



The Iceberg Principle: Markets Above, Risks Below

The tip of the iceberg – market returns

For much of this year, markets have felt like they are in a liberation-day hangover. Each rally to all-time highs has taken us further away from the volatility of early Q2, when markets dropped 12% in six days and it briefly felt like Trump had eviscerated the case for owning stocks.

Since then, global equities have climbed over 15%, despite wars, tariffs, inflation worries, and signs of US economic slowdown. Investors call this “climbing the wall of worry,” and it has certainly paid off for those invested.

Yet beneath the surface, warning signs are building. The surge in gold reflects caution, and rallies in the face of negative news suggest euphoria may be running ahead of fundamentals.

Beneath the surface – the US economy

The latest US jobs report showed just 22,000 new roles in August, compared with 254,000 a year ago. Unemployment has risen to 4.3%, the highest since COVID. Markets took it calmly, expecting the

Federal Reserve to cut rates if needed, but the data increasingly points to contraction rather than expansion.

Why do we focus so much on the US? Simply because it makes up 40–60% of global portfolios, versus around 5% for the UK. When the US slows, the impact is felt worldwide.

Hidden currents – key economic signals

- **Employment:** Hiring has slowed; sentiment is in limbo.
- **Earnings:** Still positive but moderating.
- **Consumers:** Savings remain strong for middle and upper-income households.
- **Inflation:** Rose from 2.7% to 2.9% in August but still tolerated for now.
- **Policy:** Markets expect the Fed to cut rates, providing support.

The US also revised down 2024 employment by 800,000 the largest adjustment in history. Yet markets rallied, underlining the belief that weaker jobs data only strengthens the case for rate cuts.

Cracks in the ice – the inflation debate

Tariffs are becoming central to the inflation discussion. Some argue they have had little effect; others believe rising input costs are already holding back hiring, with price increases yet to filter through.

If inflation keeps surprising to the upside, markets may lose patience, particularly if higher prices prevent the Fed from cutting rates aggressively.

The shape of the iceberg – three scenarios into 2026

1. Soft landing (base case and current positioning)

The US slows gradually but avoids recession, supported by interest rate cuts. This is our favoured scenario and how we are currently positioned, with full US equity exposure, diversified global equities, and high quality active funds designed to capture upside.

2. Recession with aggressive rate cuts

A sharper contraction in US spending and rising unemployment would trigger deeper rate cuts. In this case, TAM would increase government bond holdings, rotate into defensive equities, and add further to diversifiers such as gold and hedge fund style strategies.

3. Stagflation (recession with higher inflation)

If tariffs push costs higher while growth weakens, both equities and bonds would come under pressure. TAM would reduce equity exposure, increase shorter dated and inflation linked bonds, and add to gold, real assets and absolute return strategies to protect portfolios.

The iceberg principle – our role as managers

Anyone can make gains when the sun is shining. The real test is protecting them when conditions turn.

Like an iceberg, what is visible above the surface, portfolio returns, is only a fraction of the work being

done beneath. Most of our effort goes unseen: managing risks, preparing for different scenarios, and ensuring portfolios are positioned to withstand whatever markets bring.

This note is intended as a window into those efforts and how TAM is working to keep client gains intact, control volatility, and stay focused on long-term goals.

Closing thought

TAM portfolios are positioned for the **soft-landing scenario**, but we are ready to adapt quickly if risks rise. The role of the investment manager is not just to capture upside, but to protect gains when conditions turn.

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