TOCQUEVILLE

Tocqueville Asset Management L.P.

George McAuliffe – Fourth Quarter 2022 Commentary

Dear Clients,

For a while now, I have been writing a quarterly note for a few of my institutional clients. Starting this year, I thought I might start sharing it more broadly. If you find the below of interest, or have any commentary, I would love to hear from you! So without further intro...

The fourth quarter of 2022 once again continued the volatility and broad moves of the prior few quarters, with overall rises through October and November, and then a steep drop mid-December. Driving these moves are the same news items of the last few quarters (Ukraine, China, energy, interest rates, recession, and covid), though it does seem we are starting to see some glimmers of optimism.

At this point, some notable highlights of the past year might be useful to provide some perspective. In no particular order, interest rates were increased at one of the fastest paces in modern times; the stock market saw a highly volatile year with the number of days with over 1% moves greater even than in the 2008-09 period; global IPO activity by dollar value was at a five-year low and the SPAC fad has essentially ended; of course Ukraine; and it was the worst year since the 1930's for the traditional 60:40 balanced portfolio. Not surprisingly, general sentiment has tended towards weakness, and investors remain timid.

Disguised amidst the turmoil however, I also see some good signs. Reduced easy money is cutting off life support for nonprofitable enterprises lacking paths to long-term viability, and thereby easing the sometimes irrational competitive pressure (and margins) on the good-quality long-term sustainable businesses I like. A good environment for old-fashioned stock picking, vs a rising tide lifting all boats. Similarly, the large interest rate and market moves are exposing (and cutting off) those who relied more on debt and financial engineering rather than directly investing in their business – and let alone the frauds who can no longer fake it (2008, Madoff; 2022, FTX). Regarding interest rates, at this point it feels like most of the work has already been done, with the US Fed having started to slow the increases and perhaps a pause before long. This would fit the second half of a presidential term generally desiring a better economy into elections. Elsewhere, the global supply chain has largely recovered, at least in pure transport terms, even if certain things like chips continue to see specific delays or shortages. Almost forgetting covid, which by some combination of viral mutation weakening, herd immunity, and vaccinations, is no longer as deadly or front-page news. This has no doubt informed China's recent policy U-turn towards reopening – supply chains will further benefit, and the Chinese consumer rejoining the world is a good thing. Lastly, there is still Ukraine, but one cannot see the combatants going at this forever, and there appear to be a number of ways this could get resolved.

So as we step with some trepidation into the new year, I recall the metaphor about the occasional forest fire being useful to clear out the weeds and dead wood, fertilize, and open opportunity for things to spring forth anew. In my estimation, it is starting to feel like much of this process occurred over the past year and is now behind us. Yes, there could still be some sort of recession coming. And Ukraine could still hold surprises. But I remain confident that the high-quality, financially and strategically secure investments in your portfolio are well positioned to navigate and profit from whatever conditions they might see over the next few years, and that current valuations might yet yield another few good ideas. Markets as a whole can struggle, but good companies will always outperform over the cycle, and I remain excited to be investing today.

As always, I would be happy to discuss further with anyone interested.

Kind regards, and all my best wishes for this new year!

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