



# TSCM: Inside the Investment Room

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

## Navigating Crosscurrents: leaning into AI and energy while managing rising macro pressure

Markets are increasingly being shaped by second-order macro effects, with elevated oil prices, geopolitical tensions, and persistent inflation driving meaningful divergence across sectors. The team continues to lean into small and mid cap opportunities tied to AI infrastructure and energy security, while maintaining discipline in the face of rising valuation risk. AI-driven demand remains the dominant structural growth theme, though supply constraints and sustainability questions are emerging. At the same time, consumer and small business pressures are building, reinforcing a more cautious stance on discretionary while highlighting selective defensive opportunities. Overall, portfolio positioning reflects a balanced, barbell approach, combining long-term secular growth exposures in AI and infrastructure with more defensive allocations across financials and healthcare.

## Sector Perspectives — Takeaways

### Energy

*Near-term volatility driven by geopolitical disruption is masking a constructive long-term setup tied to global energy security and shifting supply dynamics.*

- Middle East tensions are creating **short-term earnings risk**, particularly for companies with regional exposure, while accelerating **global drilling diversification**.
- Structural demand remains intact with **international and offshore investment expected to drive growth into 2027**.
- U.S. onshore activity provides a **stable floor for service companies**, supporting earnings resilience despite near-term noise.

### Industrials & Infrastructure

*Index-driven dislocations are creating attractive entry points in underfollowed names tied to AI, electrification, and infrastructure buildout.*

- AI/data center infrastructure plays like utilities and contractors are benefiting from **multi-year capital expenditure cycles (e.g., \$63B MISO pipeline)**.<sup>1</sup>
- **Behind-the-meter power generation** is emerging as a critical enabler of AI growth, supported by regulation and hyperscaler demand.
- Industrial cyclicals (e.g., trucking) offer **deep value with embedded optionality** tied to delayed pricing recovery and M&A potential.

<sup>1</sup> Primoris Services Corporation. (2025, February 24). Primoris Services Corporation reports fourth quarter and full year 2024 results.

22

AVERAGE YEARS  
OF EXPERIENCE

18

INVESTMENT  
PROFESSIONALS



## Consumer

*Rising energy costs and inflation are pressuring consumers, particularly at lower income levels, while creating dispersion between winners and losers.*

- Retail earnings expectations have been **revised down (9% → 6%)<sup>2</sup>** as oil remains elevated, with further downside risk.
- Input cost inflation (e.g., **polyester +20%, flooring +10–15%**)<sup>3</sup> is disproportionately impacting small businesses and margins.
- Defensive growth pockets remain in staples and niche consumer IPOs, where **pricing power and domestic supply chains provide insulation.**

## Financials

*Financials remain one of the more resilient areas of the market, though the group is entering a more nuanced phase as investors balance favorable regulatory and lending trends against rising macro and credit risks. The team sees the current regulatory environment as supportive of increased bank M&A activity and expresses that view through M&A advisors focused on the financial sector rather than direct regional bank exposure, given late-cycle credit and rate dynamics, rising competition from private credit, neobanks, and large banks, and premium valuations that leave little margin for error.*

- Banks are trading near highs but may face **earnings pressure from reserve rebuilds** if macro weakens.
- Private credit is transitioning into a **restructuring cycle**, though sentiment is stabilizing with selective opportunities emerging.
- Regional banks stand out as **consistent outperformers**, supported by favorable regulation and improving loan growth trends.
- Small cap financials are experiencing modest index changes, including increased exposure to Bitcoin miner and AI power-related businesses, though the **team remains cautious** on the speculative nature and capital intensity of those themes.

