July 31, 2025

I've learned a lot in 20 years of investing and one item in particular stands out: the fact that investors value stability. When the status quo shifts and uncertainty creeps into economic or social life then stock market volatility typically results. In fact, studying the market's performance during past political power shifts illustrates this well. Historically, stocks perform best when the Executive and Legislative Branches are controlled by different political parties because the resulting gridlock makes for slower policy changes. Wall Street values predictability and a continuation of the norm; forecasting becomes a simpler endeavor when change occurs slowly.

To be clear, some change – such as reversing burdensome regulation pushed into law from a publicity-seeking politician – can be beneficial for an industry and its long-term investors. In the short-term though, larger macro changes simply prompt Wall Street types to frantically update, check, and recheck their spreadsheets with new GDP or inflation (or whatever) numbers. For many portfolio managers focused of their quarterly results, selling stocks reduces their perceived downside when the future appears less certain. When this behavior occurs at a sufficient scale then the market can decline. Ultimately, gridlock encourages stability and allows for more confident extrapolation of past data. This increased confidence often generates better (or at least calmer) short-term stock market conditions.

Conversely, when a single party controls both the presidency and congress then change can occur faster. At certain punctuated periods during these times of political unity Wall Street opts to de-risk by reducing exposure (selling) in the face of rapid change. Given this tendency it is no surprise that the first half of 2025 experienced volatile price action. President Trump and the Department of Government Efficiency (DOGE) made daily headlines which caused investors to seek out any and all market-moving news and "reduce exposure".

Market Update: Gold

Partly due to its unique investment characteristics and partly due to its current favorable long-term fundaments, Fourward's client accounts hold a meaningful exposure to gold. Fortunately, gold's relentless march higher during the first half of the year dampened the effects of any stock market volatility on Fourward's portfolios and made it easier to ignore the day-to-day headlines. I'm increasingly of the opinion that a successful investing career is one marked by both great investment returns and low stress. Uncorrelated assets, like gold, tend to dampen broad market volatility and its associated discomfort.

In any situation where one assumes risk in order to capture future gains, it's important that one enjoy the gains while they occur. In other words, fully experiencing the positive feelings from a win helps counterbalance the negative ones (which are stronger) from the inevitable loss. This concept is important since even during the largest bull markets, prices only trend for about half of the time. The remaining time is spent consolidating or in small- to medium-sized corrections. The simple point I'm trying to relay is that gold likely won't sustain this current rate of appreciation indefinitely and periodic interruptions should be expected. After rising to a record price of nearly $3,500/oz, up nearly 100% in the past two years, investors need to start expecting a correction.

In fact, although gold's long-term fundamentals remain strong, gold could easily be a small or moderate detractor from our portfolios for the next year or so. Every great bull market will decline periodically before it ultimately moves higher. Gold's next healthy decline likely approaches.

Market Update: Stocks

Most stock market declines see a deterioration in investor sentiment as investors extrapolate short-term market weakness and grow increasingly worried. One noteworthy element of March/April's stock market decline was the particularly pronounced degradation in investor sentiment. In fact, on several occasions, because of the new tariffs, I read various financial writers comparing 2025 to 1929's peak just before the great depression.

One helpful and publicly-available measure of investor sentiment is the American Association of Individual Investors (AAII) weekly Sentiment Survey which asks members whether they are bullish, bearish, or neutral on the stock market for the next six months. Historically, a garden variety market pullback will see the percentage of bullish respondents decline and sometimes reach a low of 20% for a week, maybe two. This type of washout can be sufficient for a subsequent multi-month stock market rally as investors, collectively, gain a renewed enthusiasm for buying stocks. Through March and April of this year the survey spent seven weeks at this extreme low level of 20%. If one week of extreme pessimism suggests better-than-average returns over the coming 6-month period, what does seven weeks indicate?

