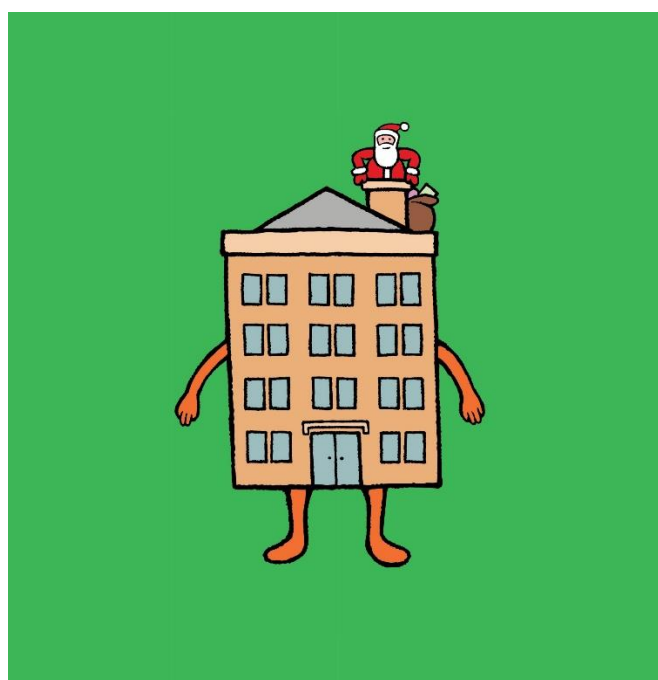


MONTANARO

ASSET MANAGEMENT

Annual Letter 2025

“What to do when the bubble bursts?”



Welcome to Mr M.'s fifth attempt to write something interesting ... can but try ... maybe one day ... but priorities first...

Happy Christmas!

For those with good memories, we introduced the stars of the show last year, Ruby and her baby brother ... Chester (in front) is taking Ruby for a walk ...



Sadly, Ruby passed away this year at the tender age of just six. We are absolutely devastated. She would sit on my lap for all those Zoom calls during the pandemic and happily chew my jeans to pieces. For those with four legged friends, give them an extra hug and a treat. Make the most of them...

Wiping away a tear or two, my little (and doubtless declining in number) grey cells are stirring into action. The theme a year ago was: ***“Forever Blowing Bubbles”***

Then Mr M. commented: *“AI does show some classic Bubble attributes”*. Never afraid to nail colours to a mast, let's agree that we are in an AI Bubble. It is tempting to simply repeat the letter of last year in the hope that no-one notices - but no. We will try to help investors work out what they should do next when the AI bubble bursts, as it inevitably will.

For those among you - probably everyone - daunted or already yawning at the thought of a 26-page letter (sorry!), here is a solution. What to do? The answers are shown on the charts on pages 14 - 16. That will save the clever folk out there having to simply bung this missive into AI and asking for the punchline. No, Mr M. did not ask AI to write it. Old School.

The dot.com and AI Bubbles

In the 1990s, investors believed the internet would “change everything” – a “new economy” where traditional metrics no longer applied. This led to a rush of capital into any company with “dot-com” in its name, regardless of profits or business viability.

Today’s market is gripped by the promise of artificial intelligence as a “*fourth industrial revolution*”, fuelling a fear of missing out (FOMO). Companies now pepper their earnings calls and press releases with AI buzzwords, hoping to ride the hype – just as in 1999, adding “.com” to a company’s name would send its stock soaring overnight.

Then, people quit well paid and reliable jobs to become day traders and chase dot-com stocks. CNBC featured 20-something web entrepreneurs. Last year’s Annual Letter discussed what was happening over here. Nvidia’s CEO, Jensen Huang, has been elevated to godlike status. His company’s AI chips are viewed as indispensable picks and shovels of the boom.

Brokers get excited in a bubble. They make a shed load of money as trading volumes go up... and they feed the frenzy. On 28 October 2025, HSBC upgraded Nvidia from a “Hold” to a “Buy” with a target price of \$320 or an upside of 80% - just like the brokers of the good old TMT bubble days:

≡ **WIRED** SECURITY POLITICS THE BIG STORY BUSINESS SCIENCE CULTURE REVIEWS

Amazon Goes Ape

Think Amazon.com's stock is too expensive? A CIBC Oppenheimer analyst says the stock's going to US\$400 business. By Craig Bicknell.

SHARES OF AMAZON.COM jumped US\$46.25, or 19 percent, to \$289 Wednesday after an influential Internet analyst set a dizzying new 12-month price target for the stock: \$400.

In a research report, CIBC Oppenheimer analyst Henry Blodget projected that Amazon.com's (AMZN) "astounding revenue momentum" would generate earnings per share of \$10 on revenues of \$10 billion within the next five years -- a bold prediction for a company that has yet to turn a profit.



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"Although Amazon.com's stock is incredibly expensive relative to near-term expectations, and scary to buy," Blodget wrote, "we continue to believe the company's opportunity is large enough to support a market capitalization that is much higher than the current valuation."

This came out on 16 December 1998 as the bubble was inflating. Blodget became one of the best-known internet brokers. Allegedly, he happily wrote “Buy” recommendations on companies he privately thought were actually “*a piece of crap*” (not Mr M.’s words). He was charged with civil securities fraud by the SEC in 2003 for making exaggerated claims.

If you will forgive Mr M. going off piste and a tangent, reminds me of Deutsche Bank: on 20 May 2019, they raised their rating on Wirecard from “Neutral” to “Buy” and set a target share price of €200 (up from a prior target of €170). We had just sold. This was about a year before Wirecard was exposed as one of the most spectacular frauds Mr M. can recall and investors lost everything. Whoops...

In January 2000 – just two months before the market peaked - AOL bid for Time Warner. Last week, Netflix announced it would pay \$82.7 billion for Warner Bros, marking another moment when a “New Economy” player absorbs an iconic “Old Economy” media giant (Warner in both cases). Should we be worried?

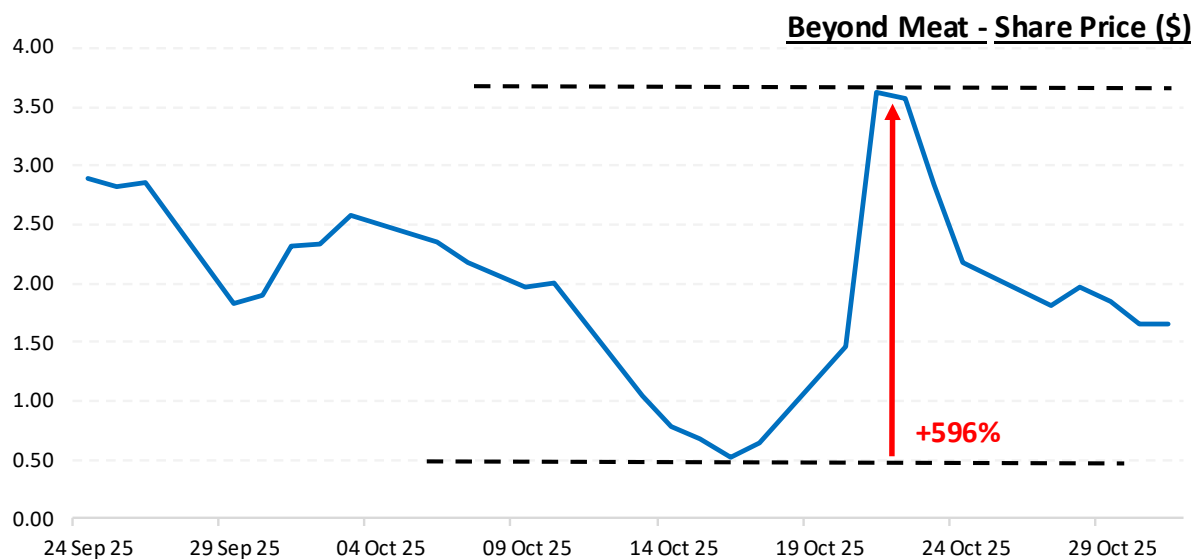
The screenshot shows two news articles from CBS News. The left article, titled "Netflix to buy Warner Bros. in a deal valued at \$82.7 billion" by Aimee Picchi, is dated December 5, 2025. It reports that Netflix is buying Warner Bros. in a deal valued at \$82.7 billion, merging the streaming service with the studio. The right article, titled "AOL, Time Warner To Merge" by CBSNews.com staff, is dated January 10, 2000. It reports that AOL and Time Warner are merging in an all-stock deal valued at \$350 billion.

Bubble Behaviour

You can tell that you are in a bubble when you look at people’s behaviour. In both eras, a kernel of truth drives the excitement. The transformative technology *is* real but it gets extrapolated into unrealistic expectations. For example, by late 2025 a *Verge* survey found 95% of companies’ generative AI pilot projects were failing to show tangible ROI - a dose of reality much like the late-2000 revelation that many dot-coms had no path to profitability. How do you make money out of AI?

Retail investor behaviour has been similar across the two booms. Late-stage signs of froth in both eras included speculative day-trading and derivative frenzies. In 1999, novice investors flooded chatrooms with stock tips and bought IPOs of any “.com” at absurd prices. In 2021 - 2023, we saw meme-stock manias, zero-day options gambling and leveraged ETFs surging in popularity - late-stage froth that often comes before a fall.

One such example caught Mr M.’s eye recently: Beyond Meat, best known for making plant-based sausages. From 50 cents on 16 October 2025, it rose sevenfold over a couple of days after retail investors followed an obscure share tip. It then fell again. Apparently, a South Korean retail investor lost his entire savings and retirement money after “going all in on Beyond Meat”. Beats me ...



