TOCQUEVILLE

Milestones

July 27, 2026

Just after the second quarter ended, on July 1st, I marked my fiftieth year in the investment business, starting in 1976 in the midst of a long bear market that lasted some fourteen years, made famous by the memorable "Death of Equities" cover on *Business Week* magazine, the leading business periodical of the day. It was a time when investment research really mattered since successful stock picking was the only way to produce acceptable returns. It was a propitious period in which to become an analyst, though you wouldn't have known it at the time. (Wall Street types were not the celebrities they were to become in later years). But, asking probing questions, devouring the public filings, visiting company facilities, getting to know corporate managements, creating corporate spread sheets — by hand—thinking creatively about possible special situations or capital events could and did make a difference, as well as provided an excellent hands-on education. (Much of that ability to gain a research edge was lost with the passage of Regulation F/D which made corporate management's reluctant to answer any questions, but that comes later in the story).

From the doldrums of the bear market came the Reagan Revolution of tax cuts and monetary discipline generating a decades long bull market that ended only with the so-called Great Financial Crisis (GFC) of 2008, if then. In the robust markets of the eighties and the nineties, intensive financial research became second to other factors like momentum and speculation about future growth in generating returns. The internet boom in the mid to late nineties, coupled with the emergence of financial media created a new type of Wall Street celebrity, one who made big bets and took large positions in the latest stock market darlings and actively publicized their opinions. This approach worked spectacularly well for some of those practitioners who got it right, until the dot.com bust in the spring of 2000 brought things back down to earth. From then until the GFC, fundamental research and stockpicking excelled once again.

The financial crisis of 2008 birthed a new monetary policy of very low, even negative interest rates coupled with a vast expansion of the Fed's balance sheet via purchases of government and agency securities. It is something of a miracle that this policy did not ignite inflation at the time, but it did ignite the stock market and valuations for stocks of companies long on promise and potential but short on earnings and revenues. The post crisis markets reprised some of the exuberance of the nineties, albeit with less fanciful valuations than the "story" stocks of the previous period. Still, buying the market (or some large or specific segment of it) rather than buying individual names became an increasingly popular form of investing.

This era came to a close with the Covid Pandemic which sent stocks tumbling across the board and around the globe. Like the financial crisis before it, the pandemic spawned reckless fiscal and monetary extravagance which this time did ignite an inflationary spiral and accelerated an eventual and inevitable National Debt reckoning yet to come, the dire consequences of which have been overshadowed by the Artificial Intelligence boom of the past couple of years.   Although on far sounder financial footing than the dot.com bubble of nearly thirty years ago, the AI boom is as exuberant and as vulnerable to a similar revaluation when expectations exceed what is practically possible.

I have witnessed many changes and several market cycles over this past half century, and while each is different, they all share some obvious similarities. What has remained unchanged over those five decades is the constant and relentless turmoil in the Middle East. The worry over oil prices as a consequence has been an ever-present weight on the markets. Because of more enlightened energy policies here in the U.S., as well as remarkable technological progress in the industry, the magnitude of the impact of a disruption to Mid East energy supply is far less than it was back in the 1970's when I started my career as, among other things, an energy analyst. Nonetheless, higher oil prices whether the result of conflict or for other reasons, can impact economies, elections, and government policies in unpredictable ways.

In real terms, today's oil and gasoline prices are not very different from where they were when I started following them. Then, they were the cause of a global recession. Today, most of the world, and particularly the United States, have much stronger economies. It is ironic, however, that the very technologies which have replaced the oil industry as the most heavily weighted market sector and which have made possible a less energy intensive economy, are now the dominant new energy consumers requiring vast new amounts of gas-powered electricity units to power their data centers and AI aspirations.

Entirely new from the perspective of these past fifty years is the budding emergence of an openly socialist party in U.S. politics. There have been socialist parties and politicians before in this country but not in recent decades, and never with as much electoral success as in the very recent past. How this plays out remains to be seen, but the history of financial markets under socialism is not a happy one. Since 1976, starting with President Carter, accelerating under President Reagan, and continuing through most of the administrations that followed, the U.S. has had a deregulating and tax reducing ethos, not always, but generally observed. This has coincided with an equity market that exploded in valuation, with only relatively brief interruptions, from the depths of an prolonged bear market that preceded it. Needless to say, neither deregulation nor tax reductions are on the agenda of the new socialists.

No market survey of the past fifty years, even a very brief one, can leave out the subject of interest rates. Ever expanding government entitlement spending, demographic imbalances, accelerating budget deficits and gigantic national debt cannot persist forever without causing significant damage to financial markets. That interest rates have remained quiescent during this period is a marvel not to be underestimated nor extrapolated. Fifty years ago, interest rates were higher than they are today, even with far sounder government finances. Interest rates on government debt have been marching higher from the zero-rate policy of only a few years ago, with each one per cent increase adding nearly $400 billion to the annual government deficit, nearly twice as much as the total annual debt servicing cost of the twenty-year period prior to Covid. With annual interest costs of $1 trillion or more, currently, constituting about 20% of Federal tax collections (it was 5% in 1976) the situation is beyond dire. Though it may take that long to correct, I do not think it will have another fifty years to resolve itself.

Of course, July 2026 marked another milestone of far greater importance than the one I have been reviewing. But, they are not unrelated. The one is a full twenty per cent of the other, and constituted, perhaps, the greatest half-Century in its history. 1976 was a grim time for both the markets and the economy. Few would have guessed, then, the remarkably strong performance and progress in the decades that followed. Notwithstanding all of our current problems and challenges, it would be foolish to bet against the next fifty years surprising us to the upside once again.

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