



IFSL Evenlode Global Income Fund

Investment view

Is this time different?

May 2025





May 2025 – Is this time different?

Throughout April and May it has been hard to ignore US politics and the new administration's attempts to reshape the world economic and geopolitical order. The occasional break from the news flow is necessary to reset the mind and focus on our task at hand, which is to sensibly steward our clients' capital through the noise in our chosen asset class of equities. Always a multi-dimensional question, the potential for additional taxation through tariffs, other costs for businesses from protectionism, changes in the availability and cost of financing for enterprises and governments and wildly swinging foreign exchange rates all add to a sense of this time having a few more dimensions than usual.

We have, though, been through much volatility in the last two decades via the Great Financial Crisis and the Covid-19 pandemic as well as a myriad of other economic skirmishes. A constant is that business and enterprise has adapted and largely coped. The US administration would like to think this time is different and that things will change because of its actions, and it may well do for certain sub-sectors of industry and specific countries. But Mr Trump has also shown himself willing and able to step back from potential widespread disruptions, for example reversing an ever-escalating trade tit-for-tat in pausing higher levels of tariffs with arch-rival China. He also acquiesced to Treasury market weakness, one of the most powerful market signals there is. That said, a 'big beautiful bill' currently working its way through Congress looks to make lower taxation a permanent feature of the US economy. It is currently causing Treasury yields to rise once more, particularly at the long end. Hot off the press at the time of writing is a re-ignition of trade

animosity with the European Union with a new 50% tariff rate announced, before being swiftly delayed to allow time for negotiations. The 'flooding of the zone' with policy announcements is certainly different to any previous US administration; whether any of it sticks is a different question.

Market opportunities

Through our company-by-company valuation analysis we have been observing for some time that the level of the US equity market has been high, fuelled by narratives around 'US exceptionalism' and artificial intelligence. This had been reflected in the Evenlode Global Income portfolio by a relatively low weighting toward US-listed businesses at around a third of the portfolio. In the immediate aftermath of the tariff announcements on 2 April 2025 the US market declined significantly. This was more so in international currencies when taking into consideration a significant weakening in the US dollar. This got us wondering if we might have an opportunity to pick up US listed businesses at more attractive valuations.

In the out-turn, whilst there was some movement in relative valuations within our investable universe, we did not see the US portion move quite far enough to elicit significant action. The US market has now rebounded to near its previous highs in dollar terms, so the opportunity seems to have taken a pause of its own for now.

This would intuitively imply that the broad market consensus is that the tariff and other policy shifts will have little effect on enterprises as a whole. We are not so sanguine about the broad sweep of businesses within the global stock market, although as we'll see for our subset of companies, things do seem to





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be going reasonably well so far in the main. Businesses that we look at have been re-confirming their expectations for the year, but almost all have noted that the operating environment has got more uncertain. Despite the short dip that made things briefly interesting, equity market levels have not materially moved downward overall and do not seem to reflect this increased uncertainty.

Results – First quarter, much still to come

The first quarter's trading of 2025 was before the significant tariff announcements were made, but companies were already experiencing the shifting mood from the White House, and from businesses and consumers in the economy. This has been reflected in slowing revenue growth within the portfolio. In 2024 as a whole, organic revenue growth averagedⁱ +6%, in the final quarter of 2024 it was +5%, and in the first quarter of 2025 it was +4%.

As a reference point, according to figures from Bloomberg, companies in the MSCI World Index grew revenues only marginally in the first quarter in dollar terms, whilst the MSCI US Index grew apace, still at +6%. So, there is something in the US exceptionalism story, and the implication is that for internationally listed businesses their revenues contracted somewhat. For the Evenlode Global Income portfolio, whilst there was a range of outcomes with some companies experiencing modest revenue declines, the balance was toward steady growth.

Some companies have started to quantify the potential impact of tariffs. We wrote in detail on our analysis of the portfolio's tariff exposure last monthⁱⁱ which in summary estimated that if portfolio companies absorbed the costs of tariffs, then operating

profit would decrease by -2.9%, with an impact on operating marginⁱⁱⁱ of -0.7%. This was prior to all the pauses currently in place, and as a base case we continue to assume that higher tariffs will return. The impact comes from companies making physical products in sectors not explicitly covered by exemptions, which is about 40% of the portfolio.

