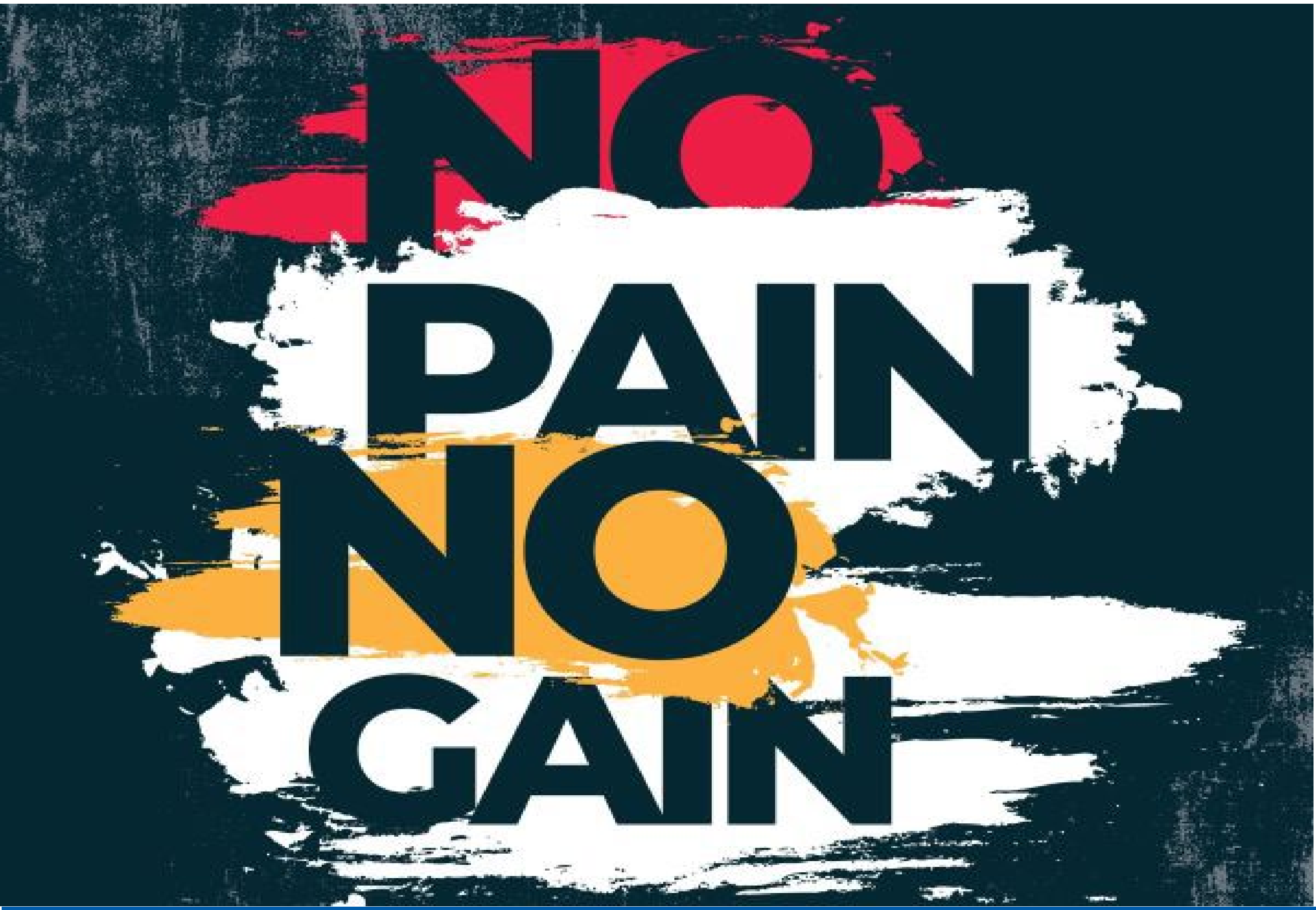

Taking the temperature of 2025

One Eye on the Downside

The annual TAM Charity Cycle across Europe in July this year reminds us all of that age-old saying, "no pain, no gain." In the world of physical fitness, this means to be fitter, one has to push the body outside of its comfort zone to see fitness levels rising.
Looking forward, it's clear the US is going through a period of fundamental economic change where 'MAGAnomics' (the concept of putting America's interests ahead of global ones) is going to be a story of pain first, gain second. We expect to see tariffs less as a bargaining chip and more as a pillar of Trump's economic strategy to restore US manufacturing to 'make America great again.'

