



## Turbulence is opportunity - An outlook for 2026

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As we reach the halfway point of 2026, it is worth reflecting on what has been an extraordinary six months for investors. Markets have navigated a remarkable number of geopolitical events, shifting economic narratives and evolving investment themes, which many speculate would have crashed previous market cycles. Yet global equities have taken all in their stride and continued to climb. The first half of the year serves as another reminder that markets are driven not simply by today's headlines or even pure valuations but by investors' expectations of tomorrow, an insatiable appetite to “buy the dip” and massive participation from both retail and passive investing. In many respects, the first half of 2026 has been a poster child for this new market regime we have been in since COVID19.

The S&P 500 delivered one of its strongest quarters since 2020, finishing the first half of the year at a fresh record high of 7,600 delivering a return of just over 9.5%. The Nasdaq delivering over 12% whilst the UK and the EU delivered 5.17% and 8.10% respectively. As in so many preceding quarters and half's, those with more US stocks than EU or UK saw this in their performance returns for H126.

The conflict involving Iran and the United States aptly named operation “Epic Fury” was, on the face of it, expected to deliver rapid regime change in Iran with the same speed as the administrations recent coup in removing Venezuelan leader Nicolás Maduro. What they got was a diplomatic mess in which the Iranian leadership were not removed and arguably strengthened their hold on the country whilst simply harassing the Strait of Hormuz with drones and mines to sufficiently to close it to all traffic for much of the first half of the year. With around one fifth of the world's oil supply flowing through this narrow waterway, investors heralded this as “the worst energy shock in history” that would reignite inflation and force central banks to keep interest rates higher for longer. Equity markets reacted as expected, falling by just over 4% as uncertainty spread across global markets.

As has often been the case in recent years, the period of uncertainty proved relatively short lived. Investors quickly concluded that, despite the alarming headlines, the conflict was unlikely to become a prolonged global crisis. Markets looked through the immediate disruption, taking the view that diplomacy would eventually prevail and that any inflationary pressures would ultimately prove temporary. Confidence returned quickly and equities recovered to fresh record highs. TAM moved defensively in the face of this in a vote to protect investors assets rather than leave them exposed to a potential oil shock. Ultimately this protection proved unnecessary in the face of massive investor enthusiasm but the protective actions further extoll our mantra of downside protection.

Interestingly, the leadership behind this rebound rally looked very different from previous quarters. Before the conflict, software companies had been among the market's strongest performers as enthusiasm around Artificial Intelligence broadened across the technology sector. During the recovery, however, investors rotated aggressively into semiconductor and memory companies while many software businesses experienced sharp declines. Concerns emerged that increasingly capable AI models could disrupt parts of the software industry itself, forcing investors to rethink which companies stood to benefit most from the next phase of AI adoption.

This marks an important evolution in the AI investment story. Rather than lifting every technology company indiscriminately, investors are becoming increasingly selective, rewarding those businesses that sit closest to the infrastructure required to build and power AI while becoming more cautious towards companies whose competitive advantages may be challenged by the technology itself. With hindsight, one of the most profitable trades during the first half of the year would have been selling software companies while buying semiconductor manufacturers.

Beneath the headlines, the strength of equity markets has also become healthier than many appreciate. Previous rallies have often been driven primarily by expanding investor optimism, with valuations rising faster than the underlying fundamentals. This year has been different.

Corporate earnings have provided an outsized role in 2026 in driving share price performance and this doesn't just focus on the US but spreads across Emerging Markets also. Earnings growth has accelerated to roughly 27% year on year, comfortably exceeding expectations and significantly outpacing previous reporting seasons. Goldman Sachs noted that EM earnings growth for the same period has jumped 40% which is well ahead of share price performance actually making the market cheaper as it rallied. As a result, globally, despite record equity prices, valuations have actually become more reasonable as stronger profits have reduced the premium investors are paying for future earnings. For professional investors, this has provided greater confidence that the rally has been supported by improving company fundamentals rather than speculation alone.

That said, a notable disconnect remains beneath the surface. While corporate earnings continue to strengthen and equity markets reach fresh highs, consumer sentiment remains close to record lows across many developed economies. This reflects the very different experiences of financial markets and everyday households. Many lower income consumers continue to face the pressures of a

prolonged cost of living crisis, even as listed companies deliver increasingly impressive profits. It is another reminder that stock market performance and economic sentiment (Main Street Vs Wall Street) do not always tally.

Emerging markets continued to be one of the standout performers during the first half of the year, returning more than 25% by the end of May compared with approximately 12% for broader global equities. Much of this strength came from Asia, particularly Taiwan and South Korea, where semiconductor giants such as TSMC and SK Hynix found themselves at the centre of the next phase of the AI investment cycle. As investors increasingly focused on the companies supplying the hardware needed to support AI infrastructure, capital flowed aggressively into chip manufacturers and memory producers.

