tam ASSET MANAGEMENT

No Pain, No Gain

By James Penny, Chief Investment Officer at TAM Asset Management

As the annual TAM Charity Cycle approaches, I am reminded every time I get on my bike 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.

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 the market.

January started well with the global market rallying 4.34%; it was driven higher largely off the back of the continuation in economic positivity which drove the 2024 market to its all-time highs. The major negative catalyst came through in February with the announcement of DeepSeek, a Chinese AI startup which seeks to deliver artificial intelligence at a fraction of the cost of the US versions from the likes of OpenAI and Google. On face value, 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 arms race. Such was the size of the investment into these stocks that the wider market performance had become unnervingly reliant on a very small number of American stocks to keep pushing the global market higher; “American exceptionalism”.

DeepSeek's affordable AI alternative simply cracked the seemingly impervious perception that US AI stocks were infallible. Historically, when that needle of uncertainly pricks a very expensive stock market you get a negative reaction as investors start heading for the exit. This DeepSeek induced sell off occurred on the 20th of February and since that point to now, the global market is down 8.75% with the US S&P 500 down 9.31%. More technically speaking, the VIX, the markets 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 talked of the risk of this market selling off and the benefits of investing into funds which go up in value in that environment. Fast forward to today with the market having sold off nearly 10% we are somewhat vindicated in the view that it is important when investing to keep an 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 defence industries which sparked a large relief rally. Investors began to see the European market as an attractive place to buy high quality companies cheaper than their US peers but also as a defensive play to step away from the US uncertainly around Trump. From the 19th of Feb to today, where the US market was down 9.31%, European indexes were up 1.5% which makes a very attractive switch. From what we are seeing, these two factors have been large actors in the recent volatility in the market which has come almost entirely from exits in US stocks. Given 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.

Finally, we have seen the sell off move into another gear in recent weeks as investor fears move from the breakdown in US stock dominance to broader based fears around a US recession as tariffs hit US consumers.

This fear in markets is seemingly backed up by falls in small business confidence and earnings warnings from the likes of Dick's Sporting Goods, Best Buy and Walmart who are all sounding the alarm on challenged earnings from a slowdown in consumer spending.

Finally, as the 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 via 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". Whist 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.

Looking forward, it's clear the US is going through a period of fundamental economic change where 'MAGAnomics' (the concept of putting Americas interests above that of global ones) is going to be a story of pain first, gain second, just like fitness regimes. In that respect one should 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'. We believe this will continue to cause change in markets where investors look to own a more global portfolio, less reliant on a challenged US market which is still around 70% of a client's equity portfolio. This should see the likes of the EU, UK, Emerging Markets and China all benefiting from the shift in the market and indeed, we are seeing this taking hold in the performance numbers in 2025.

Overall, we remain positive globally on the direction of stocks from here, something we think investors need to hear right now. Broadly this current sell-off looks to us like turbulence reflecting 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's investment approach into volatility-based investments ahead of market volatility indices rising 76% has nothing to do with timing the market correctly and instead rests on the constant factor when investing with TAM – we stick to our approach of delivering a low volatility investment option via always seeing capital preservation as a key component of our investment toolkit. That certainly does not mean TAM's clients are immune from pull backs, certainly not, but our pragmatic, diversified approach seeks to help smooth out that investment journey for the end client, which let's be honest, is whom we are all here to serve.

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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