

Taking the temperature of 2025

It's rare to review markets so soon after the start of a year but its shaping up, just like we thought, to be a very different year from 2024. The eerie spike in aviation crashes, bizarre weather patterns, right wing politics, Trump trying to buy Greenland, The new "gulf of America", the Ukrainian PM being labelled a dictator all the way to "smell-o-vision" goggles and taste enhancing spoons! People are rightfully starting to ask the question, are we in fact "living in a simulation?" …. Perhaps!

Well, the stock market isn't living in a simulation thankfully. Markets keep marching higher, smashing records and looking through geopolitics in what is capping off a fantastic few years to be an investor. Much has been made on the dominance of the US tech scene of late but the recent leadership change has seen European, UK and "non-AI" stocks leading the performance. Indeed, at the time of writing the China market has rallied 2.3% overnight against a negative market close for the US which is something one hasn't seen too many times in recent years. All of this is going to be manna from heaven for active managers who are all overweight in these regions and types of stocks. I will say it again, active management is not dead, its pursuit of owning uncorrelated, appropriately priced, high-quality companies simply come and go as and when the market forces move back into their favour as 2025 has started.

Looking at what investors are doing "on average" in 2025 is always a very interesting insight. To do this we have looked at the Bank of America fund manager survey released each month which has always been a reliable barometer of sentiment in the professional investment industry. Obviously, the path to disastrous performance can sometimes be found in "following the herd" so looking at what the herd is doing needs to be taken with a pinch of salt. Nonetheless it's interesting, as we move through a wild time in politics, AI innovation and the active Vs passive debate, to take the temperature of the investment industry in 2025.

Well, a good starter is how much spare cash investors have in their portfolios? Usually, a high level of cash indicates investors are worried about the future and thus keeping their powder dry for another day. Likewise, a low level of cash indicates investors have gone "all in" thinking the good times are going to keep on going. Well, as of February the investment community's cash levels in portfolios are at their lowest level in 15 years! That's a positive signal about the perceived near-term prospects for the markets. It is unsurprising then that 82% believe there is not going to be a global recession on the horizon. Clearly, these two stats are cousins of one another as both strike an undeniably positive tone as we move through Q1.

Again, unsurprisingly, investors still think the most "crowded" trade (aka where most peoples money remains invested) is US Tech which has done so well in 2023 and 2024. Surprisingly, 89% of investors believe the US market is now expensive which was something we touched on in our latest market review. This is usually a good prompt for investors to sell their US stocks at a profit and move this cash into better priced investments.

The data seems to have an answer to this as well. February saw a large investor shift into buying European stocks. European stocks are outperforming the US, year to date, so this shift in sentiment is coming through in the real time numbers.

Coming back to TAM, we outlined in our "Q1 market outlook" that "it makes logical and contrarian sense to consider Europe as a more attractive place to invest in 2025. Possible triggers for this shift could include a peace deal in the Ukraine war, economic recovery in Germany, a meaningful EU spending package, or a rebound in Chinese spending". Largely this has all played out with Europe performance stepping forward, a peace deal on the cards and the fortunes of China beginning to turn positive.

Let's talk interest rates, a massive 77% of the investment community expect to see two rate cuts in 2025 from the likes of the US and UK with just 1% of investors thinking the next move is going to be rate hikes. Great news for clients concerned about mortgages and, on the margin, good for bonds.

TAM agrees with the market that rates will come down this year, but our view towards the US is slightly more cautious with the idea that they will deliver one rate cut in 2025. Given the latest US and UK inflation numbers for February came above expectations, we are inclined to lean into our view of one cut, over the majority of the investment community thinking there will be two cuts.

Finishing off with some positioning, investors are favouring buying banks, healthcare, European stocks in

general which is undoubtedly a more value orientated call. TAM's European fund's largest overweight is banks and healthcare as well as TAM being broadly overweight to European stock market in general.

Coming back to comments about not following the herd, Investors remain pessimistic on the prospects for UK and Emerging markets which TAM is conversely invested into. We see real value here from the high quality, cheap companies in the UK and likewise Emerging Markets are beginning to benefit from the weakness in the dollar and their own stabilising economies. China, and specifically China tech, are also starting to roar which in turn is lighting a fire under the whole EM region.

All in all, much of what consisted of TAM's investment view for Q1 is materialising, specifically the broadening out of investor appetite to own more than just US tech stocks. This development is arguably the biggest fundamental shift in 2025 and despite coming earlier than we expected it's going to be the lighting rod active managers need to begin to unlock performance from their global portfolios which have so much more in them than just US Tech investments. This positivity is of course kept in check by the obvious geopolitical risks stemming from Ukraine, Taiwan and the US's attitude to underwriting the national security of both nations, which will likely cause further volatility to which investors will have to position for alongside the areas of positivity they are looking to exploit.

So, whilst we might be living in some dystopian or utopian simulation more akin to the matrix, investors, including TAM seem to have the pulse of the market in 2025 and are seeing the real value in owning a broad portfolio of global stocks to the boon of so many clients invested on that all important journey to their future financial goals.

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