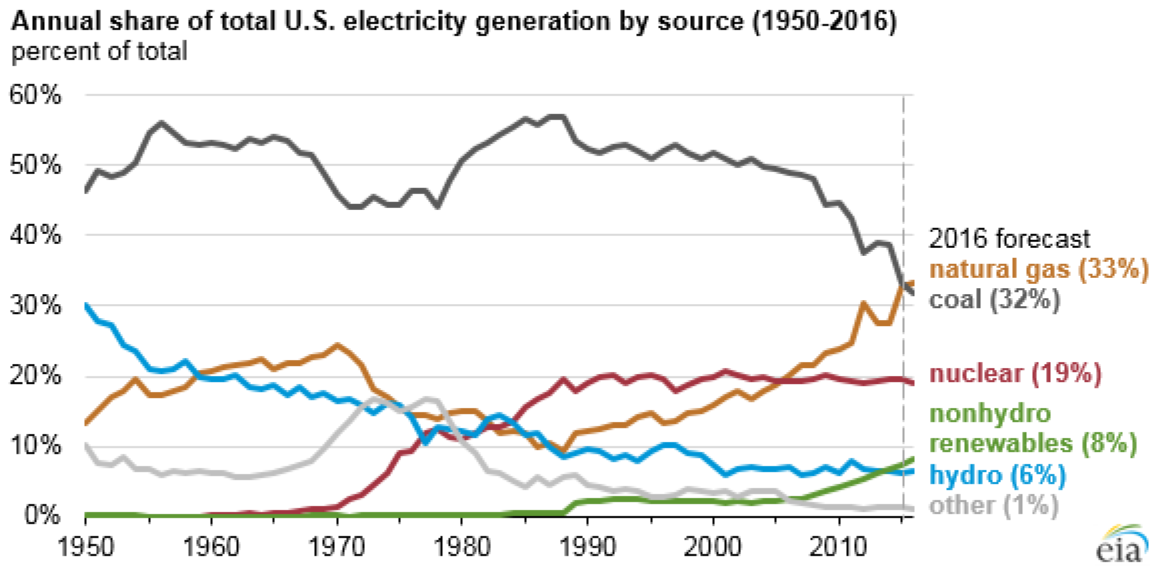
Expecting that the March/April correction was a buying opportunity, I took advantage of the extreme investor pessimism by allocating accounts further toward equities. The companies purchased were in the oil/gas, defense, media, and basic material industries. Further details below.

Portfolio updates

This past spring's market volatility likely provided an opportunity to deploy cash and increase exposure to high-quality stocks. Among these, I further increased exposure to the energy sector by buying additional shares of Expand Energy and an initial purchase of Marathon Petroleum. Expand Energy was created in 2024 through a merger of Chesapeake Energy Corp. and Southwestern Energy Co, it is now the largest natural gas producer in the country. Some may remember Aubrey McClendon who founded Chesapeake in 1989 and ran it for many years until being forced out by the board and investigated by the SEC for certain personal financial transactions while CEO.

Chesapeake, like many energy companies, was squeezed by lower oil and natural gas prices and declared bankruptcy in 2020 with $9B in debt. The bankruptcy process served to reorganize the company and removed about $7.75B of debt overhang via a debt-to-equity swap. This allowed it to continue operating now under the Expand Energy name and with a substantially improved balance sheet. Natural gas continues to seem like a prudent investment given the large and persistent tailwinds in the economy, below are some of the larger drivers impacting the market:

First, the domestic electricity market relies heavily (and increasingly) on natural gas. U.S. electricity generation used to be reliant on coal, but after years of growth, natural gas overtook coal in 2016 as the primary fuel source for electricity generation (see below EIA chart). Even with recent efforts to bolster wind and solar production, natural gas continues to grow as a cleaner and more efficient source of power generation. Presently, a renewed interest in nuclear power seems promising and has spurred new investment into the small nuclear reactor (SMR) industry. The technology looks exciting but likely will need years to gain traction and regulatory approval. It may eventually unseat natural gas as the primary fuel source, but that likely won't occur any time soon.



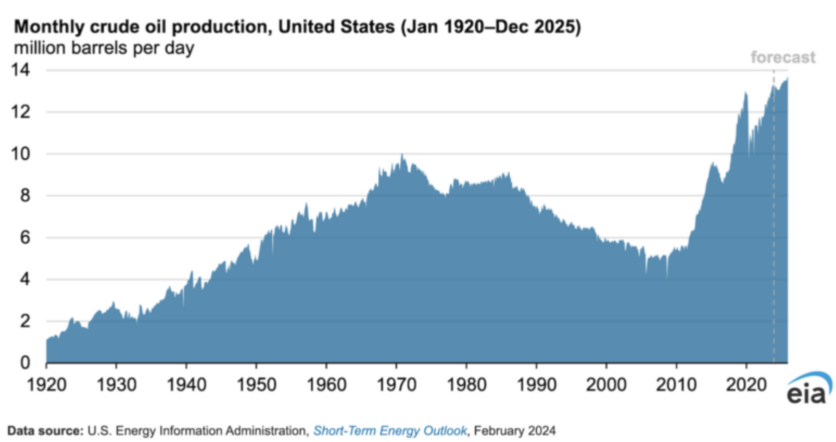
Second, our ability to export liquified natural gas (LNG) continues to increase. This increasing capacity means that domestic supply is no longer limited to satisfying domestic demand since we can ship to any LNG terminal around the world. As the world's largest natural gas producer, we have the supply to ship internationally and, after years of investment, the shipping terminals to export a growing amount to Europe and Asia. Russia's invasion of Ukraine and Europe's move away from Russian natural gas only further boosted the LNG industry. Fascinatingly, the natural gas price in the United States sits far below the level for the rest of the world. As of July 2025, domestic natural gas prices are a little over $3.30 per million Btu vs $10 for the equivalent quantity in Europe. Should LNG exports grow to a sufficient size to enable true international natural gas trade then global prices could converge. Would U.S. prices rise to meet the 3x higher global price or would global prices collapse nearly 70% to levels we enjoy here domestically? The answer, of course, remains a mystery but I suspect the price spread will resolve itself somewhere in the middle of the range. To steal a phrase from investor Mohnish Pabrai "heads I win; tails I don't lose much".

