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“Let it be”

By James Penny Chief Investment Officer at TAM Asset Management Ltd

One of the most important lessons in investing is not to panic, and not to react to the first conclusion that presents itself, because the first move is rarely the one that defines the direction of travel.

One would be forgiven for looking at the Nasdaq, down more than 10% from its highs, and extrapolating that fear into a nightmare in which the largest and most profitable investment theme in recent memory unravels entirely. Over my career I have found that the richer the returns from any investment, the more volatile it eventually becomes. Human nature being what it is, when high returns start to feel obvious and dependable, investors forget that volatility is the other half of the bargain – until it clatters back into view and panic quickly follows, as we are seeing now.

To that end, I believe the profit-taking has now become overcooked, and I wanted to write to you to explain what has been driving it and why we remain positive about the opportunities ahead as we head into December.

After a strong run earlier in the year, technology shares have fallen by more than 10% since reaching a record high in early October. Three forces have been at the heart of the turbulence. First, the

largest technology companies are spending enormous sums on artificial intelligence, increasingly with borrowed money, and investors have begun to question how quickly that spending will pay off. Ironically, this has been a well-known story throughout 2026; the market has simply decided, for now, to see it as a negative rather than a positive.

Second, the Democratic landslide in the US midterms has sparked fears that a new Congress could slow the building of the data centres that power AI, and with it the pace of growth, adoption and sales. Third, Nvidia, the world's leading AI chipmaker, went through a turbulent period that saw its chief executive step down and around $1.2 trillion wiped off its value. These came to a head on 5 November, when the S&P 500 fell 4.4% and the Nasdaq 100 fell 6.4% as investors cut back their heavy exposure to technology. Moves like that, in the biggest market in the world, quickly create a news vacuum in which anything positive is swept aside.

Dissecting the sell-off reveals some of the financial plumbing behind the most successful trade in recent history. Today, a large share of daily price moves is driven by computer-led strategies and by investors, often non-professionals, using borrowed money. When prices fall past certain limits, many of them are required to sell at the same time, regardless of price, and a small stumble can quickly become a protracted tumble. These forced sellers do not distinguish between a good business and a weak one; everything is sold together in a "dash for cash".

That does not explain the entire move, but it does show that the selling is not simply a case of people changing their minds about good investments.

Sharp drops like this are often exactly when patient investors find value, stepping in to buy phenomenal companies that have little to do with the tech sell-off but whose share prices have fallen in sympathy with it.

TAM never borrows to invest, so we are never forced to sell in a downturn to pay anyone back. That means we can choose, when the time is right, to put more of our clients' wealth to work in high-quality companies as they become cheaper. That freedom is a hallmark of active management – one that passive investors often wish they had in the middle of a sell-off, and quickly forget once markets rip higher again.

Importantly, we do not see the fundamentals behind this market materially changing. Demand for AI remains strong: Nvidia's latest quarterly revenue more than doubled from a year earlier to $115.8 billion, and the company expects further growth. Profits for the largest US companies grew by around 30% in the third quarter compared with a year earlier, with most beating expectations. Nor has this been a "baby out with the bathwater" moment. Investors have been selling the most crowded parts of the AI trade rather than the market as a whole, and well-known companies such as Visa, Mastercard, Johnson & Johnson and Home Depot have performed well over the period. This is a very healthy signal. Investors are not running for the hills; they are rotating into other opportunities, just as we have been discussing with you. They want to stay invested in this market, just in a slightly different way. So when we see red numbers on our screens, it is worth remembering that broad sentiment is still positive and investors are still acting rationally, whatever the headlines say.

In that respect, I welcome a cathartic bout of selling, because it lets a little air out of the market without it bursting. A more rational market, with cash ready to be put to work at cheaper valuations, is a powerful combination for getting back into rally mode from a more mature point in the cycle.

Coming back to AI, the key question is no longer whether demand exists, but how quickly the infrastructure to meet it can be built, given limits on power supply and planning. Think of building a fast car: dropping a V12 engine into a Ford Focus isn't going to work on its own. You need new suspension, bearings, gears, intercoolers and a transmission so that all that power can be used safely and effectively. The same is happening in AI.

In our view, a more measured pace for what AI can realistically achieve in the short to medium term actually strengthens the boom, turning it into a longer, steadier driver of returns rather than something short and sharp that ends up popping, to the chagrin of the entire market.

Looking at the near term, one welcome consequence of the recent fall is that shares now offer better value. A common way to measure this is the price-to-earnings ratio, which tells you how much investors are paying for each dollar of a company's expected profit. At the start of this year, investors were paying around $22 for every $1 of expected profit from the S&P 500. Because company profits have grown much faster than share prices, that figure has now fallen to around $17, the lowest level in three years, compared with a 10-year average of around $19 and a 20-year average of around $16.50. In other words, the US market is now priced close to its long-term average, supported by profits that companies are actually delivering rather than by hope. However long the bloodletting in tech continues, this is a genuinely positive position to be in as we head into Christmas and 2027.

There are good reasons to be positive about December, which has historically been a strong month for markets. Shares are cheaper, leaving more room for good news; company earnings are expected to keep growing strongly over the coming year; and much of the borrowed money and speculation that amplified the recent falls has been, or is being, flushed out of the market. Taken together, we believe this reset is putting markets on a firmer footing, from which a wider range of sectors can move higher and test new highs. For clients of TAM's global, high-quality portfolios, that broader opportunity set is close to an ideal backdrop for investing towards your long-term financial goals. That is not to say the path will be smooth: as I mentioned earlier, volatility could persist, perhaps into December. If it does, the value on offer will only have improved further by January.

Let's remember that markets rarely move in straight lines, and they can be a real test of emotional resilience – a test I face every day on your behalf. The past six weeks have shown that clearly, but they have also cleared some of the excess from the most crowded areas without setting the whole market on fire. We remain invested, diversified and genuinely enthusiastic about the opportunities across so many countries and sectors that lie ahead for us and for you. If you would like to discuss your portfolio or your technology exposure, please do not hesitate to get in touch.

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