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Thinking clearly when markets are noisy

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Markets often feel most demanding when the headlines are loudest. A political shock, an inflation surprise, a sharp move in bond yields or a sudden fall in equity markets can all create the same pressure: the urge to react quickly.

Yet the more useful response is usually not to ask, “What do I think will happen next?” It is to ask a better sequence of questions.

At Tacit, we find it helpful to think in three stages. First, what do we know? Second, what does the market already believe? Third, how might investors, companies and policymakers change their behaviour in response?

This is not an attempt to make investing sound more complicated. It is the opposite. It is a way of slowing the decision down, separating evidence from emotion, and making sure a portfolio decision is based on more than a strong headline.

A simple analogy is a game of chess. The first level is seeing the move that has just been played. The second is understanding what your opponent expected you to do. The third is thinking about how the position may change once both sides start adjusting. In markets, the same discipline applies. Facts matter, but prices also matter, and behaviour can turn a small shock into a larger move.

The first level is observation. We start with what has actually changed. Has inflation moved materially? Has growth weakened? Have earnings expectations shifted? Have borrowing costs risen? Are credit conditions tightening?

This sounds obvious, but it is often where mistakes begin. Investors can move too quickly from a headline to a conclusion. A weak data point is not always a recession. A strong market rally is not always proof that risk has disappeared. The point is to identify the facts clearly before building a story around them.

The second level is expectations. Markets do not move simply because the news is good or bad. They move because the news is better or worse than expected. A company can report lower profits and still see its share price rise if investors feared something worse. A central bank can sound cautious and still disappoint markets if investors had already priced in a faster change in policy.

What matters is the gap between reality and what was already in the price. That means looking at valuations, yields, credit spreads, earnings forecasts and investor positioning. The question is not just, “Is the news positive or negative?” It is, “What did the market already assume, and what would need to happen for that assumption to be wrong?”

This distinction is important because an obvious fact is rarely an edge. If everyone can see the same risk, it may already be reflected in prices. Equally, being contrarian is not useful on its own. A different view only matters if it is supported by evidence and if the potential reward justifies the risk.

The third level is adaptation. Markets are not static machines. Investors, businesses and policymakers respond to events, and those responses can become part of the story.

A rise in interest rates, for example, is not only a change in the cost of money. It may affect mortgage holders, corporate refinancing, government budgets, bank lending, investor risk appetite and currency markets. Some of these effects are immediate. Others emerge more slowly. Some amplify the original move; others help absorb it.

This is why we pay close attention to liquidity, leverage and refinancing needs. They are the channels through which pressure can spread. A market fall on its own may be uncomfortable. A market fall combined with forced selling, weak liquidity or heavy refinancing needs can become more serious.

In practice, this framework leads us back to four checks before acting.

What is true? We separate the data from the narrative and ask what has really changed.

What is priced? We look at the expectations already embedded in markets.

What could change behaviour? We consider whether investors, companies or policymakers may react in ways that amplify or dampen the move.

How should the view be reflected in portfolios? This is where analysis becomes practical. It means deciding whether to act at all, how large a position should be, how liquid it needs to be, and what evidence would make us change our mind.

That final point is often overlooked. A view is not the same as a portfolio decision. We may believe an asset is becoming more attractive but still decide to move gradually. We may see a risk building but choose to manage it through diversification rather than a dramatic shift. Good investing is not just about being right. It is about making sure the portfolio can cope when the path is uneven.

At Tacit, we want each holding in a portfolio to have a clear purpose. Some assets are there for growth. Some are there for income. Some are there to act as stabilisers. Across the whole portfolio, the aim is to balance opportunity with the avoidance of harm. By following disciplined process, we aim to avoid obvious mistakes and build portfolios which can withstand volatility whilst avoiding permanent loss.

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