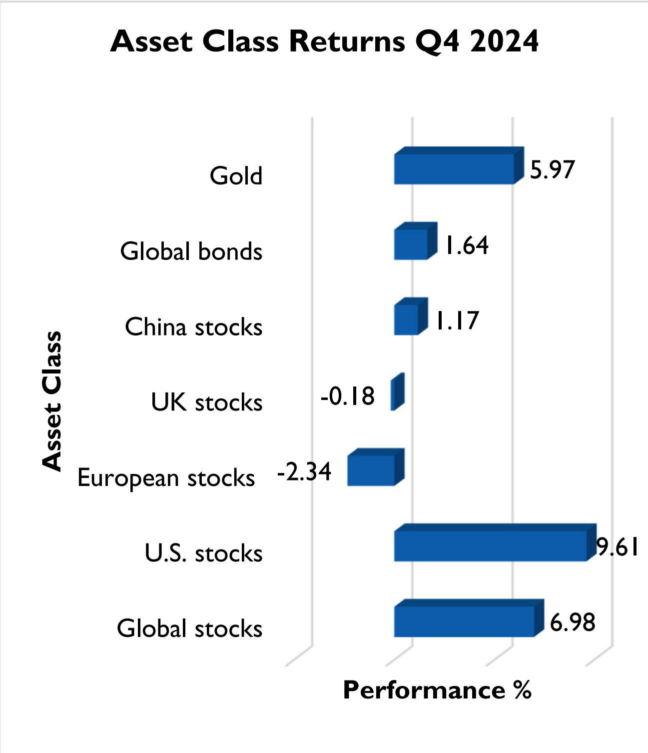
TAM Asset Management
Quarterly Market Update
Q1 2025

Q4 Performance Overview

TAM's Active and Sustainable World portfolio ranges delivered a good level of absolute performance for clients but trailed its global benchmark over the final quarter. Bouts of volatility, the concentration and dominance of 10 mega-cap tech stocks, the strength of the dollar and some weakness from specific funds within portfolios all contributed to the slight miss against the benchmark.

TAM's Enhanced Passive portfolio range, with a larger allocation to these successful U.S. mega-cap stocks through its passive allocation, delivered better levels of relative performance which was to be expected.

Despite this, both the Active and Sustainable World ranges continue to perform well against their industry peers, with good levels of absolute performance against the backdrop of consistently managed levels of volatility and diversification to which TAM has made its hallmark over the past.



U.S. Market Dominance and Global Stock Performance

While global equities achieved positive returns in Q4 of 2024, it is critical to acknowledge much of this performance—approximately 70%—was driven by the U.S. stock market. This underscores the fact that the global market performance in the quarter is largely a reflection of U.S. equities, rather than an accurate indicator of global market strength. In fact, while other regions, including Europe and emerging markets, contributed to the positive returns, U.S. stocks remained the key driver of overall portfolio performance. This significant outperformance of U.S. stocks has continued a trend observed throughout much of 2024, reinforcing the dominance of American equities within global market indices.

However, this behaviour also illustrated the risks of ignoring fundamental analysis, as many investors on the road to buying U.S. equities in 2024 did not pause to assess whether the prices being paid for U.S. stocks were truly reflective of the underlying value of the companies. This potentially puts elements of the U.S. market in a stretched position as we move into 2025.

To that end, the outperformance of passive investment strategies in 2024 benefited from this momentum-driven market, where prices have been largely driven by investor sentiment and flows rather than fundamental valuations. This short-term "voting machine" mentality of the market, where stock prices are driven more by popularity than by intrinsic value, was a clear theme in 2024.