One of those businesses is medical devices maker Medtronic, which develops, manufactures and sells a broad range of products for surgical, cardiovascular and neuroscience applications. The company has estimated that for their forthcoming financial year the impact of tariffs will be under 1% of sales. Whilst not ideal for profitability, this is perfectly absorbable for a company that generates operating margins of 26% without distressing the business. They do cite mitigating actions including shifting US and non-US production, which shows there could be some movement toward one of Trump's stated aims of re-animating the US manufacturing sector. Management discussed a range of potential scenarios and impacts in their results announcement, as they of course don't know where tariffs will end up.

Our suspicion is that the coming quarters will be more instructive in determining the impact of all the policy shifts. Whilst we don't know where tariffs will ultimately settle, it does seem that for the portfolio they will be manageable in and of themselves. The greater level of uncertainty is the impact on demand and other financial technicalities such as government bond yields, all of which are somewhat interdependent. In the meantime, we're satisfied that in absolute terms and relative to overall market levels, the portfolio





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is trading at an attractive valuation taking uncertainties into account.

We continue to be selective in order to maintain that valuation appeal. Whilst the US market eludes us in large part for now, one place we did see some emergent value is in a European pharmaceutical company, Novo Nordisk, in which we added a small position last month.

New holding - Novo Nordisk

Perhaps not needing an introduction these days given its high-profile products, Novo Nordisk ('Novo') is one of the global market leaders in diabetes and weight loss drugs known as GLP-1s. Currently Novo is essentially in a duopoly with rival Eli Lilly. Given the huge opportunity in weight management other firms are developing competitor therapies, but these two companies have a big lead. Novo's share price has declined significantly, falling about 60% from its peak in June 2024 to our initiation of a position in April. The decline was partly stimulated in December by the 'disappointing' results for a trial of Cagrisema, Novo's next generation injectable drug, showing an average of 23% weight loss in patients versus the 25% that management had indicated should be expected. There have been other developments in the market such as Eli Lilly releasing phase three trial results for their next-generation oral GLP-1 drug, Orforglipron. The results showed equivalent weight loss to Novo's Wegovy/Ozempic with slightly worse side effects, as expected. Orforglipron is a pill taken daily while Wegovy/Ozempic is injected weekly. We expect that oral pills will be a material part of the market, although efficacy is likely to be lower than the next generation of injectables.

There are many more details as to why, but at the current time Novo's previously perceived lead against its competitor has been ceded and it is now considered to be in second place. Our analysis, and that of others, suggests that the market opportunity is ultimately huge and able to sustain two leading players. This means that the valuation opportunity now presented by Novo is interesting and enough to warrant a place in the portfolio.

That said, we recognise the risks from competition, and the simple fact that Novo is very focused on a narrow range of diabetes and weight loss therapies. We reflect that in a small maximum position size. Further, we have made space within the portfolio's total pharmaceutical exposure by selling down other holdings in the space, thus diversifying the pharmaceutical weighting at what we think is a good valuation.

Aside from competition there are other risks to the pharmaceutical sector, particularly the long-standing question of the high pricing of branded drugs in the US, something that is in Trump's line of sight. We'll save a detailed breakdown of the risks and opportunities presented by the political situation for a later investment view, but for now conclude that we think those risks are adequately priced into what are quite lowly valuations in the sector in our estimation. It's worth noting that whilst around a fifth of the portfolio is invested in health care companies, the underlying pharmaceutical exposure is around 6% of the portfolio. Novo's share price decline has enabled that portion to become better diversified in a business that has good growth potential.





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Equity markets – This time is not different enough, yet

So, we have seen one opportunity to buy, but in a company for whom the valuation is being driven by idiosyncratic factors largely (but not entirely) different to the news in the headlines. Despite Trump's best efforts, the broad shape of opportunity has not shifted in the equity market enough yet for more material changes.

We think a relatively safe statement is that we can expect further policy volatility in the coming months, and market volatility on the back of it. We don't know when it will happen, but we continue to wait patiently for when things really are different in equity prices.

Ben P., Chris E., Rob S., Ben A., and Phoebe.
27 May 2025

*Evenlode has developed a **Glossary** to assist investors to better understand commonly used terms.*

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Market data is from S&P CapIQ, Bloomberg and FE Analytics unless otherwise stated.

iOrganic growth strips out foreign exchange movements and purchases and sales of businesses. We report median figures for the portfolio here.

ii Tariff turmoil and yesterday's news

iiiOperating margin is a business's operating profit expressed as a percentage of the sales that the company generates in a given period.

