CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

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The Year in Review

By

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As 2025 nears its end, let us look back at the way things unfolded for our investments and what the year past may portend for what lies ahead. The signal political and financial market event of 2025 was President Trump's self-described 'Liberation Day' tariff announcements in April. Although Mr. Trump had discussed tariffs during his 2024 campaign and had, in his first term, put some in effect, the scope of tariffs announced on that day had not been contemplated. The size of announced tariffs was all over the map; friendly countries were subject to them as were hostile powers. (And it goes without saying that the intellectual and economic basis of the tariffs was utterly unfounded.) The announcement was a political shock and the financial markets' response was swift and decidedly negative. From its high before Liberation Day to its low in the days following, the S&P lost nearly twenty percent.

The sharp decline unnerved Mr. Trump, who began backing away from the most extreme proposed tariffs. A well-known market commentator, Robert Armstrong, who writes for the Financial Times, coined the acronym TACO, meaning Trump Always Chickens Out in relation to tariffs. As this became recognized, the stock market put Liberation Day in the rear-view mirror. Recovery began and stocks moved higher as the year progressed.

By far the most significant market event was in precious metals and the gold miners. Gold had been quite strong in 2024, rising by some 30%, so we entered 2025 with a reasonably large position in gold. As I have written before, Trump's actions undermined the safe-haven status of US Treasury bonds. At the same time, central banks around the world were replacing their holdings of Treasuries in favor of gold. This became an acute matter after the sanctions imposed on Russia following its 2022 invasion of Ukraine. Europe and the United States seized Russian central bank holdings of Treasuries, most of which were held in banks in Brussels and elsewhere in western Europe. It became apparent to many nations that their holdings of Treasuries were 'sanctionable,' whereas gold could be held in local vaults, beyond the reach of the US and European nations. Hence, more and more demand for gold.

In February, we took a position in gold mining companies and during the course of the year increased our holdings in gold. To date, gold has appreciated by 63% this year and the gold miners fund we hold is up by 85% since our purchase. As of this writing, gold and the miners comprise about 30% of Core's clients' portfolios.

As also discussed in earlier letters, Trump's coziness to Vladimir Putin and his indifference (if not hostility) to Ukraine, have encouraged the Western European nations to increase their military defenses and to support Ukraine's efforts to resist Russia. Core made European investments to benefit from this activity, such that, by mid-year, our holdings amounted to almost 15% of total portfolio holdings, led by an investment in European defense and arms companies. In November, we sold the two of the European funds with good gains and retained the armaments and defense fund.

Throughout the year, we held large positions in a Treasury money-market fund and in short- and long-term Treasury bonds. Our investment income from these investments has been modest, but they have served as a buffer to our large European and gold investments. As we end the year, those investments comprised some 40% of total holdings, providing us an anchor to windward.

In retrospect, I have been too cautious this year. Apart from the Liberation Day sell off, most markets have been appreciating, many by a lot. However, some markets, including US stocks, have reached extreme levels of valuations that have preceded very sharp declines in the past. (Much of the gain in US stocks has been concentrated in sectors involved with artificial intelligence.)

For me, the historical precedents are a warning not to be ignored. Economies run in cycles of expansion, stagnation and contraction; financial markets generally follow the economic cycle, but exaggerate the downside. Thus, the economic recession at the beginning of the century was a modest one--from its peak in late 2000 to its low level in the third quarter of 2001, real GDP fell by only 0.6%. By contrast, the market effect was hugely worse. From peak to trough, the NASDAQ index (mostly tech stocks), fell by 78%; the S&P 500 declined by 49%. As noted above, stock valuations, as measured by Robert Shiller's CAPE (cyclically adjusted price to earnings ratio), exceed all measures in the last 150 years, except for the 2000 dot.com reading.

So far, so good for stock prices, but our anchor to windward is useful for the preservation of our investment capital and the preservation of the fine returns, exceeding 20%, generated this year.

Best wishes to all for the new year ahead. Let us have another productive investing year!

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