European and UK Market Dynamics

In contrast to the robust U.S. market performance, European equities faced notable headwinds in Q4. Political instability and concerns over potential U.S. trade tariffs, particularly under the Trump administration, led to a decline in investor confidence and a pullback from European markets. These factors, including fears surrounding the economic impact of these tariffs, drove investors to seek safer opportunities elsewhere. Conversely, the UK market showed slightly better resilience, driven by investor perceptions that the UK was less vulnerable to the potential negative impacts of U.S. tariffs. The belief that the U.S. exports more to the UK than it imports helped support sentiment, making the UK appear relatively insulated from broader geopolitical risks, especially those related to trade with the U.S.

Gold as a Safe-Haven Asset

Amid growing concerns about global economic instability, gold continued to perform strongly in Q4, emerging as a primary safe-haven asset for both institutional and retail investors. Central banks and investors alike turned to gold as a hedge against potential recessions and inflationary pressures, particularly as economic uncertainty remained elevated. Gold's appeal also stemmed from its ability to diversify risk away from owning the U.S. dollar, which remained a key global reserve fiat currency. The continued strength of gold throughout the final quarter highlights its role as an asset class that provides stability in the face of macroeconomic volatility.

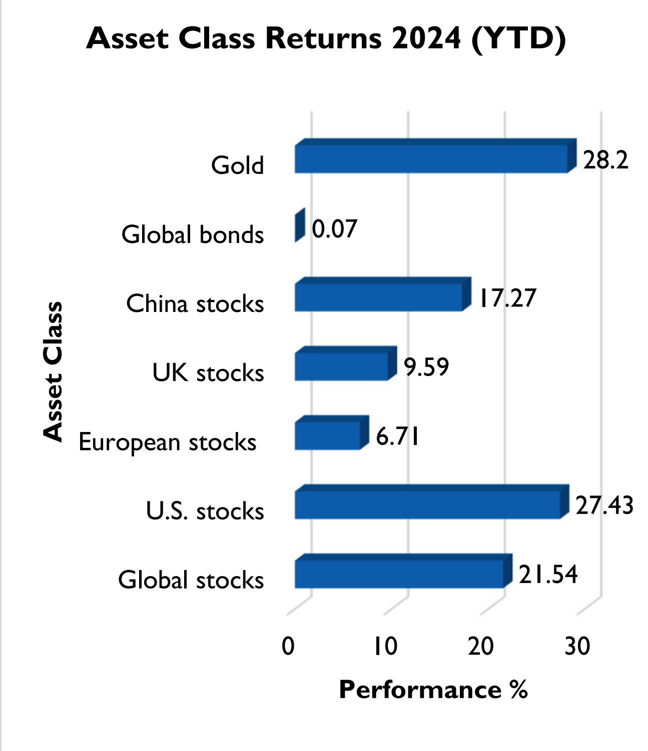
Bond Market Underperformance and Inflationary Pressures

Bonds continued to lag behind equities in Q4, with government bonds struggling to deliver meaningful returns. 2024 saw a marked divergence between the performance of government and corporate bonds. The government bond market's underperformance, primarily due to persistent inflation and the ongoing supply-demand imbalance from increased issuance, was a key highlight of the year. Inflationary pressures prevented significant interest rate cuts, and the absence of a recession kept bond yields relatively flat, further limiting the appeal of government bonds. However, corporate and high yield bonds showed much more favourable performance. These bonds yielded returns in the range of 4-8%, making them a more attractive investment option for those seeking income and diversification within fixed income but with closer correlation to the rally in stocks.

Diversification and Portfolio Management Strategies

The importance of a diversified portfolio was evident throughout 2024, particularly for clients who were exposed to both government and corporate bonds. TAM's investment strategy of allocating a larger portion of client portfolios to corporate bonds, rather than government debt, proved to be a key differentiator. By focusing on corporate bonds, TAM was able to avoid much of the underperformance seen in government bonds, providing clients with more attractive returns in a year when fixed income assets struggled overall. This diversification strategy helped to protect more conservative clients from the lacklustre returns in the broader bond market, highlighting the value of active portfolio management in navigating periods of market volatility and uncertainty.

