

Themes Shaping the Current Investment Landscape

Following the passage of the “One Big Beautiful Bill Act,” markets finally have clarity with regard to tax policy for the foreseeable future. Company management teams, many of whom have delayed capital deployment decisions, are now able to prepare business plans with more certainty surrounding favorable tax conditions. The next major item of clarity needed is on tariff policies, which continue to evolve on a daily basis.

Deregulation and Liquidity

The recent shift toward deregulation is expected to unlock additional economic activity as management teams will be able to operate without previous regulations. Bank deregulation should also increase money flows and liquidity both on Main Street and Wall Street.

Infrastructure and Liquidity

Expanding infrastructure initiatives, supported by deregulation and the new tax framework, are creating opportunities across multiple sectors. Companies providing materials, tools, and services to these projects may benefit as capital expenditure levels remain robust in this phase of global economic expansion.

Productivity and Innovation

Productivity growth from the deployment of Artificial Intelligence (AI) has yet to be realized in the economy, but it should be a significant tailwind to drive efficiency and optimization throughout the world. Investors would be keen to avoid investments that have terminal values that are structurally impaired from the competitive threats that AI could generate. The benefits of AI will create buckets of winners and losers in this technological revolution, and it is critical to have defensive moats to protect margins and market share as this plays out over the coming years.

Mergers and Acquisitions

M&A activity has increased compared to the previous several years and has outperformed initial reactions from FTC statements earlier in 2025. M&A activity is positive for equities, as it allows combinations that optimize operations and cost structures. Small cap companies should participate in M&A, as many companies need to join larger organizations with lower cost of capital structures and broader platforms to unlock value.

Interest Rate Outlook

The Federal Reserve has a challenging job of calibrating rates to the underlying economic activity, which has historically depended upon past data as opposed to future expectations. Equity markets are more focused on future activity, and this creates a very interesting opportunity for longer-term investors that understand the economic power of lower tax certainty, deregulation, M&A, and lower short-term interest rates. The old saying of “Don’t fight the Fed” is one we respect as investors.

We expect lower short-term interest rate policy from the Federal Reserve over the next 12 months, but the timing of the next rate cut is questionable. There are trillions of dollars in money market accounts that could be deployed into the equity markets as rate cuts become more certain. Large cap stocks continue to lead the markets over small caps, but we believe that the market breath should improve as funds move out of the money markets and into higher risk assets.

Key Considerations

As market dynamics shift, asset allocators may revisit their positioning between large and small-cap equities. Are you prepared for potential changes in asset allocation when these conditions converge?

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