## Technology

*AI remains the dominant growth driver, with demand outpacing supply and creating both opportunity and emerging risks.*

- **AI inference workloads are driving >80% of cloud demand growth**, with hyperscalers constrained by capacity.
- Cloud leaders are targeting **exceptional growth (65–80%)**, supported by proprietary infrastructure advantages.
- Rapid growth in AI usage (e.g., **open-source share rising to 35%**) raises questions around efficiency and sustainability of spend.
- AI deployment **won't scale without cybersecurity**, creating a powerful long-term tailwind for established leaders as enterprises move from AI experimentation to full-scale implementation

## Healthcare

*Healthcare continues to provide stability, with fundamentals driven by non-discretionary demand and company-specific catalysts.*

- The sector remains **largely insulated from macro volatility**, supported by steady procedural demand.
- Companies are successfully **passing through cost increases without margin erosion**, reinforcing pricing power.
- Near-term performance will be driven by **biotech data readouts and product cycles**, rather than macro factors.

<sup>2</sup> Melich, G., Montani, M., Wintermantel, O., & Regan, D. (2026, April 13). Energy matters: Higher for longer cuts EPS growth. Evercore ISI.

<sup>3</sup> Pollard, M., Moore, E., Sood, V., & Bass, J. (2026, April 7). Western Europe apparel & footwear: Polyester price increases due to higher oil price; we highlight headwinds for fashion and sporting goods names. Citi Research.

Additional Source(s): Company commentary, industry conferences, and third-party research.



## Key Macro Trends

- **Geopolitical Tension:** Middle East conflict driving energy volatility, supply chain risk, and global investment shifts.
- **Stagflationary Undercurrents:** Elevated oil and inflation are pressuring consumers while limiting policy flexibility.
- **AI Capex Supercycle:** Massive infrastructure buildout across cloud, semis, and power generation continues to reshape capital allocation.
- **Cost Pressures Broadening:** Input inflation moving through the system, with smaller companies most exposed.
- **Index & Market Structure Shifts:** Migration from small to mid-cap and rebalancing effects creating dislocations and opportunities.

## The Bottom Line

The investment backdrop is increasingly defined by macro-driven dispersion and structural shifts rather than broad market beta. Against this backdrop, the team is focused on identifying high-quality small and mid-cap opportunities leveraged to long-duration themes such as AI, energy, and infrastructure, while maintaining valuation discipline. Near-term caution remains warranted across consumer and credit as pressures build, but we feel this is also creating more attractive, idiosyncratic entry points. Overall, a balanced approach, pairing secular growth exposures with defensive positioning, remains essential as uncertainty persists and the outlook extends toward 2027.

## Performance\*

	1Q	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Inception Date
U.S. Small Cap Growth (Gross)	-6.47	10.37	8.06	1.56	10.10	9.13	9/30/00
U.S. Small Cap Growth (Net)	-6.71	9.29	6.99	0.55	9.02	8.05	
<i>Russell 2000 Growth</i>	-2.81	23.58	12.25	1.62	9.78	6.21	
U.S. Mid Cap Growth (Gross)	-7.53	5.40	10.07	5.69	12.28	9.73	9/30/00
U.S. Mid Cap Growth (Net)	-7.72	4.56	9.21	4.86	11.40	8.87	
<i>Russell Mid Cap Growth</i>	-6.35	9.56	12.73	5.37	11.68	6.89	
U.S. Focused Mid Cap Growth (Gross)	0.96	13.20	18.25	12.23	15.10	13.49	8/31/05
U.S. Focused Mid Cap Growth (Net)	0.75	12.26	17.22	11.20	14.01	12.30	
<i>Russell Mid Cap Growth</i>	-6.35	9.56	12.73	5.37	11.68	9.89	
International Small Cap (Gross)	-4.32	19.15	9.77	1.54	5.61	7.81	3/31/12
International Small Cap (Net)	-4.53	18.16	8.76	0.57	4.59	6.77	
<i>MSCI EAFE Small Cap</i>	-1.25	25.55	12.64	4.43	7.42	7.80	
Global Small Cap (Gross)	-4.58	17.93	9.86	3.55	-	5.91	12/31/17
Global Small Cap (Net)	-4.78	17.01	8.97	2.67	-	5.00	
<i>MSCI World Small Cap</i>	1.36	26.22	13.40	5.51	-	7.41	

\*Composite performance as of 03/31/26.

See important disclosures on the following page.



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