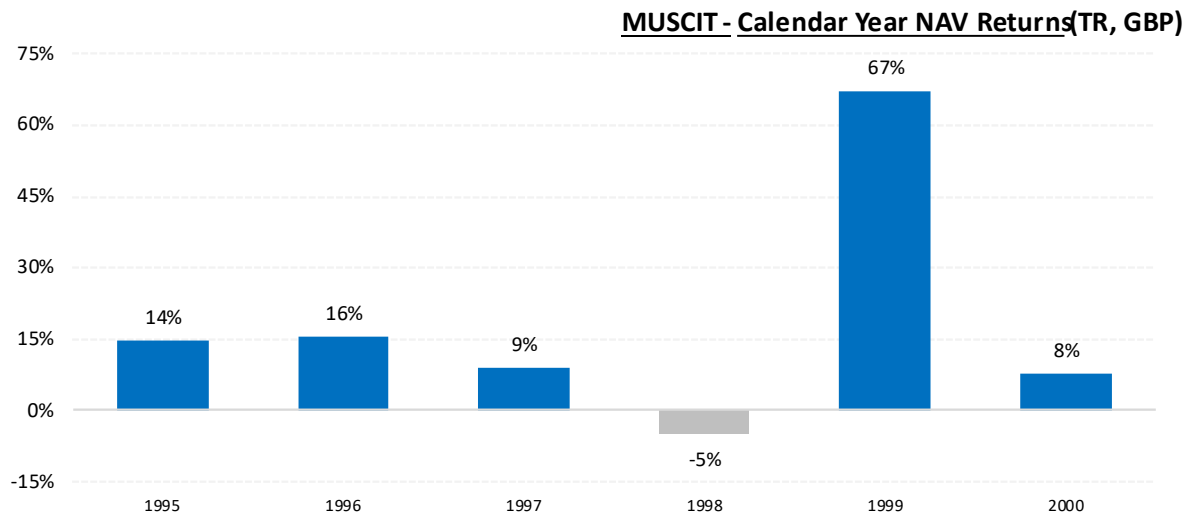
Source: Internal, Factset.

“Let’s bet the Ranch”

An Annual Letter gives the luxury of looking back at past cycles and what we did back in the day. Mr M. wrote on 21 May 1999 in the MUSCIT Manager's Report (1999): *"We have long felt uncomfortable about the valuations of most computer and technology companies and have not been tempted, for example, by the enthusiasm for Internet stocks which we find hard to value with any degree of confidence"* (21 May 1999). We held not a single investment in Software & Computer Services – a stance deemed "madness" by most (or sensible "Active Management" by us) – although admittedly the Board were nervous at the time. This was about a year before the dot.com Bubble popped ... always best to be a bit early when you are in a bubble.

But being in a bubble is fun as everyone is making money - even if you do not join the internet party. As JFK said: “*a rising tide lifts all boats*”. Mr M. still remembers fondly 1999 when our UK investment trust delivered a return of 67%. Happy days.

For those who have thrown in the towel on UK SmallCap, please note that there are times when investors make really good returns as the chart below shows.



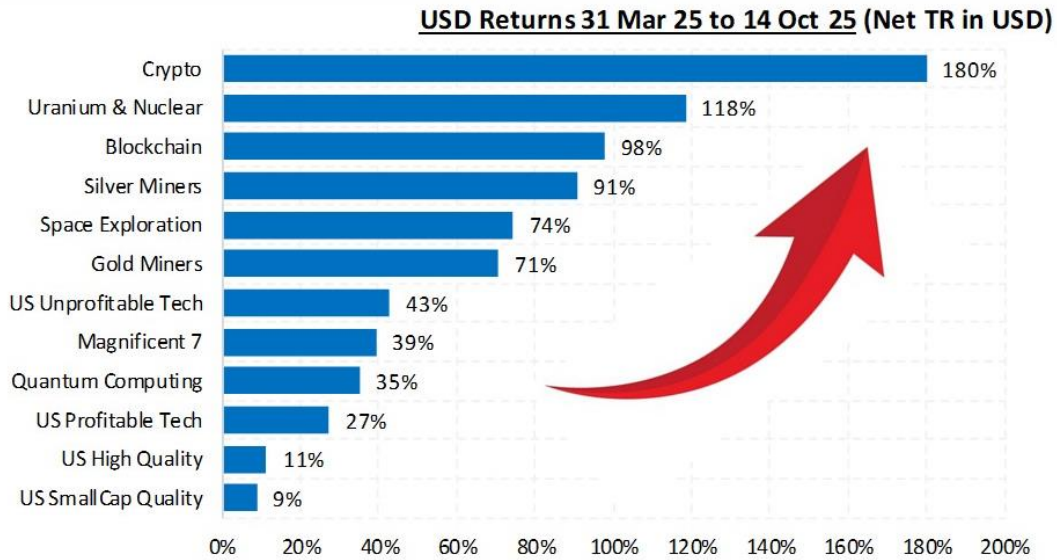
Source: Internal.

This leads to “*let’s bet the ranch*” behaviour. In a bubble, normally rational investors suffer from a rush of blood to the head and valuation discipline gets thrown out of the window. Testosterone takes over ... In the TMT bubble, it became a badge of honour to boast about how much of a portfolio was invested in technology (we didn’t and don’t wear any badges). Might as well take some more risk as that way you get big bonuses and performance fees. “*Let’s double up our TMT weighting*”. After all, almost everyone else is doing the same thing.

One example that springs to mind was the Murray Enterprise Trust (later Legg Mason and then Schrodgers), a UK SmallCap trust. In September 2000, over 42% was held in Software & Technology and 11% in Autonomy alone - at one point it was 24% of their portfolio. Wow. The Trust was the top performer in 2000 with a share price return of over +190%. But over the next year, it fell by -71% and the year after by a further -45%. The discount widened to -38% at its peak. Investors who held from 1999 - 2003 saw a loss of almost -20%. Autonomy’s share price fell by over -95% when the bubble burst. Gulp. Not so much fun on the way down.

Wind the clock forward 25 years, fund managers today are trumpeting holding almost 50% of a portfolio in AI and there seems to be battle over who holds most Nvidia (10% is not unusual). It is never “*different this time*” as some people may soon find out.

The chart below shows that risk appetite has gone through the roof. In just over six months this year, you could have doubled your money in crypto, nuclear, blockchain ... and why would loss-making tech go up more than profitable tech? Go figure ... but we're in a bubble, normal rules don't apply.



Source: Montanaro Asset Management, MSCI, Factset.
From Top to Bottom: VanEck Crypto and Blockchain Innovators ETF, VanEck Uranium and Nuclear ETF, Amplify Blockchain Technology ETF, Global X Silver Miners ETF, VanEck Gold Miners ETF, UBS US Profitless Tech Basket, VanEck Quantum Computing ETF, UBS US Profitable Tech Basket, Fidelity US High Quality ETF, S&P 600 Small Quality Index.

Why would a rational investor look at investing in a quoted company without any sales at all and why would their share prices go up (see below)? Don't ask me ... no idea.

US investors are hooked on Growth and “Junk”

A divided US market: tech companies with no revenues or profits are flying, as are the Mag-7. The rest are left in the shade

Average YTD performance of companies in each category, price return %



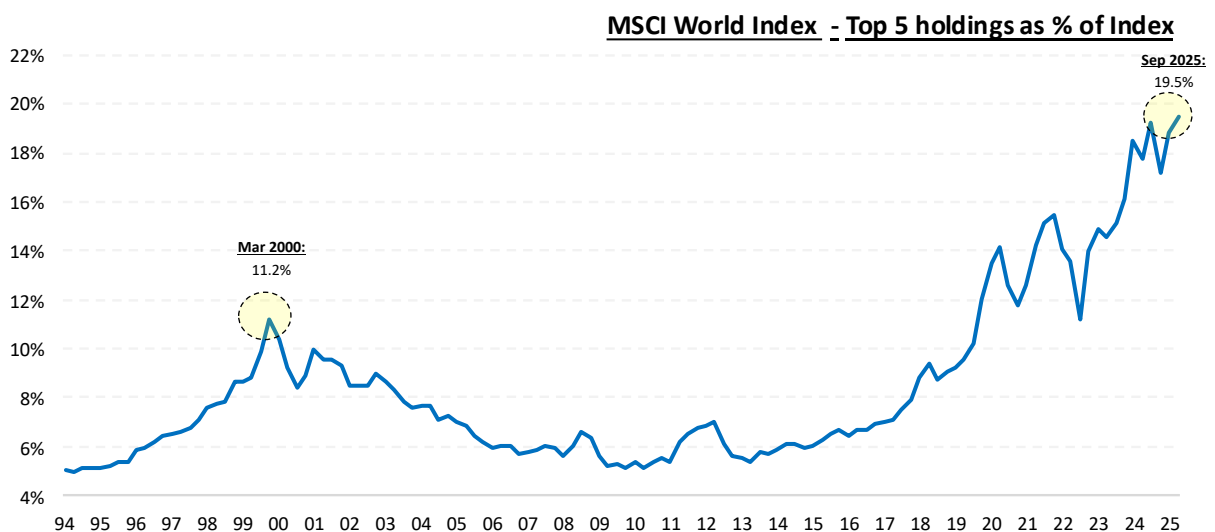
Past performance is not a guide to future performance and may not be repeated.
Performance covers 31 December 2024 to 30 September 2025. Constituents are classed as profitable (unprofitable) if trailing earnings per share were positive (negative) on 31 December 2024 and are still positive (negative) on 30 September 2025. Constituents are classed as having revenues (no revenues) if trailing sales per share were positive (negative) on 31 December 2024 alone, as there are too many gaps in 30 September revenue data. Portfolios are equal-weighted i.e. an average of all constituents' performance is shown. Small/mid cap is based on MSCI US SMID Index. Mag 7 are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, Tesla. S&P 493 is S&P 500 excluding Mag 7. Source: LSEG Datastream, MSCI, Nasdaq, S&P, and Schroders. Please see relevant disclaimers on page 53.

Source: Schroders (red circles are MAM's).

