

NO PAIN, NO GAIN

Recent market volatility has raised concerns among investors, with shifting global dynamics, geopolitical risks, and economic uncertainty driving fluctuations. In his latest market insight, "No Pain, No Gain," James Penny, CIO of TAM Asset Management, explores the current market landscape, the impact of U.S. economic policy shifts, and the growing appeal of global diversification.

At TAM, we believe this volatility presents opportunities for investors willing to take a broader, more strategic approach. James provides a thoughtful analysis of what's driving these movements and why maintaining a disciplined investment strategy remains key.

We hope you find this insight valuable. Please don't hesitate to reach out with any questions.

No Pain, No Gain

As the annual TAM Charity Cycle approaches, I'm reminded of the saying, "no pain, no gain." In fitness, progress requires stepping outside of comfort zones, and right now, markets are experiencing their own version of this principle. Global equities are down 5.54% in 2025, and President Trump's economic

stance, now firmly in "no pain, no gain" mode, is proving to be a tough adjustment for investors.

Market Volatility: A Shift in Leadership

Global markets started 2025 on a strong note, rallying 4.34% in January on continued economic optimism. However, sentiment took a sharp turn in February with the emergence of DeepSeek, a Chinese AI startup offering a low-cost alternative to dominant U.S. AI players like OpenAI and Google. While competition is typically welcomed, the market saw this as a direct challenge to the so-called "Magnificent 7" technology stocks that have driven U.S. market gains in recent years.

Given the heavy concentration of global investment in these stocks, this sudden shift triggered a sharp sell-off, with the S&P 500 falling 9.31% since February 20th, dragging global markets down 8.75%. At the same time, the VIX (market volatility index) surged 76%, reflecting heightened investor anxiety.

The European Opportunity

While U.S. markets struggled, Europe has quietly stepped up. Large government spending packages, particularly in defence and infrastructure, have strengthened investor confidence. As a result, European equities gained 1.5% over the same period, making them an increasingly attractive alternative to expensive U.S. stocks.

At TAM, we anticipated this shift in our Q1 Market Outlook, highlighting Europe as a compelling opportunity given the possibility of A Ukraine peace deal, Economic recovery in Germany, EU fiscal stimulus and A rebound in Chinese spending. These factors are now playing out, reinforcing the case for broader global diversification.

Recession Fears and Trump's Tariff Strategy

Recent volatility has been exacerbated by growing fears of a U.S. recession, driven by falling small business confidence, weak consumer spending, as highlighted by earnings warnings from Best Buy, Walmart, and Dick's Sporting Goods and the impact of new tariffs on U.S. consumers

Many investors expected Trump to soften his stance on tariffs to support markets, often referred to as the "Trump Put." However, his recent comments "you can't really watch the stock market" suggest a fundamental shift in economic policy. Rather than using tariffs as a negotiating tool, it appears they are a core strategy of his MAGAnomics agenda, aimed at reshoring U.S. manufacturing.

This shift means that while pain may come first, long-term gains could follow. However, investors are already repositioning, reducing exposure to U.S. stocks and increasing allocations to Europe, the UK, Emerging Markets, and China, areas TAM has been overweight in for some time.

Interest Rates: What's Next?

Another key market driver is interest rate expectations. Currently, 77% of investors expect two rate cuts in 2025, while just 1% believe rates will rise. Lower rates would be good news for borrowers and bonds, but at TAM, we take a slightly more cautious view.

Given higher-than-expected inflation in both the U.S. and UK, we believe the U.S. is more likely to deliver

just one rate cut this year, rather than two.

TAM's Positioning: Active Diversification Pays Off

Amid market volatility, TAM continues to focus on diversification and capital preservation. Our positioning aligns well with recent trends; overweight European equities, particularly in banks and healthcare, invested in UK and Emerging Markets, where valuations remain attractive and monitoring China's recovery, particularly in tech stocks

While the market remains unsettled, we view this not as a broad-based panic, but rather as a necessary shift in global market leadership. Investors who adapt early to this change are likely to be well-positioned for future gains.

Final Thoughts

2025 is shaping up to be a year of higher volatility and market rotations, as we highlighted in our Q1 Outlook. While short-term uncertainty is unsettling, it also presents opportunities. At TAM, our approach remains steadfast: focus on active management, diversification, and downside protection to help smooth the investment journey for clients.

No pain, no gain—markets may be experiencing discomfort now, but we believe the long-term outlook remains positive.

If you would like to speak with us about our approach to investing, model portfolios, or to discuss how our discretionary investment management services could benefit your clients, please get in touch today.

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TAM Asset Management International

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