TAM Asset Management

Quarterly Market Update

Q2 2025

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Executive Summary

Q1 2025 was marked by a sharp rise in volatility (+50%), driven by geopolitical tensions, erratic U.S. trade policies, and sector rotations, especially out of U.S. tech. The "Magnificent 7" tech giants dragged the S&P 500 and Nasdaq into negative territory, despite relative strength in other U.S. stocks. Meanwhile, **Europe, the UK, and China outperformed**, with European defence spending and Chinese tech growth attracting capital. This shift highlights a major rotation away from U.S. dominance and underlines the importance of global diversification to which active managers have been advocating.

TAM's entire portfolio range benefited from broad global exposure and reduced U.S. tech reliance, outperforming via a more diversified portfolio of equities, bonds and quality alternative assets which helped to offset some of the negative performance from the US market.

Looking ahead, TAM expects continued volatility, with potential U.S. market stabilization tied to earnings and policy shifts. Europe and emerging markets remain strong opportunities, while bonds and alternatives (e.g., precious metals, volatility strategies) offer diversification and downside protection which will remain a key hallmark of a properly diversified investment strategy in 2025.

TAM remains focused on **long-term value**, using current dislocations to selectively position for future gains. Strategic diversification across regions and asset classes is central to navigating an uncertain yet opportunity-rich environment which for the first time in a number of years focuses on global stocks rather than a small handful of large US Tech stocks.

Q1 2025 Strategic Review

Volatility and Market Backdrop

Q1 2025 opened with a sharp surge in market volatility, as captured by a 50%+ increase in the VIX index. This was the highest sustained volatility since 2022 and was not driven by a single catalyst but rather a confluence of destabilizing forces. Key among these were increased geopolitical tensions (including renewed war activity in the European Bloc), unexpected policy shifts from the new U.S. administration, and continued disruption in the competitive AI sector. Softening global economic indicators—especially in manufacturing and consumer confidence—also contributed to a deteriorating macro backdrop. Investors entered 2025 with cautious optimism, but reality diverged significantly from expectations, leaving markets in a far more uncertain state than anticipated at the close of 2024.

Divergence in Regional Market Performance

One of the defining features of Q1 was the growing disparity in performance between geographic regions. While the U.S. suffered significant drawdowns—particularly in tech—the UK and European markets posted relatively strong gains. This divergence was largely driven by regional policy responses and economic positioning. Europe benefited from a robust fiscal and defence stimulus, which spurred industrial production and improved GDP expectations. The UK also saw positive returns, aided by stabilizing inflation and favourable valuations. However, due to the overwhelming size of the U.S. in global indices (accounting for ~70% of global equities), these positive regional performances weren't enough to offset the broader drag, resulting in Q1 being a negative quarter for many globally diversified investors.

The Decline of U.S. and the "Magnificent 7"

U.S. markets, and especially technology-focused indices like the Nasdaq, underperformed significantly in Q1. The "Magnificent 7"—comprising the largest AI and tech names in America—experienced the sharpest corrections. Following exceptional returns in 2024, investors began taking profits on these names, which represented a disproportionate share of market capitalization. This profit-taking was compounded by investor anxiety around Trump's unpredictable trade and tariff policies, which particularly threaten tech companies dependent on global supply chains and international sales. The outsized influence of the Mag 7 (making up roughly 30% of the S&P 500) meant that despite many other U.S. stocks faring reasonably well, their fall alone was enough to drag U.S. equities into negative territory.

Rotation to Europe, UK, and Emerging Markets

As U.S. tech fell out of favour, global capital rotated toward international markets that appeared more insulated or even poised to benefit from global realignments. Europe saw a surge in investor interest, driven by a massive defence spending initiative that not only boosted military-related stocks but also catalysed broader industrial production and GDP growth. Similarly, UK equities benefited from renewed investor confidence in economic stability. Meanwhile, China quietly staged a comeback, with its equity markets bolstered by growth in artificial intelligence, electric vehicles, and broader technological innovation. The country's shift toward a more innovation-driven economy was well received, and many investors found attractive valuations in sectors previously overlooked. This international rotation marks a potential pivot away from the U.S.-centric investing paradigm that dominated 2024.

Lessons in Thematic Risk and Concentration

One of the most valuable takeaways from Q1 is the inherent risk of thematic concentration. The dramatic reversal in fortunes between the Mag 7 and European defence stocks provides a textbook case of how overexposure to a single investment theme can become a liability. Investors who were heavily concentrated in U.S. tech saw sharp drawdowns, while those with diversified exposure—especially to sectors previously considered out-of-favour—benefited. The side-by-side performance of Mag 7 stocks versus European defence and Chinese tech illustrates how quickly sentiment can shift and how unexpected macro and geopolitical events can radically reshape the investment landscape. This underscores the importance of balance and diversification in portfolio construction.