What about the differences between the dot.com and AI bubbles?

A key difference lies in where speculation has concentrated. The dot-com bubble revolved around hundreds of tiny, unprofitable IPOs. Today's AI boom is centred on a handful of mega-cap firms (largely the "Magnificent 7") and private companies.

Leadership has narrowed sharply: by mid-2025, the top 5 - 7 U.S. stocks accounted for 25% - 35% of the S&P 500, surpassing the 2000 peak. Similarly, the top 5 constituents of the MSCI World Index today account for c.20% of its value, almost twice the c.11% level reached at the heights of the dot.com bubble in early 2000.



Source: Internal, MSCI.

Unlike the largely profitless dot-com darlings, today's leaders generate substantial earnings and cash flow already. In 2000, the top five tech names traded at triple-digit P/Es due to minimal profits. In contrast, the 2025 "Magnificent 7" show strong profitability. Apple and Microsoft alone produce tens of billions in annual free cash flow.

Whereas the technology surge of the 1990s was often underpinned by relatively asset-light software and internet-service businesses, the emerging AI frontier is markedly more capital-intensive - requiring vast datacentres, advanced custom chips and global cloud build-out. Major tech platforms are committing expenditures in the hundreds of billions of dollars, pushing infrastructure investment to a material share of the S&P 500 universe. According to the International Energy Agency, electricity demand from datacentres globally is set to more than double by 2030, with datacentre growth contributing around one-fifth of demand growth in advanced economies.

Rising capital intensity amplifies risk: if the incremental returns on new infrastructure fail to exceed the cost of capital, under-performance will follow. The late-1990s telecom build-out provides a cautionary precedent - heavy fibre-network investment in many cases did not earn its full cost of capital. The current AI-infrastructure cycle may carry comparable risks.

Crucially, the cost of “chasing the dream” is far higher now: instead of dot.com companies burning through IPO cash on marketing, today’s giants are deploying tens of billions into AI clusters such as Meta’s “Prometheus,” xAI’s proposed \$100+ billion “Colossus” and OpenAI’s \$100 billion “Stargate.” Only the largest firms can afford this scale, whereas revolutionary startups could be launched from a garage in the 1990s. Anyone could do it.

The macro backdrop is also very different. The late-1990s combined strong growth, low inflation and fiscal surpluses. By 1999 - 2000, the U.S. was even contemplating eliminating the federal debt. The 2020s, by contrast, feature high inflation, elevated interest rates and record deficits. The AI boom has unfolded in a far less forgiving environment. When the dot-com bubble finally burst, the Fed could aggressively cut rates; today, persistent inflation may limit policy support.

Actives vs Passives

The overall market structure has changed. The 1990s were dominated by active managers; today, passive investing and algorithmic flows play a central role. In 2025, when a mega-cap like Nvidia rallies, cap-weighted index funds and ETFs automatically amplify its weight, reinforcing momentum and concentration. This feedback loop was far weaker in 2000.

Retail dynamics have shifted as well: while online brokers emerged in the late '90s, trades still cost \$15–\$50. Now, zero-commission apps, fractional shares, social-media coordination and ubiquitous options trading allow speculative waves to build faster and with greater intensity.

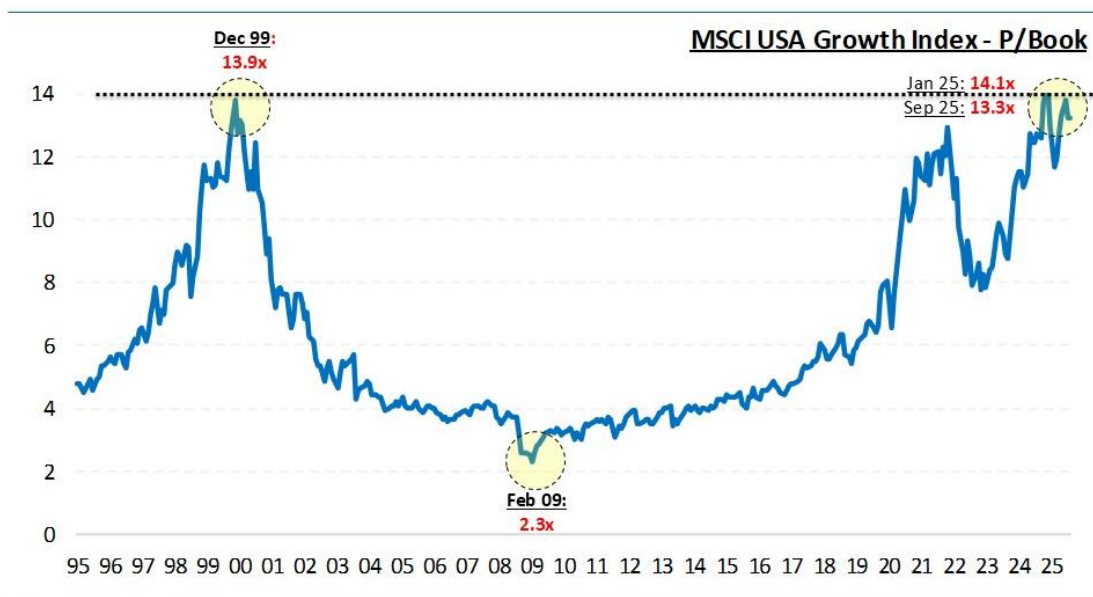


Source: *The Economist* (August 2024)

What about the Similarities?

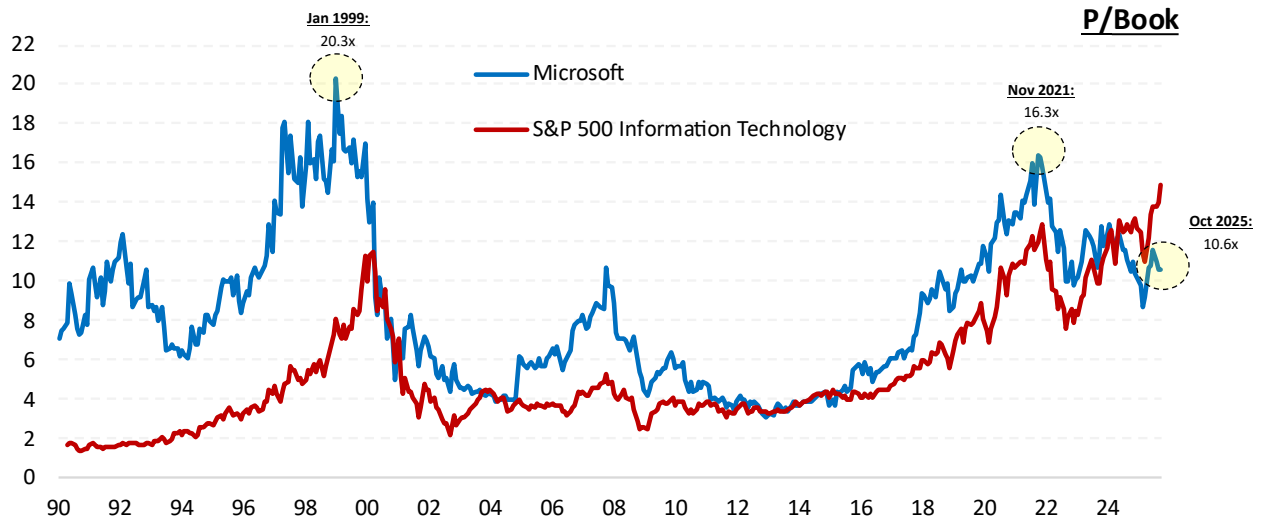
A core parallel between the two eras is extremes of valuation. At the dot-com peak, tech multiples detached from reality: the NASDAQ surged 600% from 1995 to early 2000. Cisco traded above 20x forward revenues. Yes. “Revenues”. Many unprofitable firms were valued on “eyeballs” and “hits” rather than earnings. Let’s see where we are today:

US Growth: Party like 1999?



Source: Montanaro Asset Management, MSCI, Factset.

Today's AI boom also features rich valuations but supported by more substantial profits. *The S&P 500 Tech trades around 15x Book Value today versus ~11x pre-bubble in 1999.* Mega-cap names trade at elevated but not 1999-style extremes: Microsoft trades on ~32x forward earnings (12x Book) vs. ~60x in 2000 (20x Book); Nvidia has a high double-digit P/E and >20x sales. Numerous smaller AI software firms sit at 50 – 75x P/E and eye-watering revenue multiples.



Source: Internal, Factset.

The S&P 500 is trading at ~24x earnings, close to the ~28x reached in 2000. Investors who bought Microsoft at its 1999 peak waited 15 years to break even as its P/E compressed from ~60x to ~10x despite strong fundamental growth; Cisco didn't regain its 2000 high for decades.

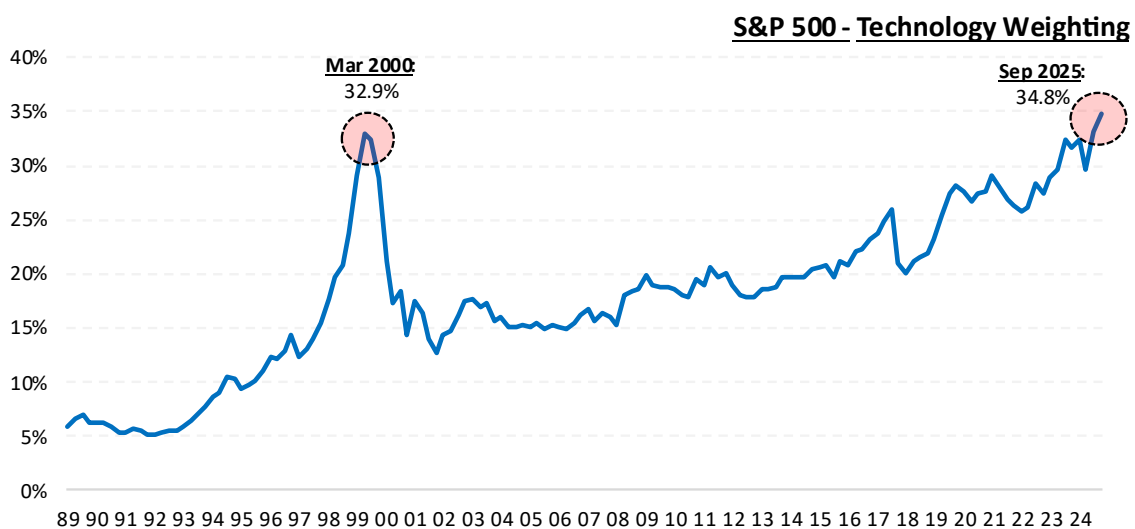


Source: Internal, Factset.

