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Simon Evan-Cook: is active's long winter over?

Trump's tariff shocker may have triggered a new era in investing

BY SIMON EVAN-COOK

'I've sold all my trackers and gone bigly into actives'

As my equity portfolio holds nothing but highly active funds, I get a decent view of the active management industry's battle for survival.

So, with the bells of 'Liberation Day' - his words, not mine - still ringing in our ears (or is that tinnitus?), and a tentative sense of hope emanating from the active camp, I'll describe what I've seen so far.

(Un)happy new year

First let’s split 2025 into two parts. Conveniently, given that Trump dropped his T-bombs on 2 April, these are easily defined as Q1 and Q2.

Was Q1 a triumph for active managers?

Yes and no. What separated the ‘yesses’ from the ‘nos’ was whether you had an active underweight to the US. If you did, you loved it. But if you had an active underweight to large caps, you probably hated it.

This was because, before Liberation Day captured all the headlines, the US stock market was already having a nightmare in February and March. Much of this reflected the DeepSeek AI news causing the Mag7 to wobble, but also – perhaps – because the market was beginning to sniff out an impending US recession.

You can see this in the Investment Association (IA) fund sector rankings for Q1.

For the IA Global sector, once you’ve removed any sector specialist ETFs (which is what the IA should be doing, but that’s a gripe for another time), then the top three funds are all geographically active: VT Price Value Portfolio; WS Charteris Global Macro; and fellow Citywire columnist Sean Peche’s Ranmore Global Equity (which, for the record, my own Downing Fox funds hold).

You must scroll down another 200-odd funds to reach Vanguard’s Global Tracker, which is sitting bottom of the second quartile. This is exactly where, according to the passivists’ theory, you should *always* find the tracker.

If that theory is correct, which it isn’t, the two places you should never find a tracker are at the very top of a performance table or the very bottom of it.

Geographically unsuitable

Which brings us onto the areas where active had a shocker in the first quarter - regional funds. As these can’t win by underweighting the slumping US market, to do well they generally need small and mid-caps to, at the least, not collapse against their own market’s mega-cap counterparts.

But the same geographical rotation that helped active global funds was brutal for active regional funds. This was, I suspect, because large global allocators, in their rush to abandon the US, ripped clods of money out of the S&P 500 index and dumped them straight into the FTSE 100, the EuroStoxx 50, or whichever other passive market vehicle they fancied.

In the UK's case, this caused the FTSE 100 to *rise* by 6% at the same time as the Numis small-cap index *fell* by teh same amount. This is great for the large caps that dominate passive funds, but terrible for most active funds which typically seek outperformance further down the market.

This led to some truly weird results. What, for example, do you think was the quarter's best performing UK equity fund?

This is not just a tracker fund …

Take a bow the Marks and Spencer UK 100 Companies tracker fund.

Now, when it comes to sandwiches and pants, I'm second to no one in my love for Marks and Sparks. But this love doesn't stretch to their funds. It may not sound like it, but I'm showing restraint when I describe this fund as an expensive, laggy tracker of the FTSE 100.

I'll take a moment here, because I can never resist poking this particular bear, to ask this of my passive-loving friends.

If, mathematically speaking, the tracker must give you the performance of the average active manager before charges, and is therefore guaranteed to perform slightly better than average thanks to being cheaper, how did this one end up beating its sector average by 8% and ranking first out 219 UK equity funds in Q1?

This is not just an M&S thing either: Pretty much all of Q1's top 20 funds are FTSE 100 trackers. And it wasn't just a FTSE 100 thing either: Vanguard (who know how to run a cheap and effective tracker) saw their FTSE All-Share tracker (which includes mid and some small caps, but is still dominated by large caps) beat the average fund by 4%, placing it 29th out of 219.

All of this, naturally, isn't great for UK active fund managers.

Back in the game

Then, however, Liberation Day happened. This, despite the obvious negative connotations, has put a spring in most of our active managers' steps. And this time it's backed by the numbers.

In the UK, active's bleak Q1 performance has begun to reverse. At the time of writing, the top of the table is dominated by highly active small and mid-cap specialists, while M&S's FTSE 100 tracker is 5% behind the sector average, placing it 218th out of 219 (I refer passivists back to my earlier question).

Even more encouragingly, in my openly biased view, we haven't seen the same winners-to-losers reversal in the IA Global sector. The Ranmore fund for example, remains in the first quartile. But the Vanguard Global Stock Index has begun to struggle – it currently ranks a lowly 441st out of 554 funds since the quarter began.

Turning the corner

Is this the long-awaited turning point for active managers?

Well, if it isn't, it'll certainly do till it gets here.

But if it is a turning point, why has it suddenly changed?

Because the mood has. I know this because, just two months ago, many thought we were taking a reckless risk by having 'only' 30% exposure to US equities when the average was over 60%.

Now, suddenly, the world has the ick with America, and now the reckless move looks more like storing two-thirds of your wealth in an unpredictable foreign country that doesn't much like us.

Out with the old

This has tarnished the case for what must have been the biggest consensus in living memory – that huge American companies are the only game in town. So capital is scattering, and liquidity is seeping back into areas that have been parched for years. Genuinely active funds are prospering as a result.

As a lifelong Spurs and England football fan, I know better than to give myself over to hope. But after such a long winter, and such a decisive break in the consensus, even I'm daring to dream that it's finally springtime for active.

Audere est facere ('To dare is to do') as we like to say as we skip up Tottenham High Road on match day.

Simon Evan-Cook is a Citywire +-rated fund of funds manager at Downing Fund Managers where he runs the VT Downing Fox Funds range.

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