Implications for Active vs Passive Strategies

Q1 2025 reignited the active vs passive management debate. TAM's active portfolios—characterized by global diversification and underweight exposure to U.S. tech—delivered stronger relative performance during the quarter. Passive portfolios, particularly those closely tied to the S&P 500, underperformed due to their heavy weighting toward the U.S. and the Mag 7. However, TAM's Enhanced Passive range still managed to outperform its benchmark while maintaining a lower risk profile. The shift in leadership from passive to active does not indicate a fundamental flaw in passive strategies, but rather reflects a market environment where tactical decisions and geographical allocations play a larger role in generating outperformance.

Geopolitical Influence on Markets

Geopolitical developments were a dominant theme in Q1. President Trump's renewed focus on tariffs and protectionist trade policies stirred fears of a global trade war, adding uncertainty to supply chains, inflation forecasts, and investor sentiment. His unpredictable foreign policy—particularly strained relations with traditional U.S. allies—has also fuelled diplomatic unease. These actions, when layered on top of the war in the European Bloc and escalating tensions between China and Taiwan, contributed to a sense of global fragility. For investors, these developments highlight the need to incorporate geopolitical risk into investment frameworks, not as an occasional variable but as a consistent factor in portfolio strategy.

The Case for Diversification and Alternatives

If Q1 taught investors anything, it is that diversification is not just a risk-mitigation tool—it is a necessity for navigating a world of shifting correlations and global volatility. Portfolios that included a balanced mix of global equities, bonds, precious metals, and volatility-based strategies were best positioned to weather the storm. Alternatives such as gold, gold miners, and hedge funds focusing on volatility have proven effective in smoothing returns and offering downside protection. In an era of geopolitical risk and rapid sector rotation, having assets that are uncorrelated, or counter-cyclical is key to long-term wealth preservation and growth.

Navigating Q2 2025

As we transition into the second quarter of 2025, the investment environment presents a complex mix of macroeconomic headwinds and opportunities. Our initial optimism at the start of the year—predicated on the assumption that pro-growth, low-tax policies under the new U.S. administration would outweigh the disruptive risks of protectionist rhetoric—has been challenged. Contrary to our base case, the latest tariff policy has proven more damaging and uncertain than anticipated with the US administration putting both blanket and targeted tariffs on all international partners which is an escalation to the market's original view. As such, the recent volatility we have seen is the market adjusting to that and re calibrating a resurgent in US inflation picture, weakening consumer sentiment, and elevated U.S. recession risks as consumers are going to be hit with higher prices on almost all international imports.

Our expectation is that international governments will attempt to negotiate individual tariffs down from this level via concessions and diplomatic strength. We see this development as something positive and should serve to calm investor nerves and induce a relief rally. However, should international governments decide to apply tariff's of their own on the US then we see this delivering another bout of uncertainty to which the market is currently not pricing in. So, all in all, the most recent tariff news remains in the balance with the next market direction governed, not by Trump this time but by international governments.

With a U.S. recession now partially priced into markets, investor attention is expected to revert to short-term economic data, leading to increased volatility. Against this backdrop, we believe Q2 calls for a prudent diversification strategy across equities, fixed income, and alternative assets. Portfolios should emphasize high-quality, uncorrelated exposures to navigate ongoing dislocations and capture asymmetric opportunities.

In the near term, when it comes to the US market, we think the selloff has gone quite far, quite quickly and as we move into Q1 earnings we could see an element of stability as the market moves to evaluating companies based off their earnings over Trump's policies which we anticipate being a little better for the US market in Q2. Having said that, there is some uncertainty around the growth guidance coming from companies around US consumer spending which could come as a positive or negative surprise to investors. Should Q1 earnings or 2025 earnings guidance disappoint, we envisage a further bout of selling as investors deepen their move out of the US.

The tariff announcement on Europe remains a black cloud over the Q1 positive sentiment. We envisage Europe either negotiating with the White House to bring tariff's down or seek to raise their own tariffs and, in turn domestically ease monetary and fiscal policy to stimulate growth. This can be done via personal and corporate tax cuts, interest rate cuts, better export terms with other trading partners as well as the GDP boost from infrastructure and defense spending.

