

George McAuliffe – Second Quarter 2025 Commentary

Dear Clients,

The market in the second quarter of 2025 started with a significant downturn on the US government's announcement of broad tariffs to come. Then, very shortly thereafter, the market began an even more significant recovery and growth as various aspects of the new tariff regime were postponed, clarified, or negotiated. Market recovery was further fueled by a decent earnings season, lower energy prices, and (over?)-optimism that we might be getting closer to a Federal Reserve interest rate cut, all helping to end the quarter on an up note.

This was not a quarter to do a lot of trading. This follows my discipline of not trying to hedge or make bets on what a government might unpredictably say one day or another (which, as we have seen, can rapidly change), but to focus my investing efforts on the true underlying fundamentals of our companies, where demand for their products should eventually supersede, or circumvent, whatever tollgates various nations might chose to impose. This also speaks to my discipline of avoiding market timing, where we now see that by avoiding knee-jerk reactions, many investments have enjoyed a very nice recovery — one that might well have been missed by those trying to adjust or rotate their holdings to match ever-changing short-term headlines.

And thus, ends only the first half of the year, and it would seem we are now at a better place than just three months ago. The economy and earnings have all remained mostly more resilient. Tariffs continue to be negotiated. Inflation is a bit higher than the Fed would like, but with some known specific causes like tariffs (or fear thereof), and a persistent housing shortage. With this backdrop, it is hard to call for an economic downturn. But with an unpredictable Washington, and tariffs that will probably not be nil, and recent years' real wage compression that could at least partially reverse at some point, it is also hard to be absolutely bullish, whether for a rate cut or for the market as a whole.

Perhaps more importantly, it is hard to see an economic downturn emerge during the next year or so, during which the current incumbent governing party wants to get re-elected next November and maintain a thin majority. Over the past six months the new administration has had the flexibility to test new policies and give poorly received ones some time, but one would expect that flexibility is now running out. Thus, talk of tariffs will probably continue, but actual broad implementation I would expect not. Calls for Fed rate cuts will continue, but have a high bar. And there could be more legislation like the Big Beautiful Bill, where stimulus measures (e.g. tax cuts) take effect sooner, while austerity measures (e.g. entitlement reductions) take effect later.

And there are always positive signs beyond just politics. Europe will shortly be spending a lot more on defense, and though with the shifts to drone warfare and other cheaper asymmetrical and rapidly evolving means it will be hard to pick winners, this should be economically stimulative. Elsewhere, the electrification of the world continues, as in Europe for energy independence, as other countries develop, and as datacenter growth drives new demand, all of which will be good for industrial companies. And of course, there is AI, which continues to astound, and is still in early days. Many ask, who will pay for it all, and how will it earn money? But these are the wrong questions. Given the productivity that is being unlocked, and the strategic implications at the corporate and at the state level (think sovereign AI), then it will be paid for, and ways will be found to monetize it, whether revenue-generating or productivity-improving.

So, we continue to live in interesting times, and it looks like the remainder of the year still holds a lot of potential excitement. Not really what one hopes for as an investor — I would settle for a few quiet weeks over the remainder of this summer! But with compressing innovation cycles, a current attempt to re-arrange the world's trading norms, and the inevitable black swans that will unpredictably appear, it remains imperative to own investments that have longer-term secular winds at their backs, and that are leaders in their businesses and masters of their own future. I believe our investments fit this description, and I look forward to seeing them succeed through whatever the future holds. Wishing you a pleasant remainder of the summer, and I thank you for your confidence.

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.