



# IFSL Evenlode Global Income Fund

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Investment view

Fundamentals vs fear

March 2026





## Fundamentals vs fear – March 2026

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With the outbreak of war in the Middle East, a destabilisation of energy markets is added to the list of financial market concerns. Oil at over \$100 a barrel, knock-on impacts on the price of a range of commodities, travel disruption and logistics challenges are colliding with an equity market that was, as we noted last month, already odd. Even odder that the collision initially had little impact on the market, which for a conflict with potentially long-lasting impacts seemed incongruous. It was opposing underlying currents that kept the whole market buoyed up. As one might expect Energy and Utilities companies have seen their share prices rise, whilst Industrials and Consumer Discretionary firms are down. In aggregate, the situation is surely not insignificant for the global economy and businesses. Given the elevated level of equity markets, we might have expected more downward pressure on share prices.

This is now starting to change with the European market - in particular - taking a downward lurch in the last couple of days. Prior to this though, not all companies had been defying gravity, as we have been acutely aware.

In our search for quality at reasonable valuations, we have charted a path between the updrafts from capital spending on AI and defence on one side and banks and financials on the other. In between we encounter some of the more challenging narratives that recognise the risks that companies face. The impact of AI on the business services sector is a current poster child for business risk, but for other companies the market is showing something more like indifference. With a couple of exceptions, the market is not finding a great deal of excitement in the Consumer Goods or

Health Care sectors, which gives us something of interest in the attractive valuations on offer. In accessing these seeming bargains, we have been swimming with one of the currents underlying the market. Buying when prices are low has meant foregoing the rapid share price rises that have left the market level high.

However, as we'll see below this has not been at the expense of fundamental growth in portfolio businesses, and the prices bake an increasing margin of safety into valuations at a stock and portfolio level.

So, valuations in the portfolio have improved, dramatically so in some cases. Many of our portfolio companies have suffered from severe drawdowns recently, despite continued strong fundamental performance in terms of revenue, profit and cash flow. We do not dismiss disruptive risks, indeed that is the central focus of our investment process, and we have written elsewhere on why we remain confident in the companies we own. Reassuringly, companies are taking advantage of this by stepping up buybacks, which are highly accretive to shareholder returns at these valuation levels. This comes on top of organic reinvestment at high returns on capital and is funded by their growing streams of excess cash flow.

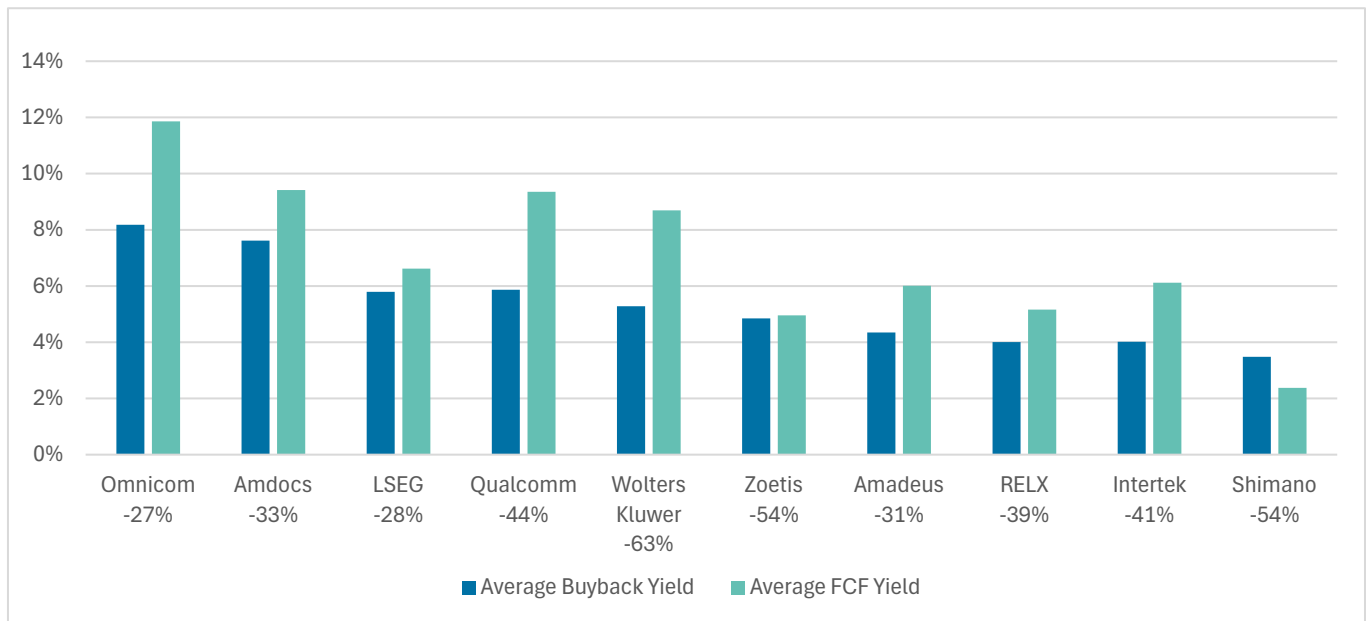
We can see how this is playing out for the portfolio by looking at buyback yields, i.e. how much of its own stock a company is buying compared to its total market value. The following chart shows the portfolio companies with the largest average buyback yield for FY25 and FY26E along with their average free cash flow yield<sup>i</sup> and share price decline from peak in the past five years:





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### Free cash flow and buyback yields - With share price change from 5-year peak



Data from S&P CapIQ and Visible Alpha consensus.