Interestingly, this rotation was funded in part by investors reducing positions in some of the large US technology companies that had driven market returns over recent years. Leadership within technology has therefore become much more dynamic than many headlines suggest. The AI theme remains firmly intact, but the companies benefiting from it continue to evolve as supply chains mature and investment priorities shift.

One of the more fascinating examples of investor behaviour emerged during the Iran conflict itself. Despite the prospect of one of the largest oil supply disruptions in modern history, investors continued reducing exposure to Latin America while increasing allocations to Asian markets. From a traditional macroeconomic perspective, this appears counterintuitive. Latin American economies are generally net exporters of commodities, meaning higher oil prices should strengthen government revenues and economic activity. Many Asian economies, by contrast, are significant importers of energy and therefore face higher costs when oil prices rise.

Yet the enthusiasm surrounding AI proved powerful enough to override these macroeconomic considerations. Investors were prepared to overlook short term geopolitical risks and rising energy costs in favour of increasing exposure to semiconductor manufacturers and AI infrastructure businesses. It was another reminder that market leadership is often driven by the strongest structural growth stories rather than the most obvious macroeconomic beneficiaries which would have driven stock market movements in previous years.

These episodes also highlight why active management has become increasingly valuable. Looking only at headline market performance masks the significant rotations taking place beneath the surface. Entire sectors have moved in opposite directions despite being linked to the same investment theme, creating opportunities for active managers willing to look beyond index performance.

Towards the end of the second quarter, markets experienced another period of volatility as investors began questioning whether the extraordinary levels of capital expenditure being committed to AI would ultimately generate sufficient long term returns. This was less a rejection of the AI theme itself and more a reassessment of where future profits were likely to emerge.

Leadership continued shifting away from the so called Magnificent Seven and towards companies supplying memory, storage and data infrastructure. Businesses such as Micron, Western Digital, SanDisk and Seagate delivered some of their strongest quarters on record as investors increasingly recognised that memory and storage capacity represent critical bottlenecks in the global AI build out. As demand continues to outstrip supply, these companies have enjoyed considerable pricing power alongside substantial upgrades to earnings expectations.

Broader market weakness towards the end of the quarter was also amplified by normal seasonal factors. Institutional investors routinely rebalance portfolios at quarter end, reducing exposure to their strongest performing holdings and reallocating capital back towards strategic weightings. Given the exceptional performance delivered by AI related investments, much of this profit taking naturally centred on the technology sector. At the same time, macroeconomic concerns resurfaced after newly appointed Federal Reserve Chair Kevin Warsh adopted a more sceptical tone on low interest rates than markets had anticipated. In the United Kingdom, political uncertainty also increased

following the resignation of Prime Minister Keir Starmer, adding another layer of uncertainty for domestic investors.

The UK market consequently underperformed the United States during the second quarter, reversing some of the relative strength seen earlier in the year. Nevertheless, one encouraging development has been growing interest from private equity firms in UK listed companies. A combination of depressed valuations and a relatively weak pound has made many high quality British businesses increasingly attractive takeover candidates, providing an additional source of support for UK equities despite the challenging domestic backdrop.

Whilst much of the attention during the first half of the year centred on record equity markets and the continued rise of Artificial Intelligence, one of the more significant developments occurred away from the headlines. Global bond markets experienced a far more challenging period, reminding investors that fixed income remains central to the broader investment landscape and an important component of all client portfolios as it remains the

counterbalance to clients equity positions. Government bond yields rose sharply across most developed economies. US Treasury yields reached their highest levels in 15 months, whilst German Bunds and longer dated UK Gilts climbed to levels not seen for decades. As bond prices fall when yields rise, this represented a meaningful sell off across sovereign debt markets.

At the heart of this move has been a growing reluctance among investors to lend money to governments at historically low rates. Years of expanding fiscal deficits have pushed government debt steadily higher across much of the developed world, with many countries continuing to borrow heavily simply to fund day to day spending. Without a credible path towards more sustainable public finances, investors are increasingly demanding greater compensation for taking on sovereign risk.

The geopolitical backdrop only added to those concerns. Whilst equity markets quickly looked through the disruption caused by the Iran conflict, bond investors took a far more cautious view. The prospect of a sustained rise in oil prices raised fears that inflation could once again move meaningfully above central bank targets, forcing policymakers to delay interest rate cuts or even tighten monetary policy further.