Sector Concentration

Both eras saw technology dominate market leadership, but with notable differences in scale and composition. In March 2000, tech reached roughly one-third of the S&P 500's market cap - unprecedented at the time. By late 2025, tech's footprint is even larger: Information Technology alone accounts for 34.8% of the index, above its 32.9% dot-com peak.

Remarkably this excludes "tech-like" giants classified elsewhere - Amazon, Google, and Meta push the effective tech-and-communications share above 40%. The top seven stocks - all tech or tech-adjacent - now represent ~35% of the entire S&P, more than twice their weight in 2000.

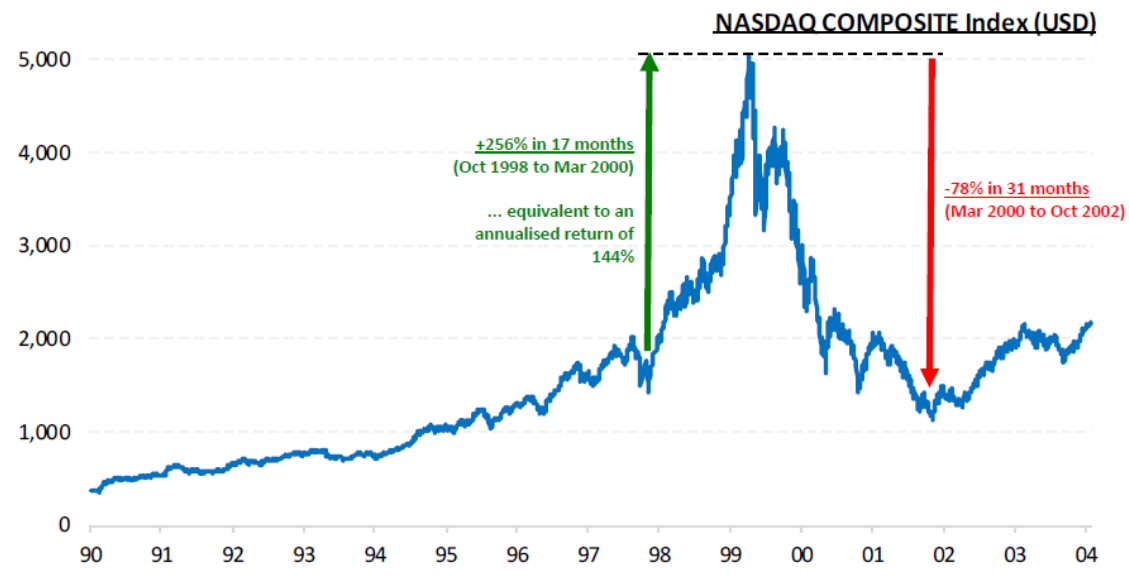


Source: Internal, Factset.

2000 - 2005: what happened next?

When the dot-com bubble burst in March 2000, it ended not just the internet boom but an era of speculative excess. The NASDAQ fell ~78% from peak to its 2002 low, wiping out trillions in paper wealth.

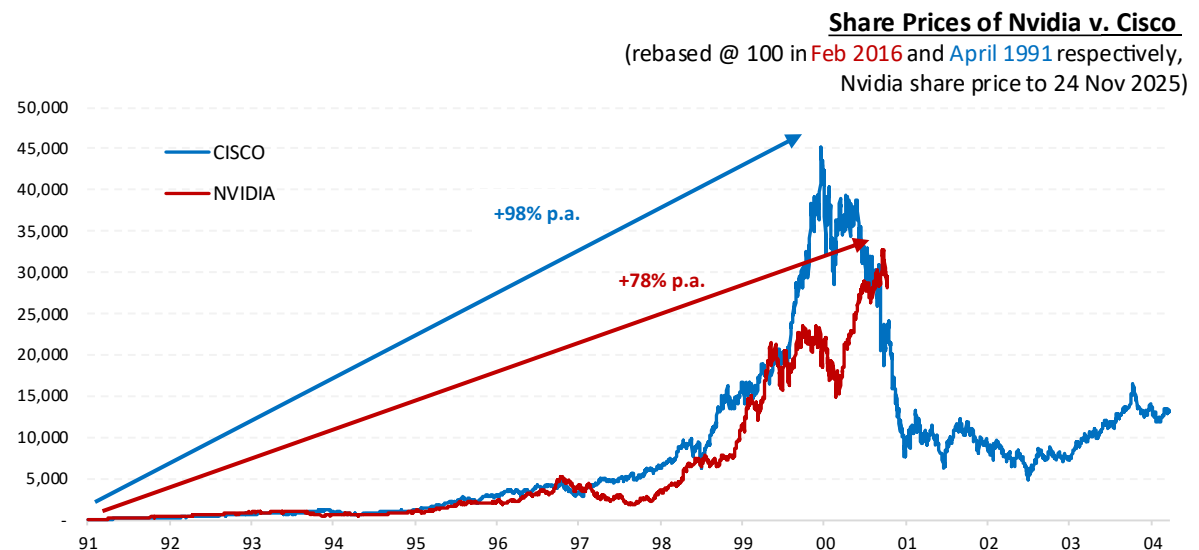
The dot.com bubble and the NASDAQ's epic boom and bust



Source: Internal, Factset.

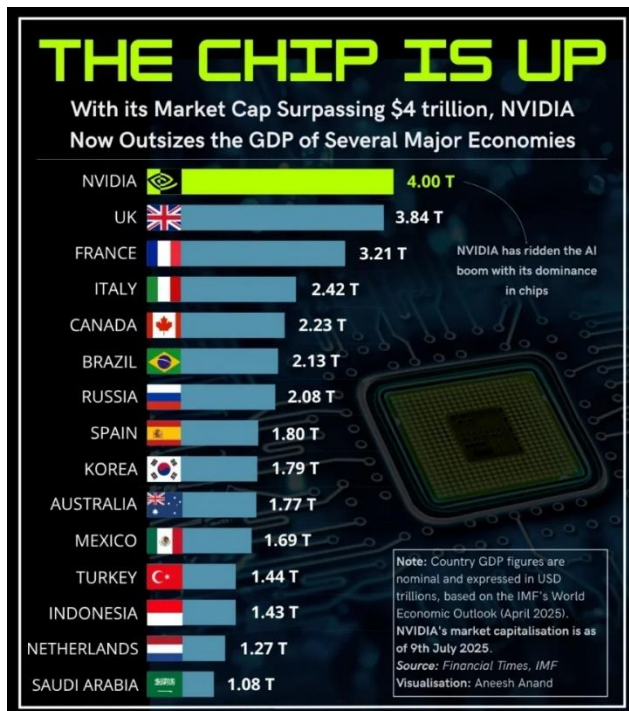
Numerous high-fliers disappeared: Pets.com failed just 268 days after its IPO; Webvan burned through \$830 million and closed within two years; telecom giants like WorldCom and Global Crossing collapsed.

Cisco Systems, the poster child of internet infrastructure, saw its market cap plunge by over 80% (from \$500B to under \$100B) and it took two decades for Cisco's stock to approach its 2000 price again.

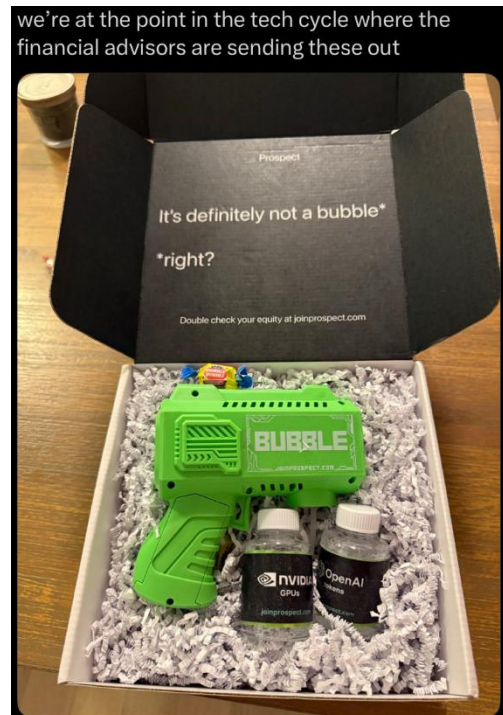


Source: Internal, Factset.

In last year’s Annual Letter, Mr M. asked if Nvidia was really worth more than Saudi Arabia etc. It had just surpassed Russia. Clearly it was! In updating the chart now, can it really be worth more than the UK?



Source: The Visual Capitalist (9 July 2025)



In October 2025, Jensen Huang said “I don’t think we are in an artificial intelligence bubble”. Well, that’s alright then ... why does Mandy Rice-Davies come to mind?

What will burst the AI Bubble?

Bubbles burst when speculators stop making “easy money” and investors come to realise that the technological revolution (internet or AI) will take longer to make financial returns and change their lives. In short, sanity and common-sense return.

The writing is on the wall when, far from share prices rising on companies announcing their investment in AI, the opposite happens. Take two recent examples: on 7 November 2025, Rightmove announced: “AI is now becoming absolutely central to how we run our business and plan for the future... We are already working on a wide range of exciting AI-enabled innovations... We are investing to accelerate our capabilities”. The shares fell by over 25% wiping out over £1 billion of value. Not sure they were expecting that reaction ...

