George McAuliffe – First Quarter 2025 Commentary

Dear Clients,

The market in the first quarter of 2025 was, as we now know, the calm before the storm. And while January and February were fairly stable, it was only in March that the market began to react to the increasing magnitude of what the new US administration was telegraphing. Not only might tariffs actually come into play, but they might affect more countries than expected, and they might start at higher levels than anticipated. We would not know the full extent of tariffs until April, but these growing concerns in March were enough to end Q1 on a bitter note.

And so we enter the second quarter of 2025 with a very strong reminder of a few fundamental market lessons. First, nobody knows anything — whether investors regarding short-term economic news, or policymakers regarding the magnitude of market reaction to their actions. Second, beware companies that rely too much on something removable, changeable, or intangible (non-diversified supply chains after years of nearshore-friendshore warnings, personality cult company founders, etc). Third, trying to react to such events (and especially political talk of what might occur) is in my experience pointless if not dangerous — once a market decline has occurred, it is usually unproductive to try to react or reposition or hedge. Those that did not remember these lessons from as recently as the pandemic or Ukraine, and tried to do something just after the first tariff announcement, were given a brutal reminder a week later as the politicians reversed (postponed? semi-indefinitely?) what they might do, and the market violently swung in the other direction (and I suspect some hedge funds are no longer with us). We all have our skillset, and should stick to it. Politicians are great at saying one thing, then re-defining the thing, then declaring victory and moving on. My skillset is in trying to pick good companies that will survive turmoil, and trying to ignore the recurring vacillations of things that are only said.

At the moment though, things do appear messy. High tariffs, if implemented, would probably be recessionary. But if a few countries start to make deals (and regardless of the depth of renegotiation), this will be positively interpreted as a way out of tariffs. When (or if?) the Fed might lower rates is not clear, though for the moment they are not the main actor and any market effect would probably be modest. Meanwhile, Q1 earnings might still be ok, but won't arguably really matter as companies are pausing activities from investments to M&A to IPOs and will be conservative with guidance, consumers' lower confidence will translate to lower spending, and the longer this all lasts, the worse the cumulative effect. Economically, some sort of dip seems already in the cards, but for how long? Before all this, if we look back a long long time ago (just three months), the global economy seemed not so bad, housing demand in the US was poised to help the economy, rates were expected to come down, and AI (like it or not) continued to promise productivity gains. If the politicians can figure out how to declare victory without upending too many more things, then perhaps the global economy can get back to work.

So what to do? I remember talking about this in my note of exactly a year ago, and my approach remains unchanged. I want to invest for the long term in good quality companies, that have competent management, and that have good products that will be in natural demand for the foreseeable future. If a company's supply chain is reasonably diversified, and their products are needed, then they will be able to adapt to whatever new trading terms we all have once the dust settles. And for companies having essential products (chips, drugs, etc), then the politicians will eventually have to figure out how to adapt to the company (not the other way around!) — thus the benefit of investing in companies with essential products. Whatever else happens, there will always remain an economic market for companies selling needed products, and there will always remain a stock market that will reward these companies. I intend to keep finding and holding these companies regardless of the daily newsflow, and I thank you for your continued support.

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

Thank you,

George B. McAuliffe III
Portfolio Manager
+1 (212) 698-0807
gmcauliffe@tocqueville.com

Note: Past performance is not a guide to future performance. This reflects our views as of the date cited and may change at any time. 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 in this writing should not be considered recommendations to buy or sell. 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.

This letter refers to the markets in general and to investment strategies deployed in a fully diversified balanced account. Your particular portfolio may not have exposure to each strategy mentioned in this letter and may not hold each or any security mentioned in this letter. Further, in the short-term, differences in performance could be due to timing of account opening and changes in security valuations, as well as the time of purchase. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. The performance assumes reinvestment of capital gains and dividends.