I think most would agree markets right now are firmly outside of their comfort zone, with the global market down 5.54% in 2025. More recently, President Trump has switched his narrative on the US economy to a "no pain, no gain" footing, and it's proving a bitter pill to swallow for financial markets. January started well with the global market rallying 4.34%; it was driven higher largely off the back of the continuation in economic positivity from 2024, with the market breaching all-time highs. The initial negative catalyst came through in February with the announcement of DeepSeek, a Chinese AI startup able to deliver artificial intelligence at a fraction of the cost of the US versions proffered by

OpenAI and Google. Another competitor in the frenetic AI market is a good thing, but the stock market didn't see it that way. The stock market saw the DeepSeek challenge as a direct threat to the unstoppable US Tech stocks coined the "Magnificent 7" to which investors had been investing billions of dollars on the bet the US would emerge victorious in the global AI race.

DeepSeek's affordable AI alternative simply cracked this seemingly impervious perception that US AI stocks were infallible. Historically, when that needle of uncertainty pricks a very expensive stock market, you get a negative reaction as investors start heading for the exit...and corrections in US Tech followed. This DeepSeek-induced sell-off occurred on the 20th of February, and from that point, the global market is down 8.75%, and the US S&P 500 down 9.31%.

More technically speaking, the VIX, the market's preferred gauge of volatility, is up 76% since the 19th of February.

Those of you who read TAM's notes will have read an article titled "Insurance: Better to buy ten years too early than one minute too late" on the 3rd of February, which talks of the risk of this market selling off and the benefits of investing in funds that benefit from that environment. Today, with the market having sold off nearly 10%, we are somewhat vindicated in that view, but more importantly, the benefits of investing with one eye on the downside.

A further catalyst for the exit from US stocks was Europe stepping up with massive government spending packages to shore up their economy and, importantly, spending on defense, which sparked a relief rally. Investors began to see the European market looking like an attractive place to buy high-quality companies cheaper than their US peers but also a defensive play to step away from the US uncertainty around Trump.

To highlight, from the 19th of February to today, the US market is down broadly 9%, and European indices are up marginally. These two factors have been large elements in the recent volatility. Given that US stocks make up 73% of the global stock market, it is more than enough to tip the global market into negative territory despite Europe's positive performance.

The sell-off moved into another gear in recent weeks as investors fear a US recession as tariffs hit US consumers.

In the US, small business confidence is impacted, and earnings warnings from big consumer giants in the US (Dick's Sporting Goods, Best Buy, and Walmart) are all sounding the alarm on challenged outlooks from a slowdown in consumer spending.

Finally, as the US tariff war continues to ratchet higher against Mexico, Canada, and now the EU, many in the market have been waiting for Trump to come to the rescue by stepping back from these severe tariff threats. This has not only failed to materialise so far, but Trump has been quoted as saying "you can't really watch the stock market, you can't go by that" & "markets are going to go up and they're going to go down, we have to rebuild our country." Whilst these comments are both true, they are a sizable step change from a President who has repeatedly over his career made reference to the direction of the stock market as an indication of the implied success of a President or an economic strategy.

The belief that Trump would change his rhetoric to influence the market higher, often called the "Trump Put," has, after this narrative switch, evaporated, causing further selling pressure on US stocks, in effect dragging global indexes down too.

We believe this present rhetoric will continue to cause change in markets, with investors looking to own a more global portfolio, less reliant on a challenged US market with "tech issues." This should see the likes of the EU, UK, Emerging Markets, and China all benefiting from the shift in sentiment and this taking hold in the performance numbers in 2025.

Overall, we remain positive globally on the direction of stocks from here, which I think investors need to hear right now. Broadly, this current sell-off looks to us like the turbulence of this shift in global market leadership rather than a broad-based panic. However, it does issue a telling lesson about 2025 in general, which we made in our Q1 outlook - it's going to be a more volatile market than 2024.

TAM will stick to our approach of delivering low-volatility investment options via always seeing capital preservation as a key component of our investment toolkit. That certainly does not mean TAM's clients are immune from pullbacks, certainly not, but our pragmatic, diversified approach seeks to help smooth out that investment journey for the end client, whom we are all here to serve.

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