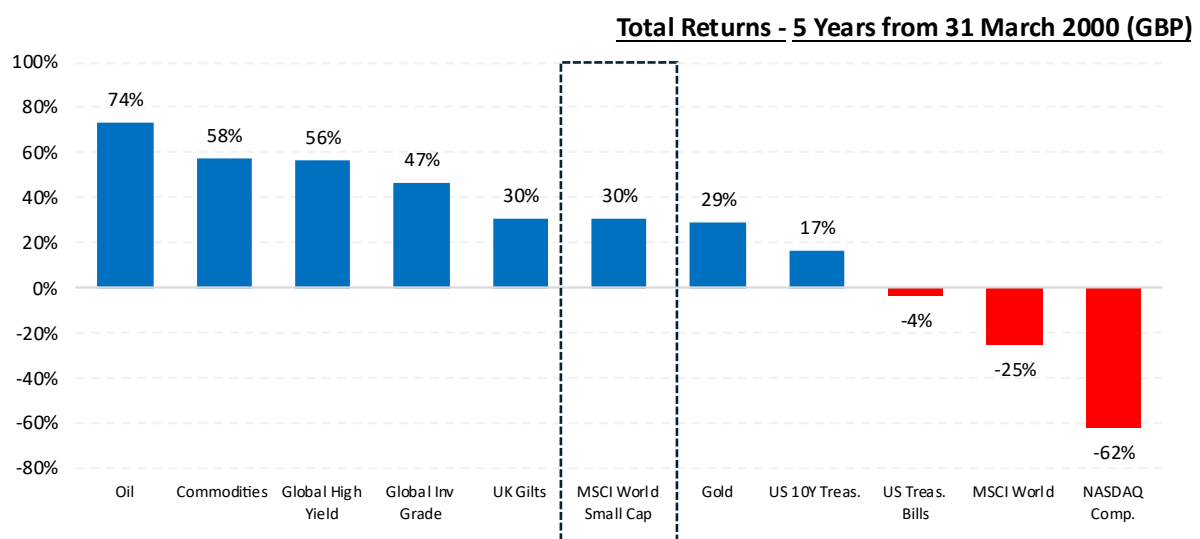
Also, if there is a glitch with the technology. As Mr M. dips his faithful quill into the ink, a clever tech guy in our team announced that “*Cloudflare are currently experiencing global service issues*” which means that ChatGPT isn’t working. Nope, no idea what that means and don’t want to. But when the technology that is going to revolutionise our lives is seen to be fallible, the gloss comes off and sky-high valuations become harder to stomach. Are we starting to see the “*curse of AI*”?

What happens next?

The oft used comment “*when the US sneezes, the rest of the world catches a cold*” comes to mind. The “*Bursting of a Bubble*” is seldom fun. Who enjoys the almighty hang-over that follows the party of all parties? Typically, it heralds a bumpy time ahead when a lot of money is lost. But the dot.com bubble gives us a clear roadmap to navigate the challenging roads that may lie ahead. We have been here before - just 25 years ago. Feels like only yesterday.

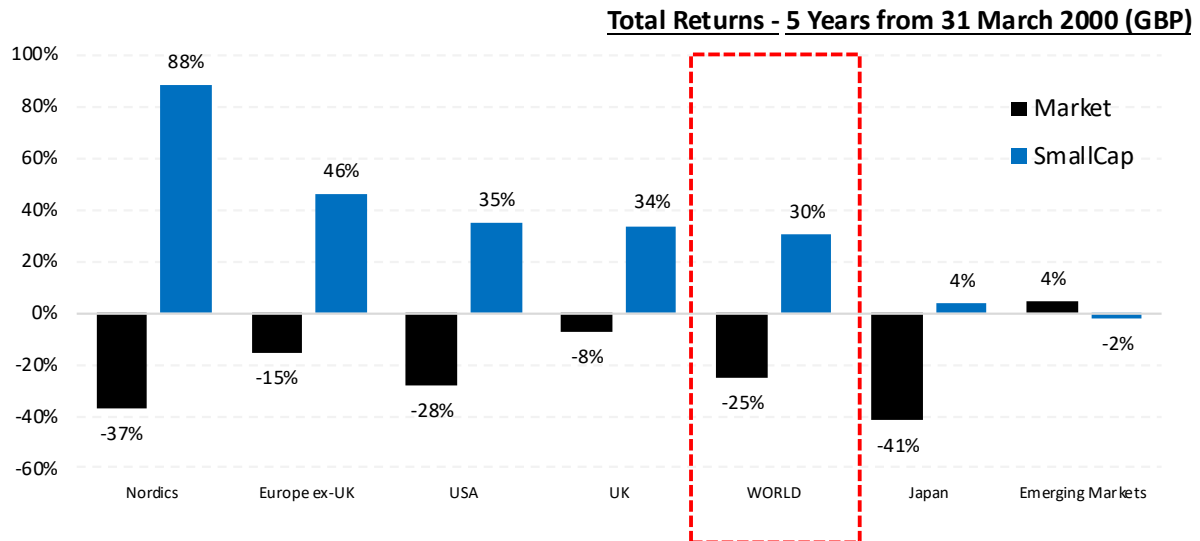
Volatility is likely to increase and the temptation to go to cash appealing. The lesson for those taking a five-year investment horizon is to be patient; stay invested – “*time in the market is more important than timing the market*” (which is impossible); *but leadership will change.*

Let the dot.com bubble that burst in 2000 be your guide. Here is what happened in the following 5 years and how you would have made money over the period:



Source: Internal, Factset.

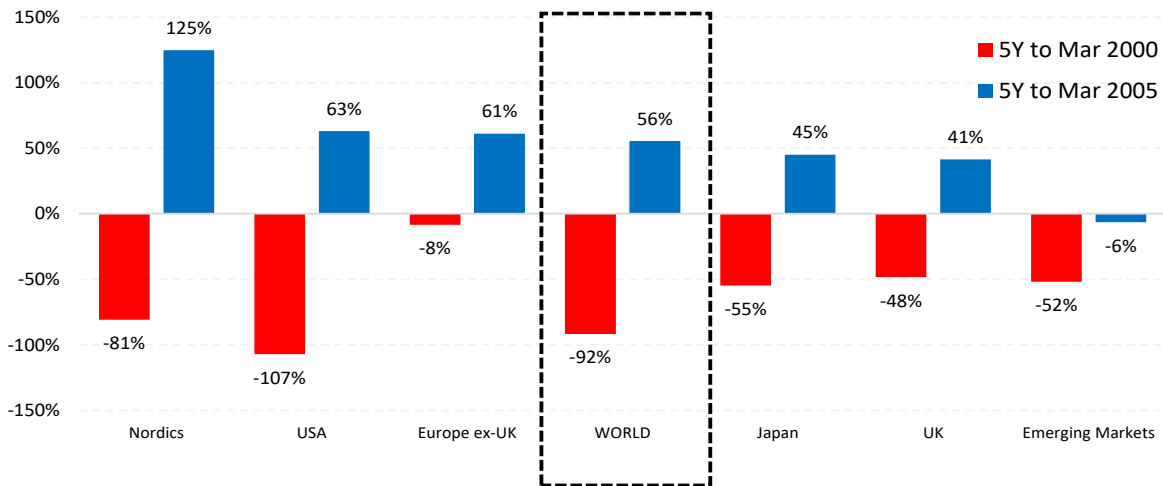
There was a rotation out of equities into other asset classes such as commodities (including oil) and fixed income. The NASDAQ Composite Index dropped -62% during the period, while the MSCI World Index was down far less at -25%. As a Tech or Global Equity ETF investor, you would have lost quite a lot of money over that time. But before concluding that investors should have sold out of equities entirely, take a look at how well global SmallCap performed - a 30% positive return. Nordics SmallCaps gained 88% whilst the local market *dropped* by 37%



Indices used (from left to right): MSCI Nordic & MSCI Nordic Small Cap, MSCI Europe ex-UK & MSCI Europe ex-UK Small Cap, S&P 500 & S&P 600 Small, MSCI UK & MSCI UK Small Cap, MSCI World & MSCI World Small Cap, MSCI Japan & MSCI Japan Small Cap, MSCI EM & MSCI EM Small Cap. Source: Internal, Factset.

