

CSC STRATEGY LETTER NUMBER 59

Let Them Eat Tariffs



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I am normally loath to add commentary on the macro yack d'jure as I simply can't imagine you woke up this morning wondering, wow, I really think I need another voice to help me be more wrong or more confused about the perennial uncertainty of the future.

But hot damn, the 3rd rock from the sun which we presently inhabit despite the best efforts of Elon Musk is such a ravenous steaming pile of nonsense and wasteful violence that it just makes me feel better about airing some thoughts. And the process is conceptually relevant to our fiduciary existence: making clients long-term money.

An asymptotic financial principle to which I hold dear is that if elected officials and their minions leave us alone, the wheels of a reasonably free market and the management drivers of the corporations that operate within said system can make somewhat rational long-term decisions that are occasionally in the best interest of shareholders. These results have historically played out on some skewed distribution as there are sometimes brilliant examples of this ongoing game of corporate life, occasionally frauds and duplicitously avaricious human beings, and then the general muck of the middle.

So when you have the current administration being...the current administration...it is simply not good. To start:

"Trade is an economic alliance that benefits both countries. There are no losers only winners/ And trade helps strengthen the free world. Yet today protectionism is being used by some American

politicians as a cheap form of nationalism, a fig leaf for those unwilling to maintain America's military strength and who lack the resolve to stand up to real enemies." Ronald Reagan, 1988.

One can argue process all day long, but hanging your hat on the claim that free trade is somehow not in the American best interest after the math of the last 90 years is the idiot equivalent of discussing the merits of antisemitism in 2025. Sorry Bari Weiss.

And yet here we are saying it is in the American interest to protect steel producers at the expense of those who consume steel, openly debating price controls on pharmaceuticals, randomly discussing the merits of subsidizing American banana farms, jawboning the dollar down and head nodding in regard to the commonality with the prior administration on infrastructure schemes (again, different targets with different bias) and yet another "abomination" of a spending bill. Let's just say the swamp runs cold, dark and deep. (Yes, a burnt out Musk has left the building to work on something easier like sending a human to Mars.)

As the CFO of GM recently noted, "If the tariffs become permanent...the company would need to consider whether to relocate plants. But with the current uncertainty, GM cannot spend billions "whipsawing the business back and forth." Nor can anyone else. And thus the prevailing economic smell in the land seems to be...halt. This was not in Q1 earnings numbers, but it just cannot help being in the next few quarters.

All of which throws a real wrench into those who spend all day debating “the next Fed move.” Despite noting above that the Fed should stay out of the nonsense d’jure and live the pipe dream of letting markets be markets, the factoid of modern-day financial life is the ever-exquisite sensitivity our world has to interest rate expectations, whether being the credit/leveraged world or the Federal Deficit issues as interest payments on the national debt now exceed everything but Social Security as a line item in the US budget. And as the Fed seems to be now permanently conditioned to be the “player” in the global mix of where rates “should” be, then I am hereby entitled to say that the Fed should NOT be lowering interest rates of the short end of the curve given the messathion over tariff inflation, economic slowdown, budget deficits, the price of gold and the interesting new wariness being expressed by the global bond buying community, which in classic fashion couldn’t get enough of 1% or negative interest rate paper but is balking at a 5% handle. Stability and quiet and doing nothing seems like a solid plan for the summer. I would bet a rate cut would push the rest of the interest curve higher, not lower.

And while we have noted this before, it remains a great mental challenge: the correlation between real interest rates and the federal deficit since 1945 is the least correlated pair of statistical variables you can hallucinate outside of maybe “Bronchick Rave Attendance” and the price of tea in China. You just think you know and it ain’t so, but Google away on it. Might Carmen Reinhart and Kenneth Rogoff’s piece in 2010 finally be more right than Kelton’s “The Deficit Myth: Modern Monetary Theory and the Birth of the People’s Economy?”

Back to the day job. Our mid-year outlook is the same as any other outlook we don’t offer on any other day of the year. We have businesses we study and like and we wait for them to reach “fair to cheap” levels of valuation and buy them. We try to hold onto the “Buffett” businesses for as long as we can stand it and execute more tactically on our “Graham” investments. From time to time, we are offered or see the opportunity for self-help through corporate governance improvement and Board representation. And if you are asking, yours truly finally got out of the mutual fund business and thus might have subtle abilities to serve on a Board where there was a good fit of need and the ability to make money. Operators are standing by.

We got an early start on being messy in Q1, but the public marks seem to have corrected themselves in a variety of the more painful reminders of the idiosyncrasies of short-term market/stock movements, and thus we hover in the

positive single digits for the year to date. Punk absolute performance, but better on a relative basis if you care about those things. Among things happening to note in brief in 2025:

- we continue like the tailwinds in aerospace and defense and have done well in Astronics.
- the average US car is 14 years old: Advance Auto Parts.
- Ecoyst Catalyst competitor sold for 12 to 15x Ebitda depending on whether you believe the buyer or seller press release vs ECVT 6 handle.
- classic smallcap spin from larger cap - ANGI.
- did not make awful sale in a “complete disaster” which then doubles from a bottom - Compass Minerals.
- new idea: I3Verticals. “It may not be Tyler, but there is a long way to go in that relative valuation.”
- and any variety of other random new thoughts: Is not drinking really a secular trend? Smallcap healthcare consolidation, aggregates and cement, and “what we really want to buy in a 6-month recession.”

Following up on our previous [letter](#), I would add another unpaid thought from Byrne Hobart and his wonderful Diff newsletter. He continues to write and think in a way that makes me occasionally want to just index and watch TV in the same way that Alcaraz and Sinner encourage me to melt my tennis racquet and Oz Noy returns my Les Paul to the Brazilian forest.

“In many ways, an LLM is a better complement to an 80-year-old than a 28-year-old: it can handle rapid-fire thinking, tip-of-my-tongue memory issues, contextually-relevant reminders, and the like. It doesn’t have wisdom, but enough decades of existence provide plenty of that. Of course, adoption is slower in older demographics, but if someone’s spent their entire professional life having phone calls and sending memoranda and emails in natural language, this is less of a change in interfaces than, say, the introduction of word-processing or spreadsheet software. So the first generation of senior executives that manages to adopt these tools day-to-day, rather than mandating that everyone else at their firm uses them, may end up working longer and retiring later.”

Our world is micro to mid. There remains a distinct lack of interest/dollar flow in said space, which remains the opportunity. If non-US investing can be the hot dot in 2025 after a decade of malaise, nearly anything is possible. In the words of a new Mike Mauboussin piece the great winners of the next ten years seem to always be a combination of a “handful” of those great companies who retain an elevated multiple on continued growth and execution and a bucket of “ten year underperformers in a non-secularly challenged business who are currently showing lower R+D or Capex as a % of sales.” We have lists.

We all know that mess and fear and trouble and volatility create opportunities to make money. Investing involves pricing risk and acting accordingly. The problem as we all know is that when that moment is here, you won’t want to give us, or anyone, money. Which is why starting now is not a bad idea.

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