



By James Penny, Chief Investment Officer at TAM Asset Management Ltd

It looks like markets have been going through somewhat of a sea change in January in terms of both investment leadership but also geopolitics. Agreed, we have seen plenty of geopolitical turmoil over the last year but the market has taken much of it in its stride to continue to advance higher. What many might have missed is a slow deterioration in bullishness which has shown up in investor surveys. Looking closer, managers are still bullish on equities and increasing their allocation to stocks but increasingly less enthusiastic about doing so. Interestingly investors, despite this deterioration, remain overweight and, on the margin still positive about stocks in 2026, which speaks to a market seemingly full of bulls but reluctant bulls. This might give us a clue as to why “alternatives” such as commodities, precious metals and hedge funds remain on the buy list for so many in 2025 and 2026 as investors seek alternative investments to hedge out the risk of remain at weight in equities just to keep up with the market and indeed, their competitors.

With the US market closing down over 2% on Tuesday, the largest sell off since Liberation Day 2025, it would appear the market is starting to react a little more appropriately to geopolitics. Yes the market down 2% in a day is something we want to avoid if we can help it, but it also shows a level of maturity from investors in starting to react properly to macro shocks to the investment narrative which remains an essential part of a functioning market which isn't sleepwalking off a cliff.

Many will have read Trump's latest claims to "acquire" Greenland. Greenland was very much 2025's story but the new spin was for Trump to slap tariffs on those NATO partners threatening to stand up to him. The weaponisation of tariffs against US allies is very much a 2026 story and one which has brought wide condemnation from the international community and indeed from within his own republican party.

In somewhat of a side show, Trump has continued his attack on Federal Reserve Chairman Jay Powell in an attempt to lower interest rates below where many believe they need to be just to goose the US economy into the midterm elections this year. Trump has notably avoided announcing a replacement to the federal reserve chairman who steps down in May. Many thought the delay was Trump taking his time to pick the right candidate, but many are now starting to speculate that Trump doesn't like any of the prospective candidates because, well, they are not him!

What this has served to do is replay much of what we saw in markets in the first quarter of 2025 with global investors selling the US market and buying international stocks but with a couple of other interesting developments going on under the surface. Indeed, this trend also stretches to the dollar which, given the stock market pulled back on geopolitical concerns, would usually see investors flocking to the currency as a safe haven. This hasn't happened.

If one tracks back the "sell US" one can actually see it starting around the fourth quarter of 2025 as more and more investors started to turn more skeptical on the current AI rally which has been extraordinarily narrow in only a handful of companies. Given how large these companies are in the US index, all it takes these days is for a few of these companies to start to underperform and the wider US market starts to slow down.

Under the surface you can also see investor sentiment shifting away from these stocks into more old-world stocks which many would classify as "value" stocks like materials, energy and consumer staples. With many in the market now pricing no cuts to US rates in 2026 investors are looking to underpriced value stocks which do well when rates stay steady with inflation running higher than the 2% target which is exactly the scenario, we are now facing combined with a continuation of US economic growth which remains in good shape.

One can also see this showing up in more investor appetite for US small and mid-cap stocks which remain at a 30% discount to their larger peers in the S&P500. Mid caps have also seen a recent pick up in earnings growth against their larger peers helping to close the gap. Likewise, we can also see this performance shift occurring in the S&P500 equal weight which still delivers the same 500 US stocks but with no excessive concentration in a handful of tech names and therefore much larger exposure to value names in the index which have been picking up.

This spells a healthy rotation away from areas of the market which are richly valued with a clear focus on the next leg of the rally which seems to point to value and smaller company stocks which have, by comparison, trailed the Mega cap AI stocks over the last few years putting them on a pedestal for a swing back into the driving seat for 2026. Let's be clear however, the US and global market needs to be on a solid economic footing with growth not contraction seen in economies for this trend to continue.

I will come back to my earlier comment about a development in 2026 being the hallmark of a properly functioning market. Investors searching for value discovery in unloved areas of the market rather than throwing a wall of money at the most expensive and concentrated parts of the market is another call sign of a functioning, cyclical market which we are going to need to have if we want an orderly rallying market in 2026.

TAM has been focusing much of its time on uncovering some of the best managers in both the US and global small cap market along with deep research into the best managers of value stocks globally. To this end, TAM remains well positioned to tilt further into these talented managers should the market continue to favor these types of companies. Again, these developments in the market remain

overly positive for any investor which has a globally diversified portfolio of high quality companies less reliant on a handful of AI related tech and consumer discretionary stocks.