

The Fox Investment Letter

Second Quarter, 2026



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Where will tomorrow's best returns come from?



Executive summary:

- 1. Temper growth expectations.** Global equities have delivered exceptional returns over the past decade (~13% real annualised), but high current valuations suggest the next ten years are likely to be far more modest – potentially less than 3% real for a typical global portfolio.
- 2. Selective equity positioning can recover lost ground.** By tilting away from expensive US large-cap and growth stocks – and towards non-US, small-cap, and value equities – investors can potentially push expected real returns back up towards 5%+. The problem is that many managed portfolios are currently moving in the opposite direction.
- 3. The herd is heading the wrong way.** The momentum-driven shift towards passive, US-heavy, large-cap products looks attractive in the rear-view mirror but is building up meaningful valuation risk. Investors who don't reposition towards cheaper parts of the market may face a painful reckoning when the trend reverses.

We'd all like to know what the future holds, that we can't is one of life's great frustrations. But that doesn't stop us from trying, and it's in this spirit I wrote this quarter's letter: What *might* we expect from financial markets in the coming years?

I've used Research Affiliates' ("RA") data to help answer this. If you're serious about financial planning, I'd recommend checking out [their website](#). Filling the gap between clients' personal considerations and the chaotic world of global markets is hard, but their work is just about the best bridge I've come across.

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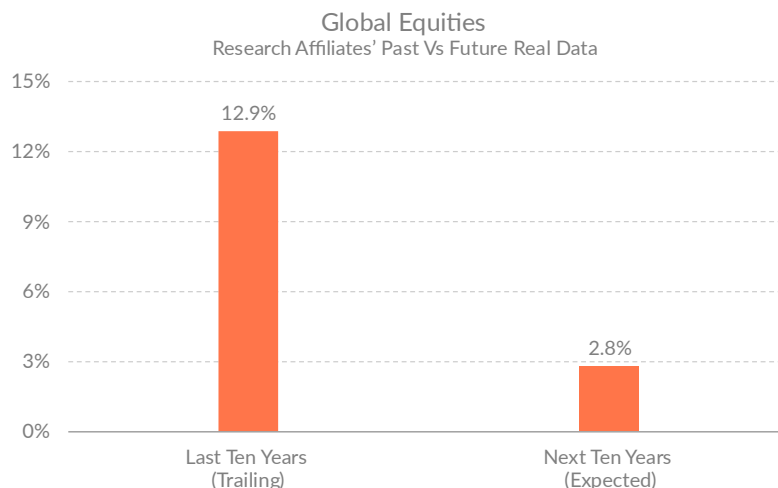
Before we get into that, I need to caveat the living daylight's out of this crystal balling session. I'm always quick to remind you that no one can predict the future, and I haven't changed my mind: Chaos theory rules, and even the most diligent attempts at forecasting are likely to fall victim to the flap of the butterfly's wings. All you can do is tilt the odds in your favour, rendering it more likely – but not inevitable – you'll avoid a disaster.

That's what RA's tools are good for. They give you a rough idea, based on sensible principles, of what you might expect from different investments over the coming years. But clearly, if 98% of humanity wipes itself out through thermonuclear conflict, for example, their neatly calibrated predictions may fall wide of the mark.

How do they do it?

Their estimates are based on current valuations, which are then matched to historical data to gauge how different assets have performed from similar starting levels in the past. You can then choose whether to adjust those numbers by their best guess at what inflation might do too (roughly 2.5% a year, they estimate). And that's basically it. There's no macro-political posturing. No "we think Donald Trump will invade Greenland in June." And this is sensible, because that's finger in the air stuff which is usually less helpful than tossing a coin (which may actually be how US foreign policy is decided nowadays).

Let's start at the top and work down. This is the annualised return RA suggest you can expect from global equities over the next ten years, compared to what you got from the previous ten:



Source: Morningstar & Research Affiliates, as at March 2026. RA's interactive tool uses historical data and current valuations to generate hypothetical estimated outcomes and does not recommend securities. Actual outcomes may vary materially and are not guaranteed.

