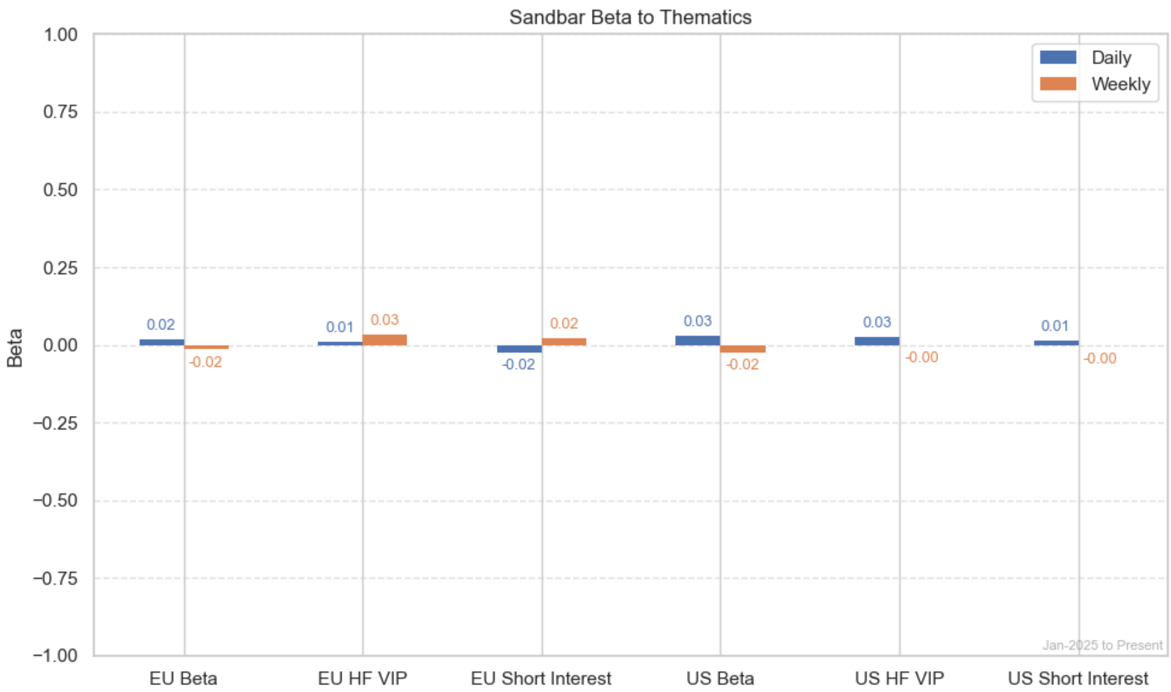
Insights December 2025: "Welcome to the Party, Pal." Crowding & Being Late to the Party

Performance MTD: +0.71%

Performance YTD: +14.54%

"Welcome to the party, pal." In a personal favourite Christmas film, Die Hard (although my wife insists it isn't a Christmas film), this line is delivered by John McClane to LAPD Officer Al Powell as he arrives at Nakatomi Plaza. Powell arrives calm, professional, and entirely unaware that the situation he has stepped into is already far more dangerous and complex than it appeared. It is a fitting metaphor for equity markets in 2025, where capital repeatedly arrived late to trades that had already become crowded, just as the risk–reward asymmetry turned decisively unfavourable.

Crowding was one of the defining characteristics of 2025. Across AI-adjacent equities, perceived quality defensives, and rate-sensitive cyclicals, the same pattern repeated itself. Strong performance attracted accelerating inflows, correlations tightened, and dispersion compressed. Trades that initially offered genuine differentiation increasingly behaved as a single position. By the time many investors increased exposure, expected returns had already been pulled forward, while downside risk had quietly accumulated. When assumptions slipped, exits quickly became crowded and price action became disorderly.



Source: Sandbar Risk Team, Bloomberg

Sandbar's investment approach is explicitly designed to avoid this outcome. Central to that approach is a focus on orthogonal alpha. We define orthogonal alpha as return streams that remain after neutralising market beta, sector exposure, style factors, and dominant narratives. In practical terms, it is alpha that does not rely on the same drivers that are influencing the majority of market participants at any given time.

Importantly, orthogonal alpha is not defined by low average correlation in benign conditions. Many strategies appear diversified when volatility is low. The distinction only becomes meaningful when correlations spike, during crowded trade unwinds, rapid de-grossing, or narrative reversals. In 2025, these episodes occurred frequently, and portfolios that relied on apparent diversification rather than genuinely independent return drivers were repeatedly exposed.

Regular readers will know that crowding is treated within Sandbar as a measurable variable, not a qualitative observation. Capital is allocated based on alpha confidence and position sizes are explicitly adjusted to reflect crowding and liquidity conditions.

December markets so far have provided a clear illustration of this discipline. Year-end positioning and narrative reinforcement drove sharp moves in a number of well-owned trades this last week. Our performance was driven by relative-value positions and idiosyncratic mispricing's that benefited from dispersion, rather than by participation in late-cycle momentum.

With the enhancements to the strategy that we have implemented, our objective for 2025 was straightforward; to compound returns by identifying mispricing early, scaling exposure by alpha confidence, and remaining neutral to the risks that everyone else is implicitly paid to take. In a year defined by narrative churn and crowded positioning, that discipline proved decisive.

While the debate over whether Die Hard is truly a Christmas film will no doubt continue, the setting is undeniably seasonal and the lesson is timely. In markets, as on screen, being welcomed to the party is often the clearest signal that you've arrived late.

If you would like to discuss any of the above, please contact the team.

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