Of course, the strong “SmallCap Effect” over the 2000 to 2005 period was largely the mirror image of what came in the previous 5 years. Between March 1995 and March 2000, SmallCap had *underperformed* the local market by between -8% (in Continental Europe) and a remarkable -107% (in the US). The dot.com boom was a LargeCap phenomenon as company valuations exploded, leaving SmallCap behind. Sound familiar? *The performance of SmallCaps in the 5 years leading up to the bubble bursting and the past five years are striking:*

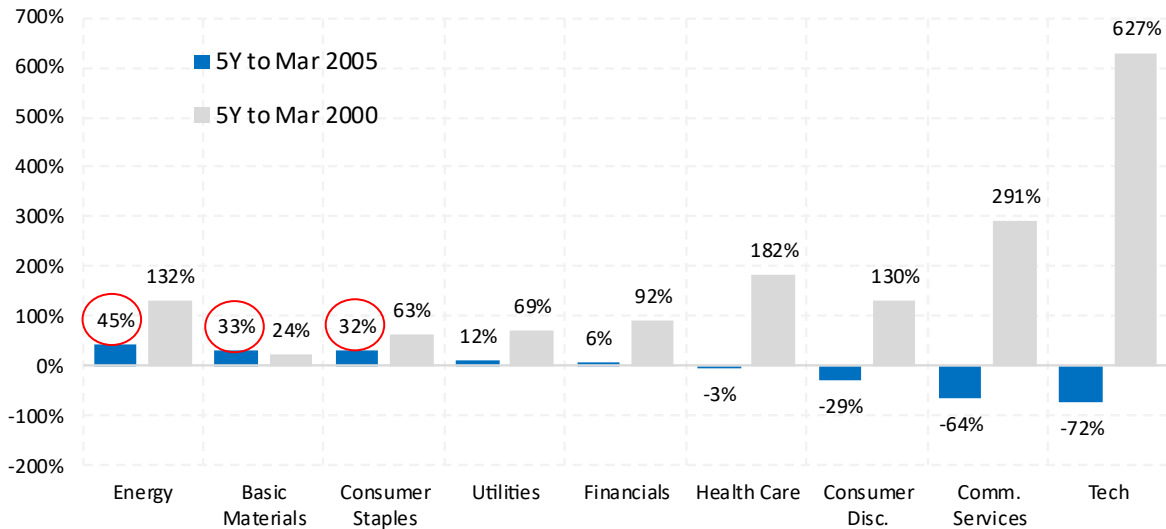
The SmallCap Effect - 5 Years BEFORE and AFTER 31 March 2000 (GBP)



Indices used (from left to right): MSCI Nordic & MSCI Nordic Small Cap, S&P 500 & S&P 600 Small, MSCI Europe ex-UK & MSCI Europe ex-UK Small Cap, MSCI World & MSCI World Small Cap, MSCI Japan & MSCI Japan Small Cap, MSCI UK & MSCI UK Small Cap, MSCI EM & MSCI EM Small Cap. Source: Internal, Factset.

Looking at sectors, the chart below shows that the best returns in the aftermath of the TMT bubble came from “Real Economy” sectors, namely Energy, Basic Materials and Consumer Staples. Technology was at the bottom of the pack:

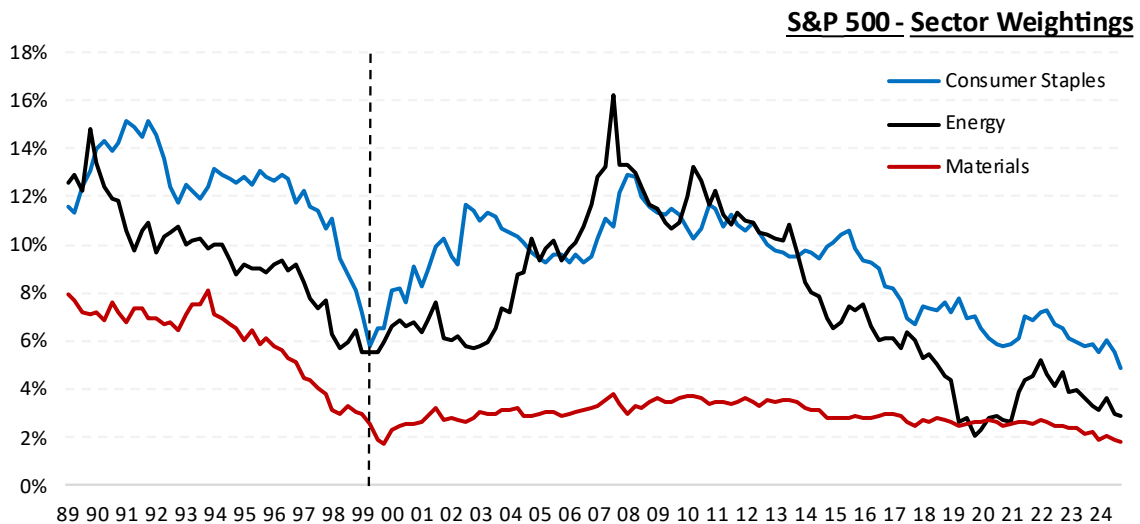
MSCI World Sector Returns (GBP, Total Returns)



Source: Internal, Factset.

Energy, Basic Materials and Consumer Staples reached their lowest weightings at the start of 2000 before rebounding strongly. The picture looks eerily similar to today, with weightings across all three sectors having dipped to fresh lows as Technology makes new highs.

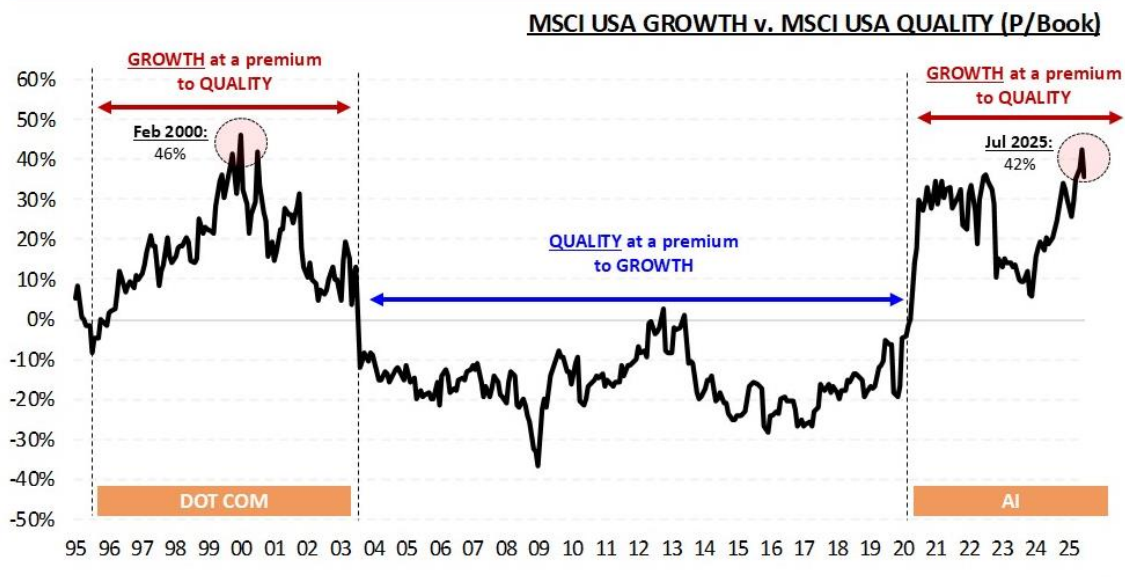
We would not be surprised if in the coming years Industrials, Health Care and Manufacturing companies do well as undervalued, steady cash-flow generators regain their appeal.



Source: Internal, Factset.

One of the lessons of the previous bubble is that many dot.com companies went bust. This led to a return to fundamental investing and to traditional valuation metrics. *Investor priorities and focus shifted to capital preservation - the return of Quality.* During the TMT bubble, US investors were willing to pay a premium for Growth (which peaked at 46% in February 2000), before Quality made a strong comeback in subsequent years (see chart that follows):

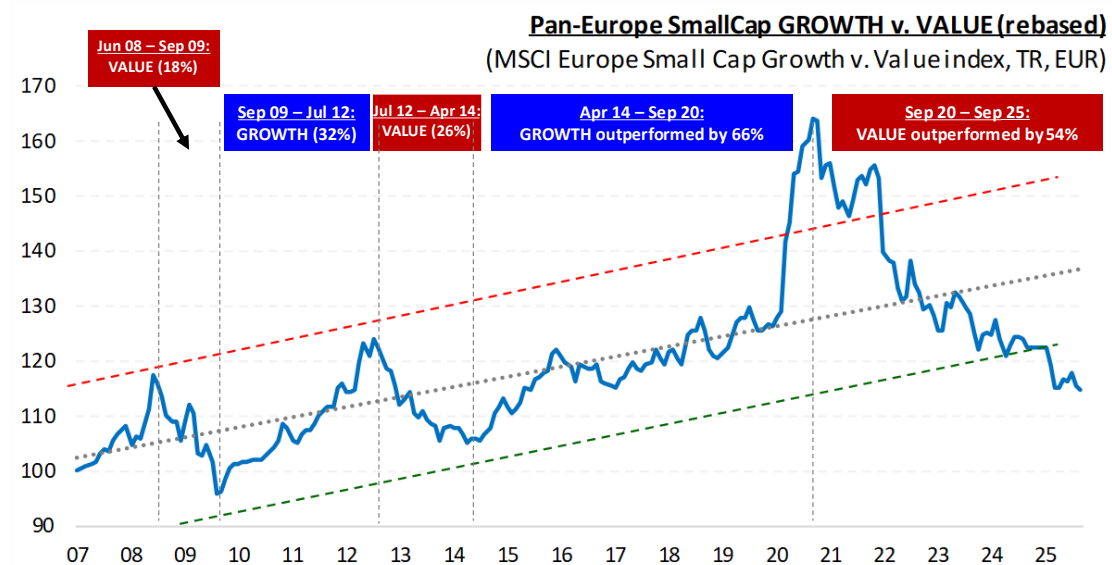
Déjà Vu? US Growth's premium over Quality nears Dot-Com peaks



Source: Internal, Factset.

In late 2020, Mr M. interviewed an experienced fund manager from a reputable institution looking for a job. As a “Value Manager”, he had just endured a six-year period when Growth was the only place to be (see chart below). He felt he was the last Value Manager left in the City and his portfolio had just been wound up. This of course marked the start of a prolonged period of outperformance by Value.

SmallCap Growth has underperformed Value by 54% since 2020

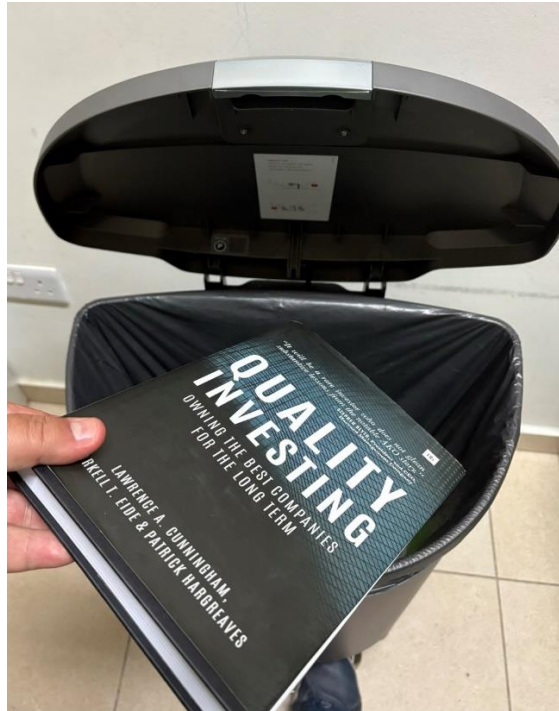


Source: Internal, MSCI, Factset.