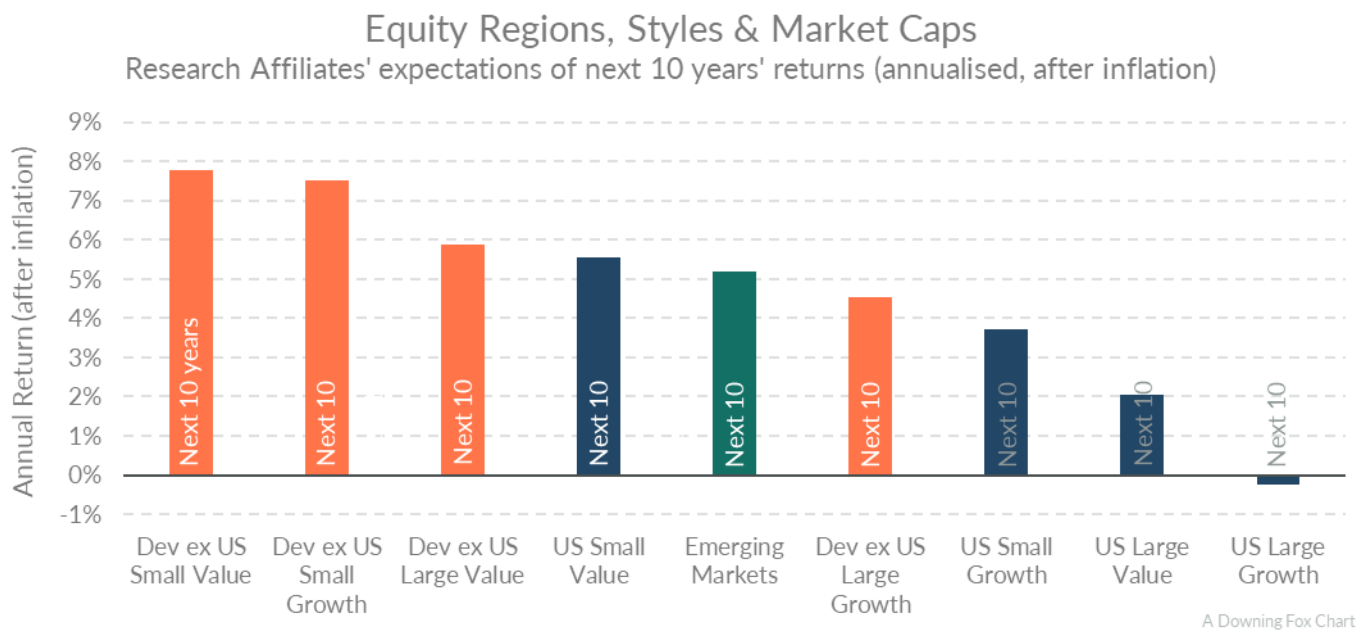
Forecasts, hypothetical estimated outcomes and past performance are not reliable indicators of future performance.

In summary, the global market has smashed it out of the park. A post-inflation return of 12.9% a year is crazy. But in reaching that number, it became more expensive, meaning it probably 'borrowed' a lot from the next ten years, and it might have to start paying that back. So, it's sensible to temper your expectations (or, more importantly,



your clients' expectations). This is disappointing. If your financial plans are built on the hope of repeating these returns, there's a meaningful risk they'll fall short.

But wait - I have good news! The world is a big place, and that number hides a multitude of details. It's heavily swayed by large caps and US equities for a start. These make up most of the global market and have been the best performers but are more expensive for it. If you're prepared to split 'global' into different regions, styles, and market caps, and then pick and choose what you hold, you can raise that return expectation back up to more reasonable levels. Here are some line items to consider:



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Just by avoiding the US, you're raising potential returns (because the US looks more expensive than most other markets). Likewise, moving away from large caps towards smaller companies also provides a boost, as does favouring 'value' equities over 'growth'. It would not be too hard, then, to lift your expected real return up from that paltry 2.8% to something approaching 5% or more. To do this, you'd need to focus on the assets on the left of the chart and hold less of the stuff on the right.