Longer term, the nationalistic tenor from the US White House lends itself to more global protectionist policies from the likes of Europe and the UK to prioritize their own manufacturing and consumption bases as well as boost domestic stock markets via pension mandates and retail tax breaks to support domestic investment. This should assist in the flow of capital out of the US market (which is currently 50-60% of investor's portfolios) and route this back into domestic regions. However, we would parse this longer term by saying that shorter term Europe has done very well thus far in 2025 and Q2 could see some of this euphoria in the "sell US, buy Europe" moderate.

Within fixed income, the outlook remains fragmented. Government bonds are likely to bounce between recession and inflation dynamics. A confirmed recession would catalyse a rally in sovereign debt—especially U.S. Treasuries—as investors seek safe haven assets. However, the inflation trajectory remains uncertain, as tariff-related price pressures and steady consumer demand could limit the Federal Reserve's capacity to ease monetary policy beyond two or three rate cuts in 2025. The UK faces an even more challenging backdrop, with core inflation being driven by a tighter labour market and stagnant growth, posing a delicate balancing act for the Bank of England.

In the credit space, elevated recession and stagflation risks suggest a wider spread environment for corporate and high-yield bonds, reinforcing the case for a more defensive posture. Government bonds remain under-owned and relatively inexpensive, offering clients an attractive source of downside protection. We also continue to advocate selective exposure to inflation-linked bonds, which offer dual utility: hedging against stagflation and participating in bond market rallies during recessionary phases.

Diversification remains central to our strategy. We retain a positive outlook on precious metals, both in physical form and through mining equities, as margin expansion in the sector continues alongside rising bullion prices. In parallel, hedge funds and volatility-based strategies that can capitalize on short, sharp market rotations are valuable tools to manage portfolio risk and reduce correlation to traditional assets.

At TAM, we remain highly confident in the quality of the funds and managers we select. Our current positioning reflects this: a diversified mix of European, UK, and Emerging Market equities, with a modest underweight to the U.S. and a deliberate tilt away from the Mag 7 within our U.S. holdings.

Our strategic bond allocations continue to generate strong risk-adjusted returns, and our alternatives exposure provides meaningful downside buffers in turbulent equity environments. We will continue to assess market deterioration through a multi-dimensional lens and are prepared to tactically reduce equity exposure if required. However, we also recognize that the current environment is fertile ground for identifying long-term value. Volatility often presents a rare opportunity to accumulate high-quality businesses at discounted valuations, enabling clients to compound returns over the long run.

In conclusion, while near-term challenges persist, we encourage investors to view this period not as a permanent breakdown in this market with no way back, but, as always as a function of a normal market in which performance goes up and down. The market pessimism may be uncomfortable, but it often sets the stage for a more resilient and broad-based rally ahead.

Current Positioning

View key:	■ Negative/Underweight	■ Neutral	■ Positive/Overweight

Asset Class	View	Summary
Equity	Neutral	**TAM is maintaining a neutral position to the equity market at the current point in the market volatility. We remain prepared to reduce this to a tactical underweight should the market continue to react negatively to Trumps induced trade wars. Likewise, should these prove more benign than many had feared we see the market starting to recover its poise from here which would benefit a full equity weight. Overall, in this highly fractured market we are remaining balanced in our composure until a more concrete direction for the remainder of 2025 can be established.**
UK	Positive/Overweight	The UK market was a standout performer in Q1 as it was in Q4. The persistence of UK outperformance at this stage remans a positive for portfolio performance and one which we see carrying onto into the remainder of the year. Mainly this oscillates around the cheapness of the UK market compared to other developed markets and the relative safety which the UK holds in the recent trade war escalation from the US. With the dollar continuing its decline we see more positivity coming back to the Uk mid cap market through a boost to the pound. An improving UK growth picture in the UK might also help to compound this performance.
US	Neutral	The US's stock market continues its sea change in Q1 as it did in Q4 2024 with in investors moving away from the region under trade fears and profit taking. We see the most acute moves within US tech which we believe will be a more strategic trend for 2025 as geopolitics and trade uncertainty permeate the market forcing investors further into a more global investment footprint. We maintain that the US is a source of innovation with fantastic companies which will perform well longer term and as such it remains unwise to exit this market wholesale.
Europe	Positive/Overweight	European markets have produced healthy levels of outperformance over the US market in Q1. Whilst we continue to see a structural movement of capital from the US to Europe in 2025, we think a lot of this has happened very quickly in Q1. As such we envisage the outperformance slowing a little in Q2 as investors start to evaluate the European market on a stock-by-stock basis rather than just trying to buy anything with a European stamp on it. This lends itself to a strategy which is bullish on the EU but with a more quality stock selection overlay as we move into Q2.
Emerging Markets (EM)	Positive/Overweight	EM has also been a bight spark in Q1 with markets benefiting from increase investor attention as capital flows out of the US but also from a weakening dollar. Much in the same way as Europe, we think this move is structural for 2025 and as such remain bullish on the region but this should slow somewhat in Q2. China remains a key catalyst to the performance of EM in general so we will be watching this market but from Q1 the Chinese market has been catching up with also lends itself to the bullish call on EM overall from TAM. .
Japan	Neutral	Japan remains under pressure as it looks to raise rates to combat inflation but also now grapples with a slowing US economy and a rallying Yen. We see a risk that the region is going from deflation to inflation but if Japan isn't careful this could flip back to deflation if rates are hiked too aggressively. The Japan market has done very well of late, TAM remains underweight as the policy risks from the market remain elevated. When the path of inflation and policy reaction is more known, we will look to come back to what is a developing corporate growth story which should be beneficial to the region longer term.
Asia	Positive/Overweight	Asia, Like EM, remains good quality and in vogue with the international market under this rotation out of the US and into the rest of the world. Again, China's performance within this region will be somewhat of a barometer for the region. Broadly speaking we see Asia as a good diversifier to risk exposure benefiting from both a rallying China, a weakening dollar and the rotation out of the US but as with all markets in 2025. This will require a constant policy overlay to ensure the US led macro narrative does not turn against the region.