In summary, 2024 was a year marked by U.S. stock dominance, increased volatility, and underperformance in the bond market, particularly within government debt. Investors who maintained diversified portfolios, focusing on assets like corporate bonds and gold, were better positioned to weather the challenges of the year and capitalise on opportunities within these asset classes. As we move into 2025, the continued momentum in U.S. equities, coupled with ongoing inflationary pressures, will likely shape the investment landscape moving forward.



Market Sentiment Going Into 2025

The mood in markets right now is undeniably bullish, and this positivity seems to be carrying into 2025. Clients, through the TAM lens, can expect the potential for an upmarket in 2025, led by the U.S., with other regions such as Europe, the UK, and emerging markets also likely to post gains, though behind the U.S. for at least the first half of the year. While the strong performance in 2024 and the resulting client profits are to be celebrated, it's also a moment to pause and be pragmatic about the risks of assuming the same level of performance in 2025.

The Outlook for the U.S. Economy in 2025

Economically and financially, the U.S. is currently seen as the best place to invest globally. U.S. consumer spending remains resilient, corporate growth is stable, and U.S. consumers own a larger proportion of U.S. stocks in their personal wealth than at any point since the 1950s. Additionally, Trump's ascension to the 47th president on a pro-growth agenda has fuelled further speculation around U.S. market dominance in 2025. We anticipate continued economic strength from the U.S. in 2025, with the S&P 500 likely to rise another 10%, which, while lower than 2024, is more in line with historical annualised U.S. market performance.

Caution: U.S. Stock Valuations and Potential Risks

However, this positivity should be tempered with caution. While we expect U.S. growth in 2025, stock prices are expensive, and with every record high, we'll be looking at hedging that strength, based on the view that much of the U.S. economic success in 2025 has already been priced in by investors in 2024. The risks to the U.S. rally include inflation and unemployment dynamics, with geopolitics and foreign policy as secondary concerns. The U.S. Federal Reserve is expected to make only one interest rate cut in 2025 as inflation remains persistently above the 2% target, which may affect stock market positivity.

Potential for European and UK Market Growth

Given the gravitational pull of U.S. investments, it's no surprise that markets in the EU and the UK remain under-owned and under-priced, to an extent not seen since the 1990s. Notably, outside of U.S. mega-cap tech stocks, U.S. earnings from generic companies have only marginally outperformed their European counterparts, and 2025 could see European earnings match or even beat those of the U.S. As U.S. investors currently pay much more per share to own those earnings, it makes logical and contrarian sense to consider Europe as a more attractive place to invest in 2025. Possible triggers for this shift could include a peace deal in the Ukraine war, economic recovery in Germany, a meaningful EU spending package, or a rebound in Chinese spending.