For bond markets, this combination is particularly uncomfortable. If inflation remains elevated whilst economic growth continues to slow, central banks have little flexibility to stimulate weaker economies without risking another wave of price pressures. It is precisely this balance between slowing growth and stubborn inflation that continues to concern fixed income investors. Against this backdrop, corporate bonds have remained comparatively resilient. Credit spreads have stayed relatively tight, suggesting investors remain comfortable lending to financially robust businesses even as confidence towards government debt has weakened. In other words, markets continue to differentiate between the strength of corporate balance sheets and the growing fiscal challenges facing many sovereign issuers.

Despite the recent weakness, we do not believe bonds should be dismissed. Fixed income continues to play a vital role in diversified portfolios, providing both income and, over the longer term, an important source of stability alongside equities. Indeed, if inflation begins to moderate as we expect, today's elevated yields could represent an increasingly attractive entry point for long term investors.

At TAM we therefore remain diversified across both government and corporate bonds, whilst maintaining a preference for both shorter duration exposure and inflation protected bonds to help manage interest rate and inflation risk simultaneously. At the same time, we remain alert to further changes in the market. Should bond yields continue to rise significantly, valuations may eventually become compelling enough to improve the relative attractiveness of fixed income compared with equities which is already suggesting there is very little risk premium embedded in equities. Equally, if inflation proves more persistent than expected, maintaining a disciplined and diversified approach in short and inflation protected bonds will remain essential.

As with many areas of today's market, the outlook for bonds is unlikely to be defined by a single economic indicator. It will depend on the interaction between inflation, fiscal policy, economic growth and investor confidence. Navigating those competing forces is precisely why active management remains so important in an increasingly complex investment environment.

## Outlook

As we turn our attention to the second half of the year, the challenge certainly revolves around the debate into this market and what many are calling a “bubble” in the market. Whilst we as professional investors live and breath the market narrative, we fully appreciate these concerns are of material consequence to our clients and thus need to be addressed. We remain in one of the strongest periods for global equities in recent memory and clients portfolios have benefited greatly from this period in markets.

As we sit today, we must concede that there are areas of the market, specifically within the AI stack which we think are over valued and certainly some of the earnings calls into the future remain ambitious as a measure to justify today's prices. We believe it is these areas of excess in markets like semiconductors, data centres and hyperscalers which continue to spin the narrative that the market is expensive in totality.

We continue to maintain that despite the speculative nature of some areas of the market, we do still see bright spots of opportunity where valuations are not lofty and opportunities remain healthy. To simply wright off the whole stock market as “expensive” or “in a bubble” is, in our opinion somewhat myopic. It betrays the vast ecosystem of companies which have fantastic earnings, cash reserves, economies of scale, competitive moats all trading at good valuations which routinely get caught up in the catchall assumption that the market is “expensive”

Given this, our outlook for equities in the third quarter remains constructive. Investor sentiment continues to support stocks, corporate earnings remain robust and, importantly, we expect inflation to stay broadly contained within a range of 2.5% to 3.5% which should check any aggressive rate hikes from central banks. If economic growth remains resilient, which we maintain that it does, we believe equities can continue to move higher through the remainder of the year with sentiment starting to broaden out. For that reason, we are maintaining a meaningful allocation to equities across our portfolios.

That said, the path higher is unlikely to be smooth. While markets appear increasingly confident that geopolitical tensions will continue to ease, we believe that assumption may prove optimistic. Negotiating a lasting peace in the Middle East is rarely a straightforward process, and periods of progress are often followed by setbacks. As an example, Trumps chief negotiators in the new Iranian deal are US property developers with little to no experience in negotiating an international nuclear arms deal. Any renewed disruption to shipping through the Strait of Hormuz as a result of the negotiations breaking down has the potential to create fresh inflationary pressures, prompting sharp swings in investor sentiment. Rather than a straight line lower, we expect inflation to follow a more uneven path, creating periods of heightened volatility as markets continually reassess the outlook for interest rates.

This view also shapes our outlook for energy markets. Oil prices around \$70 per barrel appear to understate the geopolitical risks that remain. We believe prices could reasonably move into the \$80 to \$90 range should tensions re-emerge, creating both inflationary challenges and opportunities. In particular, energy producers continue to look attractively positioned, with many still seeing stock prices not fully reflecting the earnings potential associated with higher oil prices.

Whilst equities remain our preferred asset class, we are becoming increasingly interested in opportunities emerging within fixed income. Government bonds have endured a difficult period as investors demanded higher yields to compensate for persistent inflation and rising government borrowing. However, if inflation gradually moderates back towards central bank targets, today's elevated yields could begin to look increasingly attractive.

