



## TAM Sharia: where do US tech valuations go from here?

By Francis Banzon, portfolio manager at TAM Asset Management

The surge in investor enthusiasm for artificial intelligence (AI) has led to substantial gains in many related stocks, significantly boosting the current bull market this year. This has been accompanied by high earnings expectations and an unrealistic target for exponential growth to continue for AI players. The reality of this dynamic has come under scrutiny in recent months, and investors are beginning to sober up from a frenzy of euphoria. These shorter term headwinds have pushed markets into correction territory, slicing swollen valuations for AI stocks. Unfortunately, this has dragged the TAM Sharia portfolios lower following the strong run over the past year given their exposure to AI.

Let's address the elephant in the room... Nvidia! Discussing AI driven momentum without the mention of its darling would be similar to describing Dubai without heat. So let's discuss. The high-flying chip superstar reported company earnings that beat top line estimates but were narrower than what investors were used to. In other words, the "I expect more" mindset from investors has fed into unsustainable expectations, and anything short of spectacular is enough to wobble its share price, and to some degree too. Regulatory anti-trust accusations against the chip maker has also exacerbated the negative rotation in sentiment towards the stock. Nvidia's launch of its new iteration of graphic processing units, the Blackwell will help maintain its lead for now. However, the cadence of innovation in this industry is rapid and creates an uncertain future for Nvidia.

Beyond secular trends in AI, the U.S economy has also shown signs of weakness causing markets to wonder if a recession is possible. Economic downturns tend to force investors to find recession proof stocks for protection as they wait on the sidelines. Technology stocks typically take the bench, and investors looking from exposure to the sector will have a difficult task finding recession proof options... usually. Some do exist, and in fact many AI related stocks have deep pockets with significant cash on the balance sheet insulate them from weaker economic activity.

U.S interest rate cut expectations have also created a weaker dollar, and with the TAM Sharia portfolios' exposure to U.S denominated assets, without the ability to hedge, has created downside pressure in the immediate term. As such, we have maintained our exposure to precious metals and multi-asset strategies in the portfolios to combat dollar weakness, as these assets help provide protection.

It's important for clients to remember that markets exhibit cyclicity, and "what goes up, must come down," is not only a mantra but the reality of how stock markets behave. The narrative that AI stocks can sustain their perpetual run higher, as well as insatiable investor expectations, is finally getting its reality check. However, we remain optimistic on the long-term trends and the utility of AI to transform businesses. Yes, some froth has been removed in valuations but the appetite for AI solutions is not going anywhere. AI demand remains strong, orders must be filled, and profits will increase for those facilitating the global rotation towards AI embedded businesses.

The TAM Sharia portfolios are poised for an AI recovery, but remain invested in other areas beyond technology that we believe provide lucrative opportunities, particularly in emerging markets. The universe for investable and permissible Islamic-compliant assets continues to grow and provide us with the building blocks to construct portfolios capable of providing protection while participating in the upside. As TAM has proven before, we lean on our ability to navigate through difficult times and keep a firm balance as we walk the tight rope towards recovery.

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***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.***