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People often sell or switch at the bottom when they can stand the pain no more. Ironically, several “Quality Growth” managers have recently retired - we feel like an endangered species. Why give up the best job and biggest intellectual challenge on the planet - beats bridge and three dimensional chess?

But you know the turn is coming when you see the following ...

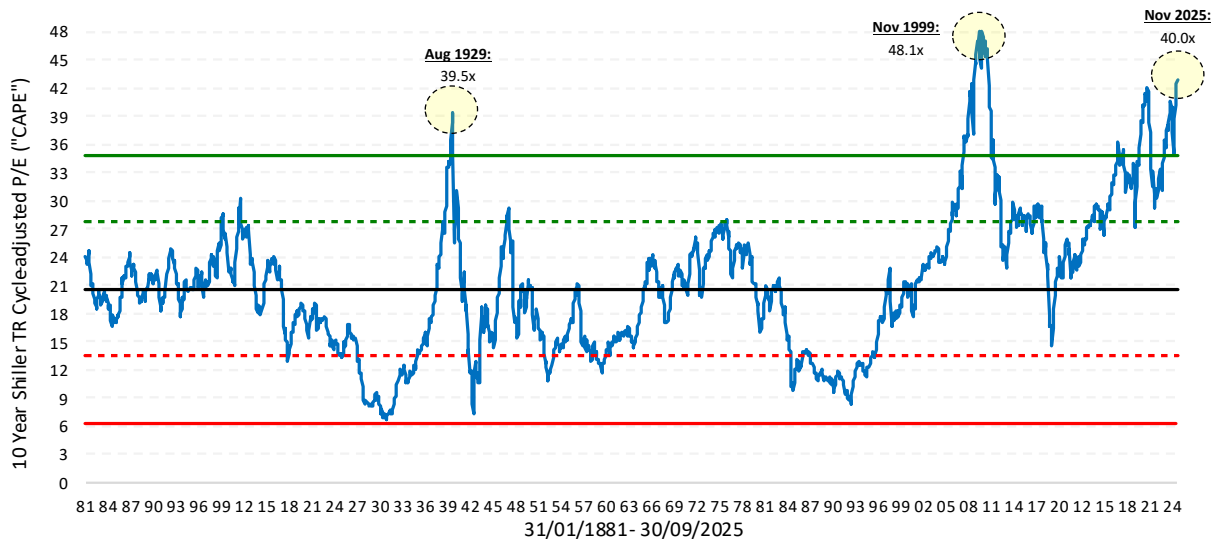


After 2000, fund managers who avoided the dot-com excess looked like geniuses. If AI-heavy indices lag, stock selection will matter once again. The overpriced AI stocks of today, driven to stratospheric levels by ETFs with no regard to valuation, will see a sharp reversal as redemptions drive prices back down again. Finally, we active managers will have our day in the sun and will be able to hold our heads high once again. About time

What do valuations look like now?

Unsurprisingly, we could show you many charts that highlight a valuation opportunity. One of Mr M.'s favourites (and one of the best predictors of future returns) is Shiller, which calculates a cycle adjusted P/E. In terms of the US, this points to an expensive market:

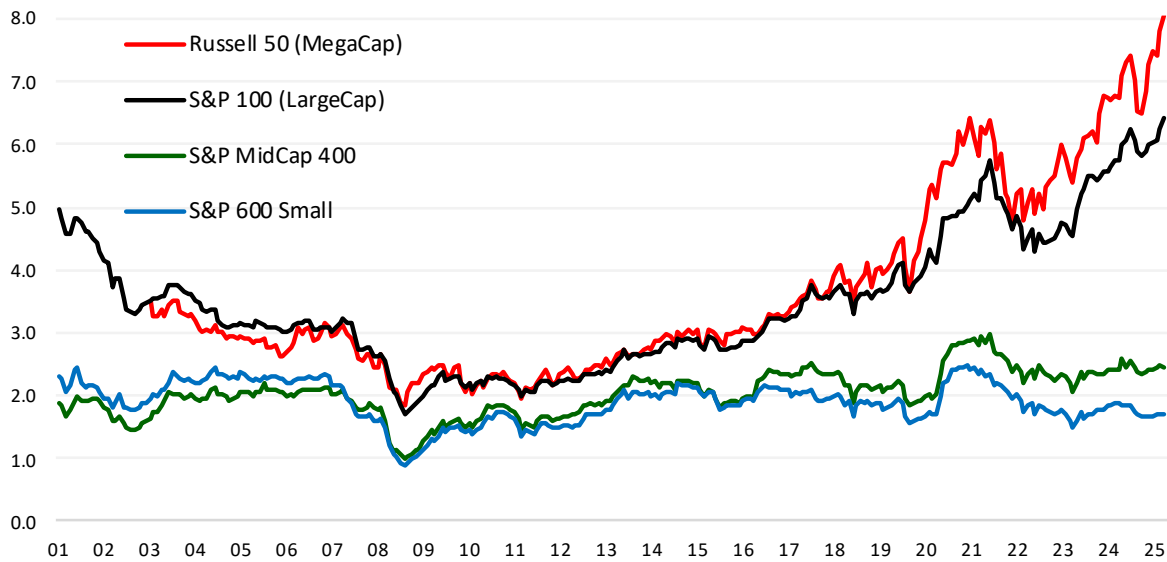
S&P Composite - 10Y Shiller TR Cycle-adjusted P/E ("CAPE")



Source: Internal, Robert Shiller, Factset.

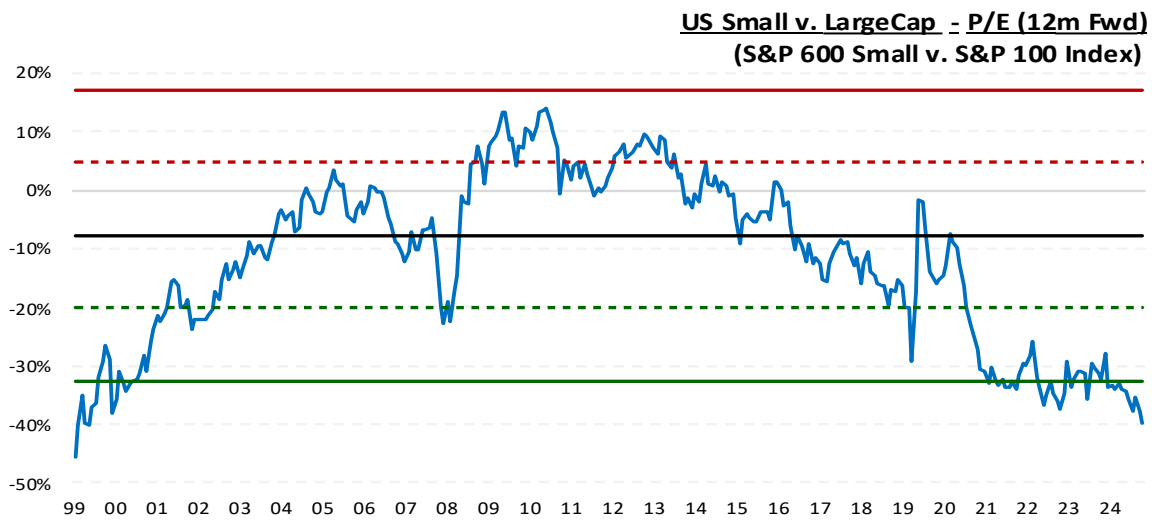
However, while the 50 largest US companies (which include Nvidia, Microsoft & co) are trading on 8x book value, a 25 -year high, Small & MidCaps are trading in line with historical averages of 1.7x and 2.4x respectively.

Price-to-Book (12m Trail)



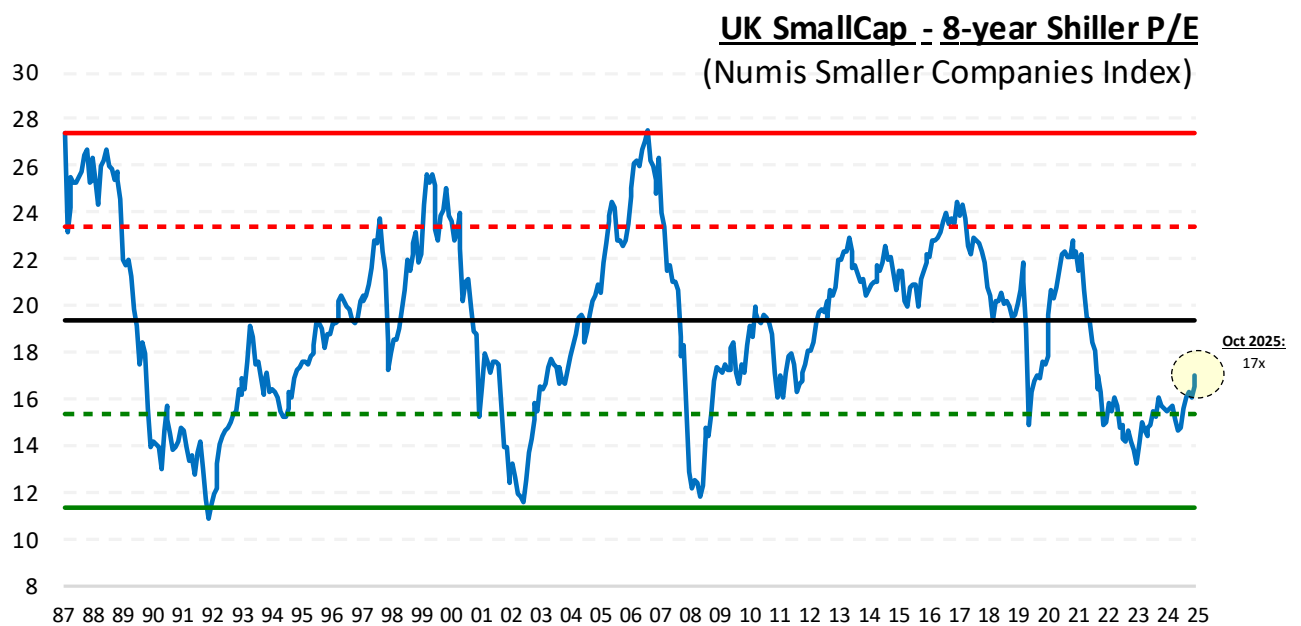
Source: Internal, Factset.

