

TSCM: Inside the Investment Room

TSCM: Inside the Investment Room is a bulletin offering the Firm's perspectives on current market developments.

Where Fundamentals Meet Opportunity: Navigating Market Rotation, AI Investment, and Selective Growth

In this edition of *Inside the Investment Room*, we examine how shifting market leadership, persistent cost pressures, and evolving AI investment trends are creating opportunities across small- and midcap equities.

From accelerating offshore energy activity and the expansion of AI networking infrastructure to selective opportunities in healthcare, financials, and industrials, the team remains focused on separating durable fundamental growth from near-term market volatility.

Executive Summary

Markets remain highly differentiated as shifting investor sentiment, valuation pressure, and company-specific execution challenges create opportunities across sectors. The team continues to favor durable growth themes, particularly AI infrastructure, offshore energy, and select industrial businesses, while reassessing underperforming holdings and monitoring emerging catalysts. With macro uncertainty persisting, disciplined valuation, fundamental research, and selective positioning remain central to identifying attractive small- and mid-cap opportunities as 2026 winds down and 2027 begins.

22
AVERAGE YEARS OF EXPERIENCE

17
INVESTMENT PROFESSIONALS

Sector Perspectives — Takeaways

Technology

AI infrastructure investment remains a powerful secular growth driver, although intensifying competition, evolving pricing models, and elevated expectations are creating greater differentiation across the technology ecosystem.

- **Infrastructure opportunities broaden:** Semiconductor equipment and optical networking remain favored areas as AI demand expands beyond computing hardware toward connectivity, memory, and data-center infrastructure.
- **AI economics evolve:** Growing adoption of open-weight models and spot-priced computing capacity could accelerate usage while introducing greater pricing competition across infrastructure providers.
- **Software adoption continues:** Enterprise cloud migration and AI-enabled workflows support long-term software demand, although the timing of monetization remains an important consideration for emerging AI products.

Financials

Financials remain sensitive to interest rates and capital-markets activity, with improving transaction pipelines offering potential upside despite valuation compression and uneven investor sentiment.

- **Capital-markets recovery:** Investment banking pipelines remain healthy, but stronger sponsor activity and larger transaction announcements are needed to translate activity into sustained earnings growth.
- **Insurance selectivity:** Elevated valuations and competitive pressures are prompting a reassessment of certain holdings, while niche specialty insurers with differentiated exposures remain under consideration.
- **Trading and brokerage:** Online brokerage platforms remain under review, with stronger client activity and margin growth needed to support renewed momentum.

Energy

Improving offshore activity and growing power demand continue to support select energy businesses, while commodity volatility and regional execution risks reinforce the importance of stock selection.

- **Offshore recovery strengthens:** International drilling, subsea, and maintenance activity are improving across several regions, supporting the potential for a multiyear offshore investment cycle.
- **Power infrastructure expands:** Behind-the-meter power generation remains an attractive structural opportunity as data-center electricity demand accelerates.
- **Commodity sensitivity persists:** Oil-price fluctuations and delayed regional activity create near-term volatility, potentially offering opportunities to add to fundamentally attractive businesses.

Industrials & Infrastructure

Industrial demand remains broadly constructive, but rising input costs and execution challenges are creating meaningful dispersion between companies with pricing power and those facing margin pressure.

- **Margin pressure intensifies:** Tariffs, freight, metals, and other input costs are weighing on profitability despite generally resilient industrial demand.
- **Structural growth opportunities:** Specialty materials, engineered products, and infrastructure-related businesses remain attractive where pricing improvements and durable demand can support earnings growth.
- **Defense funding uncertainty:** Budget delays could disproportionately affect emerging defense technology programs, reinforcing a preference for companies with established funding visibility.

Consumer

Consumer trends remain mixed, with macroeconomic pressures weighing on select restaurant and retail businesses despite encouraging company-specific operating indicators.

- **Restaurant recovery remains delayed:** Promotional activity and improving sales data have yet to translate into a sustained turnaround for select restaurant businesses.
- **Delivery platforms show resilience:** Customer acquisition, engagement, and expansion into grocery and other categories remain supportive, despite questions surrounding AI-driven competition and regulatory exposure.
- **Valuation and timing matter:** Select retailers and consumer technology businesses offer longer-term potential, but near-term earnings comparisons, competitive pressures, and elevated valuations warrant patience.

Health Care

Healthcare fundamentals remain largely company-specific, with clinical developments, product launches, and regulatory milestones driving investment opportunities amid uneven sector sentiment.

- **Biotech selectivity increases:** Clinical setbacks and safety concerns are reinforcing a preference for differentiated pipelines, compelling launches, and manageable development risk.
- **Medtech fundamentals remain resilient:** Select companies continue to demonstrate improving revenue and profitability despite valuation pressure and regulatory uncertainty.
- **Research opportunities expand:** Improving biotech funding conditions and stabilizing pharmaceutical budgets are prompting renewed research into contract research organizations and other healthcare service providers.

Key Macro Trends

- **Market Rotation & Valuation Discipline:** Positioning-driven selloffs and multiple compression are creating opportunities, but strong fundamentals alone may not support near-term share-price recovery.
- **AI Infrastructure Evolution:** Demand for semiconductor equipment, memory, optical networking, and power infrastructure remains a structural opportunity, although competition, pricing dynamics, and the timing of capital spending could create volatility.
- **Persistent Cost Pressures:** Tariffs, freight, commodity prices, and other input costs continue to challenge margins across industrial and consumer businesses.
- **Capital Markets & M&A:** Healthy investment banking pipelines and potential sponsor activity offer recovery opportunities, though higher rates and macro uncertainty remain constraints.
- **Looking Toward 2027:** Pricing resets, new product cycles, offshore energy investment, and AI infrastructure demand are creating potential catalysts beyond near-term earnings volatility.

The Bottom Line

The investment landscape remains characterized by meaningful divergence between underlying fundamentals and market sentiment. While near-term macro pressures and execution risks warrant caution, structural opportunities across AI infrastructure, energy, healthcare, and select industrial businesses remain compelling. The team continues to emphasize disciplined valuation, company-specific catalysts, and thoughtful portfolio positioning, seeking to capitalize on market dislocations while maintaining a long-term focus on durable earnings growth into 2027.

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Read the prospectus or summary prospectus carefully before investing.

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