Bond Market Outlook: U.S. vs Global Bonds

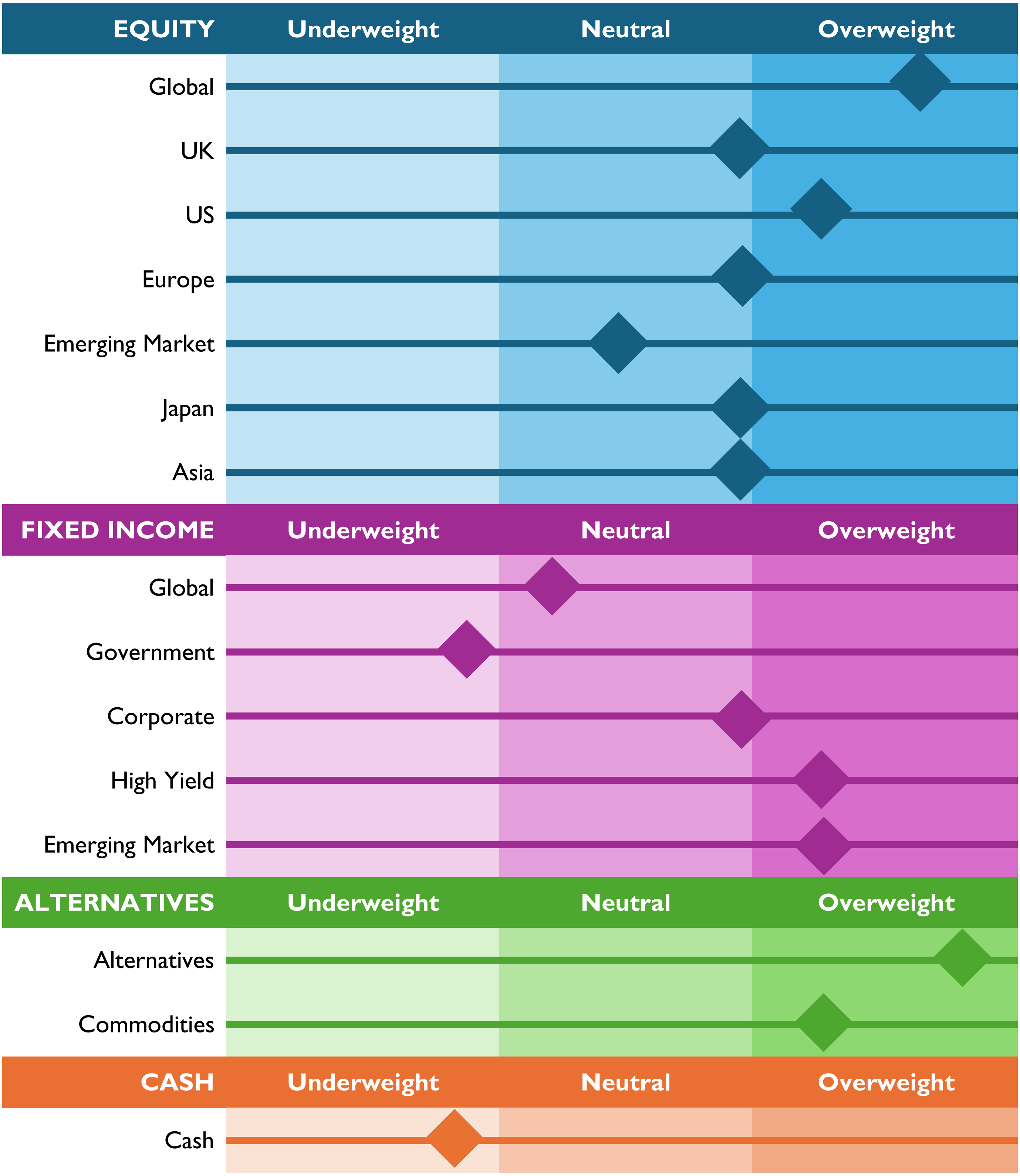
On the bond side, U.S. corporate and high-yield bonds have outperformed government bonds, making global government debt look cheap in comparison. While corporate bonds are currently more expensive, we still see the potential for good returns in 2025, especially in high-yield bonds. If we remain positive about stock market performance, this will likely translate into a more favourable view of corporate bonds. Conversely, the relatively cheap U.S. and global government bond markets provide an excellent defensive layer for a client's portfolio should stock market performance dip due to recession fears. However, aside from a recession, it feels like the direction of inflation in 2025 will be the main catalyst for government bonds either rallying or selling off further from here.

Volatility and Diversification in 2025

In conclusion, 2025 is expected to bring good returns, but also higher volatility as investors will require more good news to continue buying stocks. With the economic strength of the U.S. showing no signs of slowing down, and interest rates continuing to be adjusted globally, we believe investors are likely to benefit from this dynamic. This underpins our call for continued market growth in 2025.

However, investing is not only about increasing wealth—it's equally about protecting those gains during turbulent times. This is where diversification becomes crucial. We foresee 2025 as a year in which clients will need a well-diversified portfolio to navigate volatility, particularly U.S.-led volatility, as markets continue their upward trajectory. Diversification and active management are, after all, the foundation of any robust portfolio.

Current Positioning



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