Santa Rally or Krampus Collapse?

By James Penny, Chief Investment Officer at TAM Asset Management

With December's arrival, it's that time when market commentators start dusting off talk of a "Santa rally." That seasonal optimism usually sees investors topping up portfolios ahead of year end, hoping for January gains as December's positivity carries through into the new year. But for every Santa rally, there's the risk of a "Krampus collapse," when a strong year leaves markets overextended and investors trim positions into Christmas.

2025 has undeniably been one of those strong years. Global equities are up over 11%, with the US delivering around 16% in sterling terms. Yet the past few weeks brought a dose of turbulence, the sharpest sell-off since those dark "Liberation Day" sessions in April. True to form, markets have since bounced back in style. So, what happened, and have we already seen December's wobble arrive early?

The pullback came from two familiar anxieties. First, doubts resurfaced over the AI trade, specifically whether massive capital spending will translate into long-term earnings growth. That fear has simmered beneath the surface all year, but with markets at record highs, it finally boiled over. The second was the fading probability of another Christmas rate cut after the Fed Chairman's comments reduced expectations from 90% to 30%. For a moment, it felt as if investors had simply run out of good news. Given the volume of client questions we've had asking, "is this the end?", we would caution against overreacting. These short bouts of weakness are a healthy feature of strong markets. They trim excess optimism; flush out leveraged trades and restore balance. Such episodes clear the way for steadier long-term growth. They are a necessary step in keeping markets functioning properly and helping clients and their advisors progress toward those all-important financial goals.

Encouragingly, the rebound that followed told us just as much about this market's character. Despite the ongoing AI debate and interest rate uncertainty, investors remain ultra quick to buy the dip. The bounce back has been fuelled by softer central bank rhetoric, talk of Nvidia's expanded chip sales to China, and steadily weakening US economic data which is bullish for more rate cuts. In short, volatility is alive and well, but so is resilience.

In anticipation of a trickier patch, TAM's Active portfolio range modestly trimmed its US equity exposure three weeks ago, taking profits and reallocating to a volatility fund designed to rise when markets fall. It was a tactical move that provided timely protection. While that hedge has lagged in the subsequent rebound, it absolutely did its job in dampening volatility when needed. More broadly, our clients continue to benefit from a high-quality roster of global funds and diversified alternatives across commodities, derivatives, and trend-following strategies. This is precisely the benefit of robust diversification within clients' portfolios. It offers protection when volatility strikes, and participation when markets recover.

After a strong year, its paramount we remain pragmatic about the threats as much as we remain encouraged about the future of this market. The intersection of those two views is a slightly more defensive stance. Regardless of a move higher or lower from here into year end, preserving gains is every bit as important as capturing them, and this is where active management adds real value. Our philosophy endures. Spreading assets across multiple styles, regions, and approaches, both offensive and defensive, remains the hallmark of TAM's process. It is this discipline that continues to protect client portfolios through each pocket of volatility and keeps them on course toward their financial goals.

If you would like to speak with us about anything in this note, or to discuss our discretionary investment management services in general, please get in touch with our UK business development manager David Terry today.

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