



IFSL Evenlode Global Income Fund

Investment view

On a 'very weird' market,
and controlling what you can

February 2026





A recent column in the Wall Street Journalⁱ described the US market as 'very weird', a view based on the divergence in performance of subsectors versus the apparently quiescent headline stock index performance. On this side of the Atlantic there's great excitement about the European market shaking off its dowdy image and starting to outperform. Fund flows toward Europe are positiveⁱⁱ as cheaper valuations and diversification from the behemoth of the US market are sought, perhaps explaining the upward move in prices.

There is something of a similar 'weirdness' on the European side of the Pond. Some sectors have been in the ascendancy and continue to be so, such as capital goods, whilst others like professional services have been struck down recently by fears of AI disruption. If we zoom out to look at the last few years, the difference in performance trends between sectors is very clear. If funds are enthusiastically flowing to Europe, the rising tide that results is not currently lifting all boats.

The similarity between the US and European market in differential sector performances can be rationalised by looking at the themes that might be driving them. In a world where consumer and business confidence is patchy at best, bright spots of growth shine even more when the light of a strong narrative is focused on them.

AI infrastructure spending in the US and defence spending in Europe go a long way to explaining why Capital Goods and Energy companies have seen their share prices rise. However, these companies have already had their 'boats lifted' and their valuations are reflective of the opportunity presented, perhaps even more so. The Capital Goods sector is trading on a price/earnings

multipleⁱⁱⁱ of 30x according to Bloomberg data; historically it would be in the high teens at best. Revenue growth is forecast to rise, but not by a lot. That's not to take anything away from these businesses that should absolutely make hay while the sun shines, it's just to say that their share prices already reflect the lack of cloud cover.

We know at first hand that there are plenty of firms that have not been caught in the rising tide, where the valuations are thus undemanding, whilst continuing to exhibit good growth and excellent microeconomics. That said, some sectors that have experienced lacklustre share price performance in recent years have started to get a bid more recently. Pharmaceutical firms GSK and Roche have seen their share prices rise by more than +20% in sterling terms over the three months to the time of writing following a protracted time in the doldrums. Others such as L'Oréal, P&G and Unilever in Consumer Goods have quietly reversed negative share price trends. That these businesses are in quite 'defensive' sectors is probably helpful in less than certain economic times, but the lowly levels at which their share prices are trading might also be being recognised. Around half of the portfolio is currently invested in health care and consumer franchises of one kind and another.

Meanwhile the almost singular market story is AI and the perception of increased risks to virtually any business that has a link to digital technology for its offering to customers. The selling of shares in companies that touch software, data, analysis and professional and commercial services has been sharp and indiscriminate. The lack of discrimination hints at generalised panic, not accounting for differences between companies that have





different business models, and operate in different industries like Amadeus (travel), Experian (credit data), and Paychex (HR outsourcing). This likely reflects short term trading around a clear narrative hook by those that like to do that sort of thing. Whilst we think this represents an opportunity for those thinking longer term, each business is different and concerns about a new technology should be taken seriously.

The generalised concern is that artificial intelligence will increase competition in digital businesses by lowering the barriers to creating software and enabling the digitisation of some/most/all people-centred business models. 'Software' has undoubtedly become easier to create. Whilst the quality of new entrants to any given application area is likely to be varied, if there are to be more of them then we need to look for the mitigating factors that defend a company against new competition.

Taking a narrow definition of software and data businesses, about 11% of the portfolio might be considered as facing this threat, including businesses such as Wolters Kluwer, LSE Group and brand-new holding SAP. A broader definition takes in a little under a fifth of the portfolio, which expands to include companies that provide services to specific industries such as Amadeus and Experian. In general, these portfolio companies benefit from owning irreplicable proprietary data sets and/or content, having deep industry knowledge that is hard-coded into their offerings, products that are embedded into customer operations servicing high-stakes mission critical applications, or some combination thereof. These structural features are the core of value creation and

differentiation, and radical disruption is far more likely for companies that do not possess them. We remain, though, open to new information that challenges our thinking and indeed we always actively seek it. Whether in a fast-moving new technology scenario like AI or more steady changes in industry dynamics, we look for quality information and critique rather than responding to market noise.

The broadness of the selloff has presented some new opportunities within our investable universe. We will give a full run down once we have built all to our 1% minimum position size but note a couple here. German enterprise resource management software business SAP has already been mentioned. The company's stock price fell on its full year results at the end of January as new bookings to its cloud-based service fell marginally short of expectations and has drifted along since. We built the current 1% position after this weakness. We think that the company's mission-critical role within the operations of enterprise customers with complex supply chains and the vast network of process connections is a big mitigator against switching to current competitors and new entrants alike. This stickiness gives clear visibility to strong free cash flow growth in the medium-term and no one has a better view to developing the use of enterprise data with AI.

Another new holding with a three-letter acronym is US payroll and HR outsourcer ADP, again a 1% position that has been built recently on weakness. The share price started declining in June last year likely due to market worries on US jobs growth. This accelerated further this year as part of the AI disruption trade. Like SAP, ADP performs mission-critical functions in human resources





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for its clients. Their customer service might be enabled by AI over time, but cost of failure for payroll and HR is huge and the US system is extremely complex and constantly changing. ADP's scale gives them a structural cost advantage and performance has been resilient in previous recessions.

Recent new holdings starting from the inclusion of animal medicine maker Zoetis in December account for 7% of the portfolio. We have also added to some of the companies in the portfolio noted above where the share prices have declined. Both new positions and increases in existing holdings has been funded by nudging down companies that have been performing well in the market, mainly in some of those defensive sectors. How far this portfolio evolution ultimately goes will depend on relative valuation moves from here. With momentum the key driving factor in the market at present this could happen relatively quickly.

Coming back to the notion of the 'weird market', these portfolio moves are reflective of the divergence in market performance between sectors and individual companies within our investable universe. As portfolio managers we don't have a say on how weird or otherwise the market is beyond participating in trading into or out of long-term positions on our clients' behalf. Our brief is better described as controlling what we can, which under our philosophy is the qualities of companies held for the long term, and the valuations at which they are held. The broadening of the portfolio is a reflection of the broadening valuation opportunity on offer by the market, which is happening in tandem with narrowing market performance at large.

Ben Peters and Rob Hannaford
26 February 2026





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i What to make of this very weird market - The Wall Street Journal, 19 February 2026

ii Investors pour record sums into European stocks, Financial Times, 20 February 2026

iii Price/ Earnings multiple - A measure of a company's current market valuation compared to its earning potential, calculated by dividing a company's share price by its Earnings per share (EPS).

