Enhanced Passive investing - Avoiding the panic

By James Penny, Chief Investment Officer at TAM Asset Management

Markets are in a risk-off mood again, with tariffs back in focus and recession fears gaining traction. While the headlines have been noisy, the playbook for Enhanced Passive remains steady: stay disciplined, stay diversified, and stay ahead.

On April 2nd, President Donald Trump announced a tariff wrecking ball, dubbed as "Liberation Day." The move was aimed to reset global trade terms, however the “America First” trade is roiling global markets with stocks acutely exposed to the US economy falling alongside the dollar. Additionally, typical havens where markets seek refuge also became scarce following the announcement.

The new proposal includes a universal 10% tariff on all imported goods, alongside additional country-specific tariffs targeting over 60 nations. While the market had anticipated some tariff rhetoric, the scale and tone of the announcement were somewhat more aggressive than expected, sparking concerns about deeper trade decoupling and inflationary pressures. Trump’s framing of the policy, as a means to generate “trillions of dollars” for tax cuts and debt reduction, only amplified existing negative sentiment.

What some are calling a classic “Art of the Deal” (start high, end low) approach as part of a broader negotiation strategy; we expect some easing in select regions over the coming months. However, the tariff rhetoric signals a deeper shift toward re-industrialisation and reshoring, with the winners and losers still to be decided. This is likely to create market volatility in the near term, inducing further swings as Trump continues his mission to negotiate trade terms that prioritise America's interests.

Portfolio Moves:

As tariff proposals (or threats) unravel, TAM have been repositioning the portfolio to stay ahead of evolving market dynamics.

A significant move has been rotating away from U.S. cap-weighted equities (which gives greater weight to technology stocks i.e., Mag 7) into equal-weight strategies, to diversify sector exposure and reduce concentration risk.

Additionally, we have maintained our modest overweight to Europe, where valuations remain relatively attractive, whilst increasing our global equity enhanced index investments to diversify our U.S. exposure. TAM also favour segments of the market that are less exposed to international trade and aggressive tariffs. For us, this has been the UK, where we have a slight overweight position in UK equities.

Recessions risks are not our base case; however we have positioned for this risk by adjusting our bond allocation. We are reducing our high-yield bond exposure and reallocating to global government bonds for its haven appeal in this environment, offering protection if credit spreads continue to widen.

Looking forward, further rotation away from U.S. equities is on the table if sentiment continues to sour, as well as the possibility of an absolute underweight to equities. Investors should be aware that the decision to underweight equities in enhanced passive is a big decision and one which TAM would only implement under a material shift in the long-term outlook for markets. Many will argue that we have, in the last 48 hours crossed this Rubicon and we will certainly be evaluating this through our data driven process over the coming days before responding.

Commentary:

We are in a reactionary environment, where “act now, think later” behaviour is dominating market moves. Both tariff related narratives and economic data create inflection points difficult to predict and the cadence of market swings once it’s been quickly digested continues to challenge a portfolio’s positioning.

The Enhanced Passive range is not an "act now, think later" portfolio implementing short, sharp tactical switches on each and every data point. It is designed for the long term, with the capacity to defend in the short term. We aim to avoid reacting impulsively to potential market overreactions, but we remain poised to further increase the enhanced elements by being increasingly active in our positioning further to the successful enhancements which we have done in Q1.

Performance Review:

Despite recent market fluctuations, the Enhanced Passive range has outperformed global bond and equity markets in Q1 2025, as well as in 2024, 2023, and 2022. This consistent outperformance reflects our ability to deliver outsized client gains during the bull run in ‘23-’24, and now in, 2025 as markets trend lower, preserve capital. This is the core mission of the passive range – to deliver outperformance across all market cycles, which we continue to achieve and which we strive to maintain in these volatile times.

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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