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No one expected that

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“I would refer you to the curious incident of the dog in the night-time” said Sherlock Holmes. “But the dog did not do anything” replied the inspector. “That was the curious incident.”

As we look forward to the coming year, one must acknowledge, once again, based on how 2025 began and ended that market timing is a futile game.

2025 was a banner year for risk assets; bonds, equities and major commodities all rose in tandem, but it wasn’t supposed to be this way. Our strategies generated very strong returns in absolute terms, and pleasingly performed materially better than the ARC peer groups with lower falls during the volatility early in 2025.

Heading into 2025, the storm clouds appeared to be gathering with one in particular, in the shape of Donald Trump, casting a particularly dark shadow.

It is widely regarded in financial market circles as axiomatic that “markets hate uncertainty.” Donald Trump is the very definition of uncertainty. To a first approximation, it didn’t really matter what the new President’s policies actually were; it was that no-one, possibly even the President himself, knew what they were. In the playground words of his former strategist Steve Bannon, the key policy was to “flood the zone with….(expletive deleted).”

In market terms that should have been disastrous and on “liberation day” – 2nd April 2025 – when DJT announced his tariff regime, some of our worst fears were realised and, financial markets retreated, falling by up to a fifth.

Remarkably, this crash was extraordinarily short-lived, demonstrating, not for the first time, that attempting to time markets is a mug’s game. Markets rallied and have broadly continued to rally since. To many observers this still seems an odd way for markets to deal with, in Mervyn King’s words, the “radical uncertainty,” that Donald Trump brings to the execution of his role as leader of the free world.

This is not just a US-driven phenomenon, and we must all acknowledge that the investment environment today is very different to that of a decade, or even two years, ago.

Our approach through all of the uncertainty of the past 15 years has remained focused on the valuations of the assets we own in our strategies and the quality of the assets in a changing world with deteriorating legal and political frameworks globally. In the current environment, businesses with high debt levels or one-dimensional business models (be that by product, region or end customer) remain extremely vulnerable to share price declines which do not reverse following events such as ‘liberation day’, permanently impairing client capital.

2026 will be no different to 2025 in that very selective allocations to strong businesses with low debt levels that can operate in the current global environment will stand the best chance of providing positive real returns looking ahead, albeit with risks of periodic market volatility.

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