TOCQUEVILLE

In Like a Lion…

Written by: Paul Kleinschmidt
April 23, 2026

Where exactly does one begin with a quarter that offered, in the span of ninety days, more material than most years would reasonably claim? Let’s try chronologically, though the events themselves showed little respect for narrative order.

The United States entered the first quarter having already flirted publicly — and somewhat inexplicably

— with acquiring Greenland, a territory that may prove to have great strategic value, but whose principal exports are ice and bewilderment. That courtship, designed to throw us all off the scent, gave way to more kinetic ambitions: two military campaigns, in Venezuela and Iran, launched with the kind of confidence that tends to precede the phrase “things escalated.” The war with Iran, which began on February 28th, drove Brent crude to its largest quarterly surge since the first Gulf War, European LNG prices up 80%, and — as a reminder that energy markets are not ideologically neutral — pushed the average price of American gasoline above $4 a gallon for the first time since 2022. A ceasefire was subsequently reached, offering the Strait of Hormuz a reprieve and equity markets something resembling relief — though, as students of the region will note, “ceasefire” in that neighborhood tends to describe a punctuation mark rather than a conclusion. On Wall Street, the reaction was the expected combination of alarm, denial, and eventually, grudging adaptation.

Meanwhile, back on the domestic front, a sitting Federal Reserve Chairman received a criminal referral — a sentence that would have seemed like parody in any prior era — and the government briefly shut down, pausing its operations as if even Washington needed a moment to collect itself. Concerns about the private credit market, long whispered about in the better conference rooms, began to be spoken aloud. And the software-as-a-service sector spent much of the quarter grappling with serious questions about the durability of its business model, as investors grew weary of paying forty times revenue for the promise of future margins that remained stubbornly hypothetical.

All told, the S&P 500 posted its worst quarterly start since 2022, declining approximately 4.6%, while the Nasdaq fell 7.1%. Against the backdrop described above, one might reasonably have expected worse — though we recognize that is a low bar to be clearing. The index has since recovered with some conviction: as of April 15th, the S&P 500 is trading at record highs, a development that says something either about the resilience of American enterprise or the short memory of American investors. Possibly both.

The more significant concern is not the quarter’s decline but what the market’s valuation structure implies about the years ahead. The commonly cited forward P/E of 23 times — itself elevated for an index coming off three strong years — may actually be understating the issue. A more revealing lens is the forward price-to-free-cash-flow ratio, which currently stands at 27.4 times, approximately 37% above its 20-year average. The reason for this divergence is straightforward: the largest companies in the index are in the midst of an AI-driven capital expenditure cycle of historic proportions. The four major hyperscalers alone — Amazon, Google, Microsoft, and Meta — are projected to spend in excess of $650 billion on AI infrastructure this year, a 60% increase over 2025. That spending compresses free cash flow even when earnings hold up, and the forward price-to-free-cash-flow ratio captures the distortion that the earnings multiple does not. The practical implication is worth stating plainly: investors in the cap-weighted benchmark are paying a substantial premium relative to history, and forward returns over the

coming years are likely to reflect that.

To be clear, the underlying earnings picture has been resilient. Fourth quarter 2025 results came in at roughly 14% growth year over year, and full-year 2026 estimates remain in the mid-teens, supported in part by an energy sector benefiting from elevated oil prices. Whether the AI capital outlays ultimately generate returns commensurate with their scale is a question the market is beginning to ask more seriously — and one that will take years, not quarters, to answer.

The more interesting subplot of the quarter was the broad-based underperformance of the Magnificent Seven. Every member of the cohort finished in the red, with Microsoft declining nearly 22% — the most dramatic single-stock retrenchment in a group that had, until recently, seemed exempt from the normal laws of valuation gravity. These seven companies had come to represent nearly a third of the S&P 500's total market capitalization, a concentration that complicated the index's role as a diversified benchmark. The rotation that has been underway since late last year — away from mega-cap technology and toward the broader market — is a development worth watching. The other 493 companies in the index, meanwhile, have been quietly outperforming the Magnificent Seven since November, and the earnings growth gap between the two groups is narrowing. Broadening market participation is generally a healthy sign; the question is whether it reflects genuine fundamental improvement in the rest of the market or simply a repricing of the top.

Threading through all of this, as it has for several years now, was the behavior of the 10-year Treasury yield. We have observed that 4.5% on the 10-year has served as a meaningful threshold for equity markets — a level at which the discount rate begins to visibly compete with the earnings yield. The 10-year touched 3.94% in late February before climbing back to 4.43% by quarter's end, a range that kept conditions broadly supportive but left little margin for error. The Treasury Department has continued to skew its issuance toward shorter maturities — a deliberate effort to limit upward pressure on long rates that are so consequential for long-duration assets. It is a reasonable tool, though not an unlimited one.

History suggested the market tends to recover from a negative first quarter more often than not — last year's comparable decline gave way to a full-year gain of 16.4%. The dip-buying retail investor duly obliged, and the rally that was merely a possibility when we wrote the first draft of these pages has since arrived, with the index reaching record highs by mid-April. We note this not with vindication but with appropriate wariness: record highs achieved against a backdrop of still-elevated valuations, unresolved geopolitical calculations, and a Federal Reserve with limited room to provide the kind of support that has cushioned prior drawdowns are a reason for clear-eyed attention, not celebration.

The margin of safety embedded in the broad index, at current prices, is thinner than the headline multiple suggests. Our charge has never been to replicate the index — and quarters like this one serve as a useful reminder of why. The events of the first quarter — geopolitical, financial, and otherwise —

were in many ways noise. The valuation structure of the benchmark is not. Our focus remains where it has always been: on individual businesses, purchased at prices that reflect what they are actually worth, assembled into portfolios built around the particular needs of the people who have entrusted us with their capital.

© Tocqueville Asset Management L.P. All rights reserved.

This article reflects the views of the author as of the date or dates cited and may change at any time. The information should not be construed as investment advice. No representation is made concerning the accuracy of cited data, nor is there any guarantee that any projection, forecast or opinion will be realized.References to stocks, securities or investments should not be considered recommendations to buy or sell. Past performance is not a guide to future performance. Securities that are referenced may be held in portfolios managed by Tocqueville or by principals, employees and associates of Tocqueville, and such references should not be deemed as an understanding of any future position, buying or selling, that may be taken by Tocqueville. We will periodically reprint charts or quote extensively from articles published by other sources. When we do, we will provide appropriate source information. The quotes and material that we reproduce are selected because, in our view, they provide an interesting, provocative or enlightening perspective on current events. Their reproduction in no way implies that we endorse any part of the material or investment recommendations published on those sites.

WRITTEN BY

Paul Kleinschmidt

President, Chief Executive Officer & Portfolio Manager

Paul J. Kleinschmidt serves as President and Chief Executive Officer and is a Portfolio Manager at Tocqueville Asset Management L.P., where he is responsible for managing customized investment portfolios for high-net-worth individuals, families, and institutions.

Mr. Kleinschmidt joined Tocqueville in 2010, bringing with him a foundation in equity research and investment strategy. Prior to his tenure at Tocqueville, he worked as a securities analyst at Argus Research in New York City, where he focused on industrial and transportation sectors. He began his investment career at Clareville Capital Partners LLP, a London-based hedge fund, where he served as a research analyst supporting the firm’s UK and European investment initiatives.

Mr. Kleinschmidt holds a B.A. degree in Economics from Denison University.

Full Profile & Viewpoints