The Ballad of an Optimist

By Dan Babington, Portfolio Manger & Responsible Investment Lead at TAM Asset Management Ltd

As I am routinely keen to outline, being an optimistic investor may not just make your investing journey less worrisome, it actually places the odds in your favour. That's because, very simply, financial markets go up more frequently than they go down. [Since 1926,] the U.S. stock market has experienced positive returns 56% of the time on a daily basis, 63% of the time on a monthly basis, 75% of the time on a yearly basis, 88% of the time on a 5-year basis, 95% of the time on a 10-year basis and 100% of the time on a 20-year basis. I would be within my rights to follow this with endless caveats about the importance of diversification and the shortfalls of extrapolating past data to make assertions about the future. But the point stands firm: being permanently bearish on stocks is tantamount to betting against humanity's ability to innovate. Which has been the wrong bet since time immemorial.

Regrettably however, stock markets do not go up in a straight line meaning active management comes into its own as clients with shorter time horizons require a more opportunistic lens. Therefore, even the comforting statistics above leave enough room for prolonged periods of mire. Investors in sustainability over the past five years will be all too familiar with how difficult the shorter-term can prove. To reprise, let me take you back to July 2021. After 14 months pogoing between full lockdown and distanced socialising, the shackles were loosened, and the first taste of normalcy gripped the nation. England men's team found themselves in the Final of a delayed European Championships and the beer splattered on the ceilings of pubs and living rooms around the country mirrored the effervescence in stock markets, as stocks ripped through previously perceived limits.

A bubble, whether in the stock market or in a pint glass, is comprised of both a flexible liquid and a gas. The stock market mimicked one perfectly due to the figurative relationship between the two. The 'gas' in this instance came from the exuberance of a brighter future. With COVID-19 seemingly behind there was a palpable sense of opportunity, globally, in battling some of humanity's other great fights. The proliferation of wisdom surrounding climate change and the United Nation's Sustainable Development Goals overlapped with curated one-sided advocacy such as 'The Game Changers' Netflix documentary. The rise of interest in this space was a show of force on investing for a better tomorrow, bringing sustainable investment to the fore.

So, the enthusiasm, or gas, was abundant. In terms of the liquid, or should I say liquidity, this was provided by Central Banks. Late March 2020 saw the UK and the US cut rates in lockstep to 0.1% and 0.25% respectively in a bid to breathe some life into a halted economy. Interest-free borrowing, vastly lower expenditure and unprecedented governmental stimulus all led to historic levels of cash in the hands of consumers. All at a time where commissions on major trading platforms had dropped to zero. The inevitable result was that the share of households with at least some stock holdings reached a record high as the monthly percentage of individuals moving money from checking to brokerage accounts was 3 to 4x higher during the pandemic than in the preceding years.

Resultingly, the bubble in sustainability-related stocks reflected some of the key tenets of effervescent market dynamics and, with hindsight, reflected a concept which had gone too far too fast. A popular index tracking the supply chain of the transition to renewable energy had rallied 223% from the COVID-lows. The next four years saw a bleed of -68% from these euphoric highs. A more diversified 'Sustainable Development' index rallied less and thus fell less but was still down 24% in mid-2024 (FE Analytics). The benefits of manager selection, diversification and risk management meant that the TAM Sustainable World portfolios had fared demonstrably better than these indices, but the opportunities for index-like-returns were sparse and sentiment was waning.

Fast forward to today and I believe we can place this negativity firmly in the rearview mirror. In 2025, a TAM Sustainable World Balanced portfolio delivered a 10% return after subtracting our fees. This placed us ahead of the industry standard ARC Balanced benchmark, ahead of TAM's mainstream Balanced benchmark and ahead of the vast majority of the sustainability focused industry. The pleasing context is that the whole portfolio suite behaved similarly, generating very few headlines and even less fuss. This performance has continued into 2026 amid a backdrop that certainly serves as fertile ground for harvesting wider spread optimism for space. The drivers of performance were wide ranging, a reflection of the myriad strategies now available through a sustainable lens.

A notable performance standout came in the form of a rebound in the energy transition sector, with the aforementioned index registering a 54% recovery from the lows (FE). Although we prefer to get exposure to this theme indirectly through multi-thematic funds, it was certainly pleasing to see a change of fortune for this often maligned sector. Within the portfolio, our Emerging Markets equity fund, which invests through a framework aligned to the UN's Sustainable Development Goals, was a clear stand out. This is an area we are bullish on well into 2026 and beyond as these markets see momentum building. Closely in performance was our Sustainable Value fund – an investment style that was difficult to come by when the sustainability bubble was inflating. My view is that value investing will continue to win favour, especially with the quality lens that sustainability analysis provides. This is expressed in my latest note where I go head to head with our Independent Macroeconomist, Alex Dryden who argues growth investing will reign supreme. Luckily for our Sustainable World investors, we have allocations to both.

An area which Alex and I do agree will continue to deliver strong returns is our commodities exposure, especially those crucial for the energy transition. Our transition focused commodities fund provided double digit returns while our high conviction call in one transition metal, silver, provided a triple digit return in itself. When adding our responsibly sourced gold position, reflecting our view that the dollar would come under pressure in 2025, the portfolios have benefitted accordingly. 2026, albeit in its infancy, shows further signs of an increasingly polarised geopolitical fabric. Therefore, these investments, which are best in class from a sustainability perspective, reflect our view that when we are building our portfolios we build them to protect against whatever the world of investing throws at us.

Investing, upon stripping the glitz and the gusto, is a straight-forward concept. One purchases an asset or shares of said asset, debt or portion of debt, primarily in the pursuit of a return in excess of their original investment. Such return can enable financial security, opportunity and as the cost of living grows, protects our sanity. It is therefore, more so now than ever, deserving of plaudits when someone makes the conscious decision to consider not just a financial return, but something less quantifiable like making a difference with their investment. I'm therefore pleased that such investors are being rewarded with strong returns, alongside the existing positive environmental and social outcomes, after a period of difficulty for the discipline.

The best news? I believe this realignment between returns, resilience and real-world outcomes is only just beginning.

.