TOCQUEVILLE

Tocqueville Asset Management L.P.

George McAuliffe – Second Quarter 2023 Commentary

Dear Clients,

The second quarter of 2023 continued the "turning point" movement I mentioned in last quarter's letter. Markets rose modestly in April and May, and then stronger in June as interest rate increases paused, inflation started to fall, and clear recessionary signs were slow to materialize. Markets continue to seem more interested in what an eventual "stable state" might look like in the medium term, than in whatever recent lagging economic indicators might show, or in the hard to attain and perhaps overly ambitious end targets this current Fed continues to propose.

At the end of last quarter there still remained several large issues facing the world, and questions as to which direction markets might take. Interest rates, as just mentioned, and the remaining resolve of the Fed was one. Markets seem to think the Fed might be finished sooner than they have indicated, so it remains important to watch what they do, rather than what they say. Another area of concern was Ukraine and Russia and the notion that the Russian people might be starting to have enough of the costs of this seemingly pointless war. Since then, we have seen the Prigozhin pseudo(?)-rebellion, and that is still playing out, which all point to a weakening Russian resolve. Finally, we saw the floodgates of the Artificial Intelligence revolution open, and this has only continued, and in a stronger way, during the second quarter. One is reminded of the ever-shrinking speed of innovation cycles; if the "rise of the Internet" was the last cycle, then the "rise of AI" could happen that much faster. Thankfully, if so, many of our companies stand to benefit from this.

So, while there are a number of positives developing or potentially waiting in the wings, one also cannot ignore that over the last six to nine months or so, valuations have risen, and recessionary signs have more recently started to appear (earnings, lending, PMI, etc.). A "no landing" or "soft landing" might now seem less likely, but conversely, it does not necessarily mean we are headed to a "hard landing" or deep or long recession. Trying to predict the economy is a losing game – even more difficult than predicting stocks! Therefore, as experience dictates, the best strategy to survive unpredictable economic cycles and uncertain times is to remain focused on a core portfolio of high-quality companies whose businesses are strong enough to weather any downturn, and remain sufficiently in demand to benefit from any upturn.

Thank you, and as always, I would be happy to discuss further with anyone interested.

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