Third, domestic efforts to develop and invest in artificial intelligence (AI) continue to increase at an incredible rate. Collectively, Meta, Google, Microsoft, and Amazon spent over $100B on AI data centers in 2024 and have committed to spending a further $300B in 2025. Regarding the power appetite of this new technology, the statistic that I keep seeing is that a ChatGPT query requires 10x the electricity consumption as a basic Google search. The largest technology companies have committed to spending billions of dollars on data center infrastructure to ensure that they stay competitive in the AI arms race and these data centers require massive amounts of electricity, most of which will be generated from natural gas.

Fourth, although an admittedly small (but growing) use, the emerging push into space requires large amounts of methane to fuel the rockets. Methane is the primary fuel for SpaceX, Blue Origin, and NASA; it's clean combustion and high efficiency make it the first choice for reaching orbit. It also happens to be the largest component of natural gas, usually 70-90% by volume.

Estimates indicate that a single fully-fueled SpaceX Starship launch, including both the Super Heavy booster and the Starship itself requires approximately 1,000 tons of methane which equates to 50 million standard cubic feet. For context, an LNG tanker can hold about 60,000-70,000 tons of methane. In terms of frequency though, various launches (though not nearly as large as a SpaceX Starship) appear to be scheduled every few days between the domestic launch sites: Cape Canaveral, two separate locations in Texas, and California's Vandenburg AFB. The current space boom clearly uses substantial amounts of natural gas and simply adds to the already compelling demand picture.

Lastly, it's believed that the various shale producing regions – the same regions that have famously made the US energy independent over the last 15 years – have recently passed or are presently reaching peak production states. Once domestic shale basins surpass the 50% depletion level then production rates decline from that point forward. The investment firm Goehring & Rozencwajg, which specializes in the commodity markets, explained in a recent investor letter that the Peak Oil Theory, coined in the 1950s by a Shell Oil geologist name King Hubbert, was correct given the extraction technology available at the time. He predicted that oil production would peak in 1970 and begin a long decline. In fact, oil production did peak in 1970 and continued to decline for the next 40 years. What changed that trajectory was the discovery of fracking which opened up previously inaccessible oil and gas fields. Goehring & Rozencwajg updated Hubbert's model with current data and, after incorporating this new shale supply and current extraction rates and technology, determined that late 2024 was indeed the new peak in oil production. If they are correct, then lower production levels will likely be the norm going forward. From the points I explained above the demand picture appears strong and now, given the peak oil/gas possibility, the supply profile appears to favor higher prices in the future as well.



Weighing the above five points, it appears that both supply and demand will be shifting in a way that could drive natural gas (and oil) prices much higher in the coming years. Given this reasoning and still maintaining meaningful diversification, I've positioned Fourward accounts to benefit through investments in companies like Expand Energy (EXE), Range Resources (RRC), and Marathon Petroleum (MPC).

Ultimately, as of mid-2025 the investment landscape still appears favorable for domestic and global equities. Although the stock market remains expensive according to all common measures of valuation, the excitement and growth around AI, drones, space, and crypto may continue to drag the stock market (and its valuation) higher for longer. Rest assured, my antennae is up and I'm acutely aware that the bull market we've enjoyed since 2009 may be coming to an end, but I'll ride the wave of rising prices as long as possible. Lastly, the long-term fundamentals for gold still appear strong but I wouldn't be surprised if gold prices took a break and corrected for a while before resuming an upward march.

I appreciate your trust and look forward to the second half of 2025.

Sincerely,

Andrew M. McCormick
Managing Member

andrew@fourwardcapital.com