A simple framework for prospective long term shareholder returns is:

$$\text{Total Shareholder Return (TSR)} = \text{Dividend Yield} + \text{Per Share Free Cash Flow Growth} + \text{Multiple Change}$$

When a company buys back its own shares and cancels them, it reduces the number of shares in issue and therefore increases per share free cash flow growth. If the shares are purchased at the current share price, the percentage reduction in share count is the buyback yield. Free cash flow per share growth is the combination of underlying free cash flow growth and this reduction in share count.

Therefore:

$$\text{TSR} = \text{Dividend Yield} + \text{Free Cash Flow Growth} + \text{Buyback Yield} + \text{Multiple Change}$$

When the company's share price declines but free cash flow continues to grow, astute management can use the excess cash flow to buy back shares. The buyback yield is much larger than it would have been before the shares declined, increasing prospective shareholder returns for remaining owners. High return on capital, asset-light companies that generate lots of excess cash flow are perfectly placed to do this.

That these companies have suffered large share price declines from their recent peaks is undesirable but offers a margin of safety because of the contrast with positive underlying performance. The market's fear is creating an attractive 'floor' that can be illustrated if we assume *no free cash flow growth or valuation multiple re-rating*. This is a conservative view, but is instructive:





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| Company        | Average Buyback Yield (%) | Dividend Yield (%) | Combined (%) |
|----------------|---------------------------|--------------------|--------------|
| Omnicom        | 8                         | 4                  | 12           |
| Amdocs         | 8                         | 3                  | 11           |
| LSEG           | 6                         | 2                  | 8            |
| Qualcomm       | 6                         | 3                  | 9            |
| Wolters Kluwer | 5                         | 4                  | 9            |
| Zoetis         | 5                         | 2                  | 7            |
| Amadeus        | 4                         | 3                  | 7            |
| RELX           | 4                         | 3                  | 7            |
| Intertek       | 4                         | 4                  | 8            |
| Shimano        | 3                         | 2                  | 6            |

*Data from S&P CapIQ and Visible Alpha.*

There is growth to add on top of this conservative floor, at least in the near term. The group of companies above delivered +9% growth in free cash flow per share in 2025 and is forecast to deliver +12% in 2026 according to Visible Alpha data, with the average of analyst forecasts for the next five years standing at +12% per annum. Analyst forecasts should, of course, be taken with a generous pinch of salt - their crystal ball is no better than ours - and the potential for disruption - whether from AI, geopolitics or the ordinary economic cycle - deserves to be taken seriously. The broader point, though, is that the near-immediate collapse in profitability implied by current market valuations is not what most analysts currently expect. Sentiment can change rapidly and if these companies continue to post positive fundamentals (as we expect), their multiples will likely follow suit.

Overall, this is a simple analysis that has limits and excludes the depth of thought we apply to other areas like assessments of competitive advantage. But in complex, noisy times it can be useful to strip things back and consider investing in simple terms.

At the fund level, the dividend yield stands at 3% and the buyback yield at 2%, and we expect free cash flow to grow at high single-digit rates over time - currently forecast at +9% per annum. Together, these components imply double-digit total returns even in the absence of any valuation re-rating. A tailwind from expanding multiples would of course be welcome, but it is not a requirement for delivering attractive returns from here. Market prices are doing a great deal of the work.

Set against this, the broader equity market tells a quite different story. Companies that have benefited most visibly from the AI and defence boom are, in many cases, trading on free cash flow yields of just 2-3% or less with inferior microeconomics, already pricing in a great deal of good news. The market as a whole sits at a free cash flow yield of 3.3%, with free cash flow growth forecast in the mid-single digits. Its dividend yield is 1.8% and buyback yield is a further 1.3%. Applying the same simple framework, this implies single-digit total returns at best, and that is before accounting for the risk of multiple contraction from already elevated levels. A market that has levitated through war, tariff uncertainty





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and rate anxiety is one that has, we think, borrowed heavily against the future.

The divergence between these two sets of numbers is not merely a point of academic interest. It represents a widening gap between a portfolio priced for pessimism and a market priced for optimism, and history suggests that gaps of this nature tend to close - often meaningfully - in symmetry with their forceful creation by a momentum-driven market. We remain focused on what we can control: the quality of the businesses we own, the prices we pay for them, and the patience to let fundamentals, rather than sentiment, drive long-term returns.

**Ben Peters and Rob Hannaford**  
**23 March 2026**





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

Market data is sourced from S&P Capital IQ, Financial Express Analytics and Bloomberg unless otherwise stated.

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*<sup>i</sup> **Free cash flow yield** - Free Cash Flow (FCF) per share divided by the current share price. A higher free cash flow yield implies a company is generating more cash that could be paid out as dividends and to reinvest into growth of the business.*