Asset Class	View	Summary
Fixed Income		**Overall, bonds remain cheap Vs history with credit and high yield continuing to look attractive as investors move out of equities but remain on the hunt for yield. Given this, should the global market avoid a US led recession we see spreads maintaining their tight bounds as corporate bonds deliver yield and capital appreciation. However, tight spreads are keeping sovereigns cheap, should we eventually tip into a global recession, likely off the back of a US led trade war then we expect to see spreads widening significantly as government debt rallies back over the short term as a haven for investors. Bonds should be positive this year, but a tactical view will be critical in managing the composition of any portfolio.**
Government Bonds		We see the second quarter of the year continuing to benefit government bonds as inflation comes down and investors begin to price in, tentatively the prospect of a recession which has been hitting the equity market hard. We see further performance from the sovereign market this year should a recession ensue but should it not then we envisage government bonds needing inflation to consistently come back to 2% to unlock deeper rate cuts for the sector to meaningfully rally.
Corporate Bonds		High-quality corporate bonds continue their outperformance as investors move out of the equity market but continue to hunt for yield and performance. Given this, should the global economy avoid a recession then we see this hunt for high quality corporate bonds causing spreads to tighten further but this remains a tactical view given how uncertain the global macro stage is at present. A tactical strategy to manage govies Vs credit spreads will remain critical in 2025 should a recession ensue.
High Yield Bonds		High yield remains, for now an outperformer. However, we see a clear risk that should the global economy enter a recession this part of the bond market which is closest to the equity market reacting negatively. Likewise, bond investors under a recessionary narrative will likely rotate out of HY and into government debt which should see the spread pendulum move back in the other direction to the detriment of this asset class. We favour high grade credit over High yield this year.
Emerging Markets (EM)		Much like EM equities, we see EM bonds as a positive performer in Q2 and importantly a great risk diversifier in client portfolios much like EM equities. Expectations of a weakening dollar, in response to the US cutting rates and uncertainty about US economic dominance from Trump should prove a driver for EM bond outperformance.
Alternative & Absolute Return		**TAM's allocation to the alternative market has been increased in Q1 2025 in response to the uncertainty which has gripped markets off the back of a successful 2024. We see this continuing into the remainder of the year as the potential for further volatility continues to rise. TAM's alternative basket remains very high quality and spread over uncorrelated, defensive investments and also into real assets like precious metals which remain very much in vouge given the uncertainty we are seeing.**
Commodity		We see stable performance from the commodity market in Q2 as interest in real, diversifying assets picks up. We also anticipate a further weakening of the dollar helping boost the commodity market into the end of the year. We, as previously stated, remain on the look out for a recession in the global market which would change this stance and ensure a more selective approach is taken to investing into different areas of the commodity spectrum.
Property		Property remains too illiquid. Property funds' propensity for gating is a material risk for clients' portfolios.
Cash		**Strategically, we have been utilising lower cash levels to take advantage of diversifying investments over that of straight cash as interest rates come down.**

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