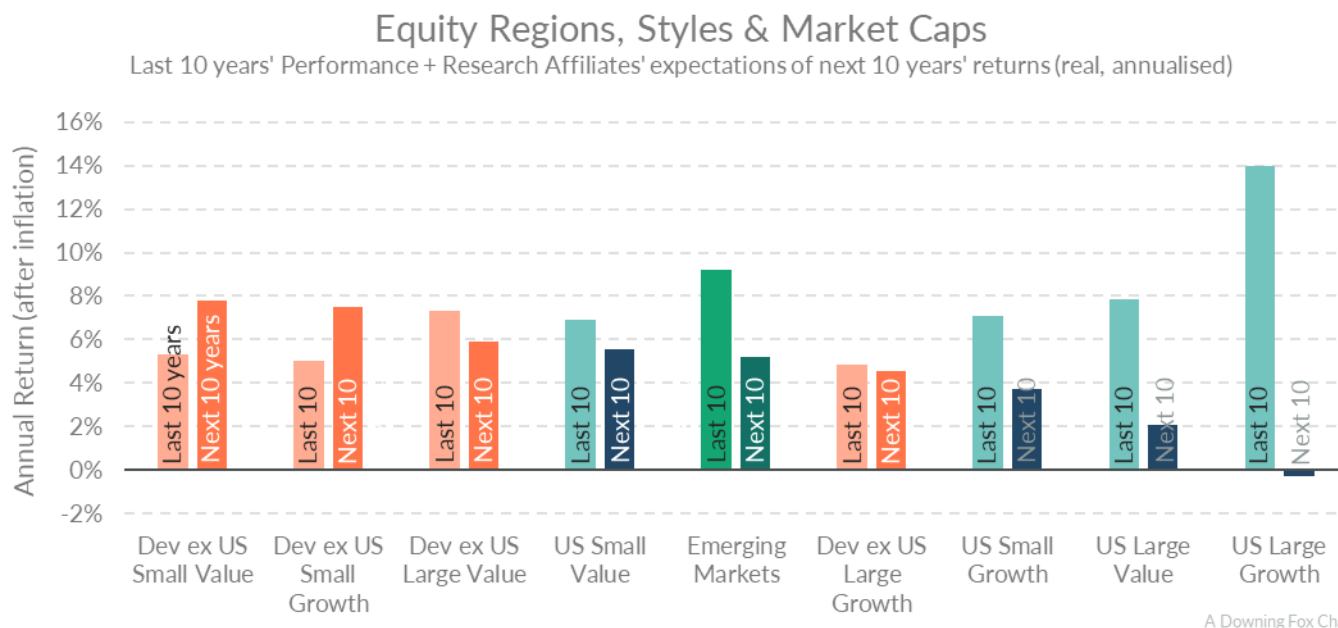
The rub

This sounds simple, but here's the rub: Many managed portfolio funds and services are heavily focused on the right of the chart and, if anything, they're moving further that way too (they're running *towards* the lower returns, not *away* from them).



Why?

Because of human nature. It's hard to work out what *will* win, so we're attracted to what *has* won. And if we update that chart to show the last ten years' performance (the lighter-coloured bars, see below), you can understand the magnetic draw of all things big, growthy and American. On this basis, they have dramatically overshot, which looks sexy in the rearview mirror, but deeply unappealing through the windscreen (which is the view that matters).



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It's all-but impossible to time this, by the way. Before American large caps overshot by a lot, they overshot by a little. It would *not* have paid to abandon on them on that early minor overshoot. Which shows that chasing winners (a.k.a. 'momentum') can work for a while, partly because the impact of the crowd flocking into the winners actually prolongs their winning streak. And we're seeing a lot of flocking: Advice firms are using more passive products, product providers are using more passive products, and clients are using more passive products. And as most passive products are more heavily weighted to large-caps and to US equities than their active equivalents, this exacerbates the trend.

But financial trends don't last forever. If you and your clients have been herded onto the right of the chart, the reversal of this trend is likely to be painful. Any client experiencing this pain will look at a chart like the one above and ask: "Why on Earth did I have so much of the stuff on the right?!".

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Small wasn't beautiful

The stuff on the left, meanwhile, is small caps. These have delivered an acceptable return over the last ten years, they've just been dwarfed by how big companies performed. The flipside of that, however, is that they *haven't* overshot. So, their valuations are attractive, and on these numbers, the next ten years look even better than the last.

Now, I can understand why you wouldn't put all your money into smaller companies (just as we don't), but why would you *avoid* them completely (as many portfolio products are)? Is that a deliberate choice? And if so, why? Or is it just an output of the products you've chosen (or have been chosen for you)? These may not feel like important questions today, but in a few years' time, they may be the only ones being asked.

Of course, as I stated upfront, these forecasts are a long way from bulletproof. Would I concentrate all my own money in small-cap value stocks based on the chart above? Nope, I wouldn't. And I don't: I spread it across all of those categories, albeit with more bias to the left than most of my peers. But would I concentrate it all on the right, as so many investors are doing today? No, that would be nuts.

Good luck out there,

Simon Evan-Cook

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