

It's all about the long-term

So, the market is bouncing back. 5 trillion dollars has been made in the market over the past weeks and the 15% plus rebound in equities has been well received across all our portfolios. With inflation in the US seemingly starting to roll over last week, the market reaction was swift and positive. The S&P 500, which is the US major stock index, made back 4 days of losses in a matter of seconds at the opening bell. A lot of this positivity stemmed from the second quarter earnings which have, on the whole, beat expectations and encouraged investors to buy into the story that developed economies might be able to avoid a full-blown recession. This, combined with the narrative that inflation is ostensibly coming down, means central banks around the world are going to be able to ease off raising interest rates, which at the headline level is broadly positive for stocks and bonds. The result – a supercharged return to the 'buy the dip' mentality, pushing stocks up 15%.

TAM has, for some time now, implemented a 'barbell' approach to the equity allocation of our model portfolios. This barbell aims to balance both value stocks (companies undervalued in traditional pricing models) with growth stocks (securities poised to grow earnings at an above market rate). This strategy has been working well with some funds fully reflecting the rally. Whilst our more value-oriented funds

have not fully participated in the recent rally they have heavily outperforming growth-oriented funds over the year we are more than happy to let them sit this round out.

A barbell approach to investing, with protection at its core, is always going to underperform a rally such as this because we are not 100% invested into the stocks which are flying up. Likewise, if we were just invested into these stocks our clients' portfolios would be sitting on substantially larger losses than they currently are given the protracted bear market in growth stocks this year. So, all in all, even with the rally we have seen, our approach to safety is absolutely the right place to be rather than getting excited and going all in on growth stocks. In short, a short-term rally is great, but this is not the time to start chasing our tail.

After this rally, taking stock of it all showed me the positives of investing for the long-term which I want to share with you. Roughly speaking, and not taking into account different client risk tolerances, TAM's clients have seen capital depreciation in 2022 which roughly halves the gains they made in 2021. Considering all that has gone on in this time period, from Russia invading Ukraine, to rampant global inflation and deteriorating economic growth, it is quite amazing and, importantly over the long-term, will make any losses taken this year seem more like a rounding error than a real headwind to long-term profits when one looks at their 3-5 year position.

Of course, this year is far from over and there remains an inflation hurdle which, despite the positive signs coming from the latest data, does not offer any insight into the journey back to central bank's 2% target. This will likely cause some further shocks to the market and we are prepared for this to materialise. We are maintaining all of our defensive positions as we see the chance of more downside on the horizon.

There remains the conflict in Ukraine and the subsequent gas price crisis in Europe, particularly as we enter the winter months, to navigate which has prompted us to remove all of our direct European investments from client portfolios until we can see some signs of long-term positivity coming back to the region. Once the green shoots of European growth start to come back to the market TAM has some fantastic funds to invest into clients' portfolios to capture this acceleration. Until that point we remain on the side-lines.

The UK stock market remains a battleground. On one hand, it holds the allure of fantastic companies at very cheap prices. These companies do however face the prospect of a deep economic recession and protracted political upheaval. We remain very constructive on the UK's potential but for now we favour the larger end of the UK market which affords clients the protection of sitting in established, mega cap stocks through this volatility.

Finally, value stocks, as previously mentioned, remain fantastic value. After the last two months of growth stocks rallying the valuations between growth and value are once again back to levels not seen since the dot come bubble which highlights the potential for huge levels of outperformance for our clients.

So yes, there is so much more work to be done in ensuring we keep in front of these markets. This work is primarily focused on protecting clients when the sharks are circling. But as the storm clouds start to clear we are preparing to invest hard for them in the right areas. From where we are sitting, our cautious

approach focusing on capital preservation has clients' 3–5-year returns, even in this bear market, looking very positive.

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