on inflation through higher energy prices. Given that markets had spent much of the previous year debating when interest rates might begin to fall, the prospect of another inflation shock was not ideal. However, despite periods of heightened tension and some sharp moves in oil markets, investors remained surprisingly relaxed. As the quarter progressed, attention gradually shifted away from the conflict itself despite the potential for longer term effects. Many investors were left asking why equity markets were proving so resilient.

Part of the answer lies in the fact that the economic picture remains difficult to interpret. Inflation data generally improved over the quarter, but much of that progress was driven by technical factors and historic price movements rather than an obvious reduction in the pressures facing households and businesses. This left central banks in a tricky position. The European Central Bank managed to squeeze in a cut, but both the Federal Reserve in the United States and Bank of England adopted a more cautious stance as they waited to see whether higher energy costs would feed through into inflation more broadly.

Ordinarily, that uncertainty might have been expected to weigh on markets. Instead, many of the major indices remained close to or above record highs. Strong corporate earnings undoubtedly helped, particularly in the US, but there was also a growing sense that investors were becoming more selective. Earlier in the year, almost any company connected to artificial intelligence appeared capable of outperforming. More recently, markets have started to draw clearer distinctions between those businesses already benefiting from the theme and those whose valuations still depend on ambitious future expectations.

This change in behaviour could be seen in several high-profile technology companies, with strong results no longer guaranteeing a positive market reaction. Concerns around the level of investment required to support the continued expansion of AI became more prominent and at the very end of the quarter many major tech stocks faced a bout of turbulence. The record-breaking SpaceX listing provided another illustration of the extraordinary amount of capital still being attracted to the sector, but also highlighted the degree to which market leadership has become concentrated around a relatively small number of themes and companies.

Bond markets appeared less convinced by this optimistic backdrop. Yields remained elevated throughout much of the quarter as investors continued to price in the possibility that inflation proves stickier than hoped, potentially causing interest rates to remain higher for longer. Whether bond investors are being overly cautious or equity investors are being overly optimistic remains unclear, but markets have so far shown a willingness to absorb geopolitical uncertainty and inflation fears without the volatility that often accompanies them.

Performance Update

Every portfolio finished the quarter in positive territory and ahead of its performance comparator. Our diversified approach came to the fore, with different areas of the portfolios contributing at different times as market leadership shifted throughout the period.

Equity markets delivered another positive quarter overall, although not without high levels of volatility. US equities enjoyed a strong start with enthusiasm surrounding the artificial intelligence theme initially very strong. Emerging markets and Asian equities benefitted from the same trade but also weakened as the quarter progressed. UK and European equities held their own with strong returns, helped by the rotation out of AI-linked stocks, as sectors such as banking and defence came back into favour.

Interestingly, all of the satellite equity funds in the UK and US outperformed the core funds with which they are paired. This is a useful reminder that while low-cost passive funds remain an efficient way of accessing many areas of the market, there are still environments where active managers can add meaningful value through stock selection and a more deliberate investment approach.

Fixed income markets experienced a more challenging quarter. Government bond yields continued to move higher and recently reached their highest levels since the Global Financial Crisis. As bond prices move in the opposite direction to yields, this resulted in negative returns across many areas of the bond market which weighed on the performance of our fixed income allocations.

Portfolio	**3 month performance**	**12 month performance**	**36 month performance**	**60 month performance**	**120 month performance**	**12 month historical yield**
IMS Defensive Income	2.52%	7.39%	24.28%	19.25%	45.62%	4.41%
Performance Comparator	*1.81%*	*6.92%*	*21.02%*	*11.06%*	*31.50%*	n/a
IMS High Income	4.14%	14.09%	38.29%	41.74%	88.48%	4.04%
Performance Comparator	*3.31%*	*11.37%*	*30.93%*	*25.88%*	*68.27%*	n/a
IMS Cautious	3.92%	12.19%	30.78%	26.75%	66.39%	3.12%
Performance Comparator	*2.77%*	*9.80%*	*27.34%*	*20.41%*	*52.26%*	*n/a*
IMS Balanced	4.63%	15.13%	35.05%	31.06%	87.23%	2.64%
Performance Comparator	*3.84%*	*12.96%*	*34.59%*	*31.55%*	*85.82%*	n/a
IMS Growth	5.56%	17.46%	39.40%	37.46%	108.75%	2.11%
Performance Comparator	*3.57%*	*12.43%*	*33.21%*	*30.12%*	*88.32%*	n/a
IMS Adventurous	6.31%	21.17%	n/a	n/a	n/a	1.71%
Performance Comparator	*4.96%*	*13.61%*	*n/a*	*n/a*	*n/a*	*n/a*
IMS Future Focused Cautious	3.83%	8.69%	26.46%	n/a	n/a	2.90%
Performance Comparator	*2.77%*	9.80%	*27.34%*	*n/a*	*n/a*	*n/a*
IMS Future Focused Balanced	4.51%	10.29%	28.84%	18.74%	92.99%	2.46%
Performance Comparator	*3.84%*	*12.96%*	*34.59%*	*31.55%*	*85.82%*	n/a
IMS Future Focused Growth	5.33%	12.09%	31.75%	n/a	n/a	1.99%
Performance Comparator	*3.57%*	*12.43%*	*33.21%*	*n/a*	*n/a*	*n/a*

All data are to 31/07/2026. Source: Financial Express Analytics

Portfolio Change Summary

The strategic asset allocation on which the models are based is constructed using the volatility guidelines provided by Morningstar, a global investment research company with a presence in over 30 countries. They are reviewed annually and are our long-term growth assumptions. The Hawksmoor investment committee overlays these allocations on a quarterly basis using a combination of propriety modelling systems alongside our qualitative insights to reflect current market conditions, ensuring a balanced approach between long-term strategy and short-term opportunities. At all of these stages we have a focus on valuations as we believe that long-term investment success starts with buying regions and asset classes that offer the best value, not just the best recent returns.

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.

The changes at this review focused on further reductions to Gilts, predominantly in favour of US equities. The increase to US equities is in large part intended to address an underweight to the sector, although it also reflects a small improvement in the valuation outlook for the region. Where increases were made, we opted to raise the allocation to our equal weight option. This reduces the overall exposure to a narrow group of mega cap technology stocks.

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

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