Insights, Tacit Thought | Weekly Investment Insights

We should expect more volatility from here

Published on: 12 June, 2026 | Author: Investment Team

Following a strong period of investment returns, it is inevitable that investors begin to question what comes next. Should they sell and lock in profits, stay invested in the same investments, or reallocate to other (cheaper) alternatives?

In the current investment cycle, with SpaceX et al all looking to raise capital over the coming weeks from investors across the globe, anxiety levels are definitely higher than normal as we are being asked a simple question: do you believe that the high valuations these companies are being listed at are justifiable based on their future prospects?

At Tacit, we have never been good at crystal ball gazing and in reality, none of us actually knows at the present time. The question for us is a different one.

Equity market volatility often rises when valuations are elevated, and this is largely because expectations become more sensitive to change. When share prices are high relative to company earnings or cash flows, investors are effectively paying today for the expectation of a strong future. That leaves less margin for disappointment. Even small changes in economic outlook, interest rates, or company performance can lead to disproportionately large price movements, as markets quickly adjust to reflect revised expectations.

Higher valuations also tend to coincide with periods of optimism and strong investor positioning. When many investors are already committed to the same positive outlook, there are fewer untapped buyers left to push prices higher. As a result, any negative surprise can trigger sharper reactions, as investors reassess risk and rebalance portfolios. This dynamic contributes to more frequent and pronounced swings in market prices.

The current focus on artificial intelligence (AI) adds another layer to this environment. The investment case for AI is often framed in relatively binary terms: either it delivers meaningful productivity gains that boost corporate profits, or it fails to justify the significant capital being invested. This “all or nothing” perception increases uncertainty, particularly because the timeline and scale of benefits remains unclear.

As companies invest heavily in AI infrastructure, software, and talent, markets are attempting to price in future returns that are difficult to quantify. If early evidence suggests that productivity improvements are slower to materialise, or that cost savings are offset by ongoing investment, investor sentiment can shift quickly. Conversely, strong signs of efficiency gains or revenue growth linked to AI can drive rapid upside.

This creates a feedback loop where expectations are continually reassessed based on new information, leading to sharper market reactions. In essence, the more uncertain and transformative the opportunity, the wider the range of potential outcomes, and the greater the resulting volatility. For us as investors, rather than as commentators with no real consequences if we are wrong, this does not necessarily imply a negative outlook, but it does highlight the importance of maintaining a disciplined, diversified approach.

Periods of heightened volatility are a natural feature of markets undergoing structural change, particularly when valuations are already stretched and future outcomes are still being defined. This is why our focus is very much on how we navigate this more volatile environment whilst remembering that there are many potential outcomes moving forward, not just the binary thesis based on a simple, often lazy, commentary.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.