Within this environment, UK government bonds stand out as an area of particular interest. Improving inflation dynamics and a relatively stable political backdrop create the potential for attractive long-term returns should bond markets begin to recover. Across client portfolios we remain diversified across both government and corporate bonds, whilst continuing to favour shorter duration exposure to help manage interest rate risk.

Artificial Intelligence also remains one of the defining investment themes of the decade. We continue to believe AI represents the early stages of a technological transformation comparable to previous industrial revolutions. However, as we have seen throughout the first half of the year, investors are becoming far more selective in deciding where the greatest value lies as the market continues to become more and more expensive.

The broad AI story remains intact, but leadership within the theme continues to rotate rapidly. Companies that were market leaders only months ago have given way to new beneficiaries as bottlenecks emerge across memory, storage, infrastructure and semiconductor supply chains. This is precisely why active management has become increasingly important. Rather than simply owning AI, investors must identify where future earnings growth is likely to materialise as we progress into the end of this year. 2

Equally important is recognising that not every attractive investment opportunity sits within the AI ecosystem. Some of the most compelling valuations today exist in areas of the market that have received considerably less attention. Healthcare, industrials and consumer staples continue to benefit as investors gradually broaden their exposure beyond technology. These sectors not only provide valuable diversification but also offer the potential to generate attractive long term returns without relying on the continued expansion of AI valuations. Likewise, quality companies continue to lag with increasing potential to be great stores of value should the market move meaningfully in reverse. We are also watching the stealth rally in global smaller companies which continues to look impressive. We will be looking to this area of the market in H2 as a potential source of increased performance.

The same philosophy of active management extends across our broader asset allocation. As inflation proves more persistent, government borrowing continues to rise and confidence in traditional fiat currencies is increasingly questioned, we believe real assets will continue to play a larger role in diversified portfolios. Infrastructure, property and commodities all provide useful inflation resilience, whilst alternative investments, including hedge funds, absolute return strategies and specialist commodity businesses, can offer additional diversification in what has become an increasingly fragmented investment landscape in which spreading ones assets far and wide ensures a more stable asset mix capable of weathering a far greater plethora of market reactions.

Looking further ahead, we believe several structural themes will continue shaping investment markets over the coming decade. Rising geopolitical tensions and a more fragmented global economy are encouraging nations to prioritise energy independence, critical mineral supply chains, defence capabilities and domestic technological leadership. There is also a clear

fragmenting of geopolitical collaboration in which many nations will cease to collaborate in the way they have done since the second world war. This will create additional volatility in FX, rates and imported inflation dynamics. These trends are likely to support long term investment opportunities across infrastructure, cyber security, clean energy, industrial automation, mining, defence technologies and, increasingly, the commercial development of space. In short, against the backdrop of expensive markets holistically, the case for investing more thematically has never looked so good.

Regionally, we remain constructive on emerging markets, although we are increasingly mindful of the concentration of AI and technology within major benchmark indices. Maintaining exposure whilst broadening allocations towards higher quality value businesses provides a sensible way to participate in long term growth without becoming overly dependent on a single investment theme.

Europe also continues to present selective opportunities. Economic growth remains subdued, but improving defence spending, attractive company valuations and the prospect of greater political

stability all provide reasons for cautious optimism. Should the conflict in Ukraine begin moving towards a lasting resolution later this year, Europe could benefit from improving investor confidence, lower energy prices and a more supportive interest rate environment.

The UK remains a more mixed picture. Economic growth continues to disappoint, whilst fiscal policy and government borrowing are likely to remain under close scrutiny. Nevertheless, lower oil prices should provide welcome relief for inflation and increase the Bank of England's flexibility to support the economy via lowering rates if required. Ultimately, the UK's longer term prospects will heavily depend on its ability to deliver sustained domestic economic growth, encourage business investment and strengthen its trading relationships with key international partners such as Europe.

Taken together, these themes reinforce a message that has become increasingly clear throughout 2026. Diversification is once again proving its worth. Market leadership is becoming increasingly broader, sector performance is becoming more fragmented and geopolitical developments continue to influence investor sentiment with remarkable speed.

For clients and their advisers, this is precisely the type of environment where proactive management adds value. Rather than relying on a narrow group of market leaders, we continue to build diversified portfolios capable of participating in long term growth whilst remaining resilient to the inevitable periods of uncertainty that lie ahead.

That disciplined approach to stewardship, diversification and long term investing remains at the heart of how we manage client capital. Whilst some of the protective investment decisions we make might not always provide an immediate investment return, they all come return to the message of “trust” in the process, the communication, the journey and the inevitable arrival at that long term financial destination, to which is sacrosanct to the way we manage our clients hard earned wealth.

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