US SmallCap now trade at a 40% discount to LargeCap, approaching the previous extreme of 45% last seen at the end of 1999. Wow.



Source: Internal, Factset.

Finally, we conclude with a chart of UK SmallCap valuations which are almost a mirror image of the US Shiller chart on page 20:



Source: Internal, Numis, Factset.

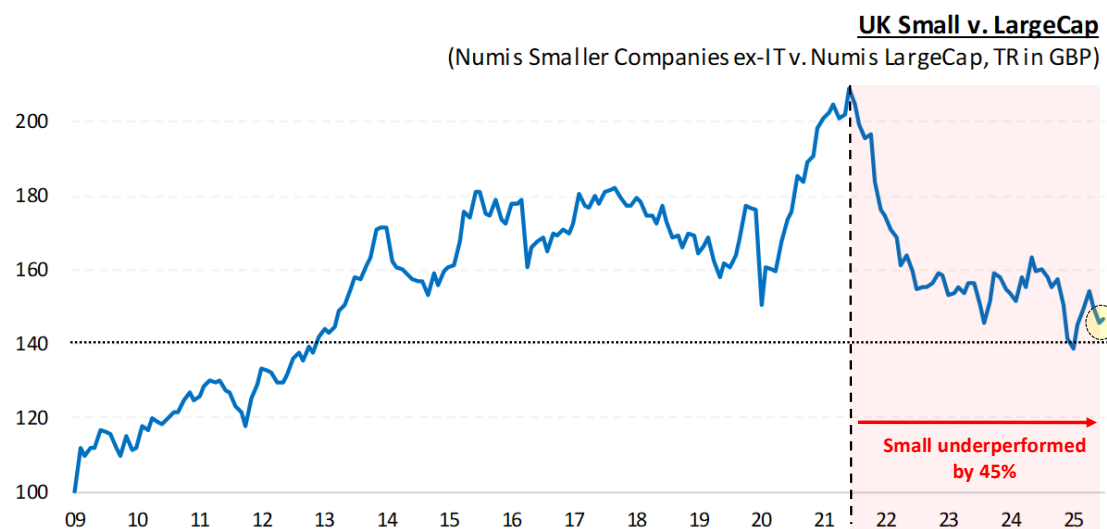
Conclusions

With apologies for closing with Mark Twain’s massively overused dictum: “*history doesn’t repeat, but it rhymes*” (yawn), the dot-com bubble gives investors a useful guide to what may come next. Last year we warned of a bubble. This year Mr M. says we’re in a bubble. For those who disagree, please join Mr. Huang and write to Mrs M. and not to me.

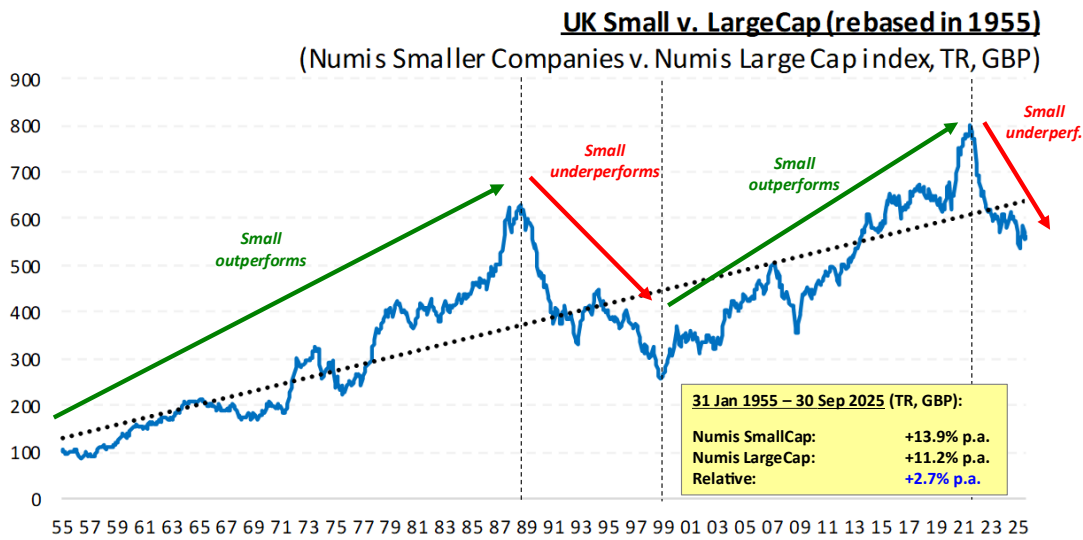
If 2025 is a repeat of 1999, investors know what to do and what to expect. SmallCap should have an important and prominent place in portfolios. The worst performing asset classes as the bubble inflates are typically the best when it bursts. “Buy Low; Sell High”. Easy. Shame that all of us have an annoying habit of doing the opposite ...

All markets mean revert. If ever you want to see an example, look no further than the final three charts (all UK SmallCap):

SmallCap has underperformed LargeCap by 45% since mid-2021



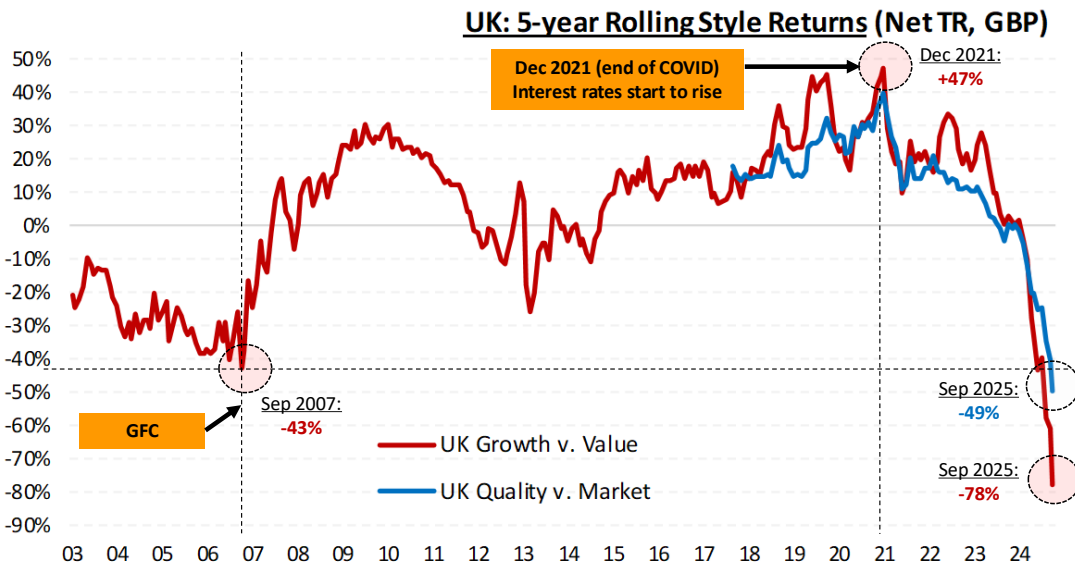
... in one of the longest and greatest slumps since 1955



Source for both charts: Internal, Numis, Factset.

... and if anything makes you stop eating your cornflakes, take a look at this:

The UK's Quality Growth crunch may also be without precedent



Source: Internal, MSCI, Factset.

You won't see a chart like this often in your life-times.

Unsurprisingly, the situation has been exacerbated by investors selling out of UK SmallCap at a pace that is also probably unprecedented: over the past four years, £4 billion has left the UK SmallCap market:

We are sorry that returns to our investors since 2021 have been disappointing. We are investors in our Funds ourselves and share your pain. These charts go some way to providing an explanation.

But they are not meant to be an excuse. Undoubtedly, we have made mistakes too: notably, being too complacent about rising share valuations and seduced by first quartile performance at the end of 2021. We learn every day and are trying to do better, ready for when headwinds become tailwinds. AI is an exciting tool and clever people in the team are doing clever things (Mr M. sadly is not yet one of them but is trying)...

All storms pass. Is there anyone left to sell? If interest rates start to fall; if the Ukraine war ends; if the AI bubble deflates; if there really are no sellers left leaving only buyers who are underweight SmallCap just when it offers higher growth at lower valuations; if the key missing ingredient of confidence finally returns ... then the sun will shine once again upon the few Quality Growth Managers still standing. Mr M. will be one, humbled but as passionate as ever.

You will be relieved to know that finally Mr M. is lost for words ... the little grey cells have given up the ghost ... there remains nothing more for me to say except to wish you the best of luck in 2026. Have a lovely break and look after your four-legged friends...they are very, very precious.

Mrs M. and Chester also wish you a Happy New Year!



Mr

Charles Montanaro (Mr. M.) – and with many thanks to Cedric for all the amazing charts (the clever bits) and no thanks at all to AI ...

10 December 2025

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