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Victoria Capital Management, Inc.

Market Musings

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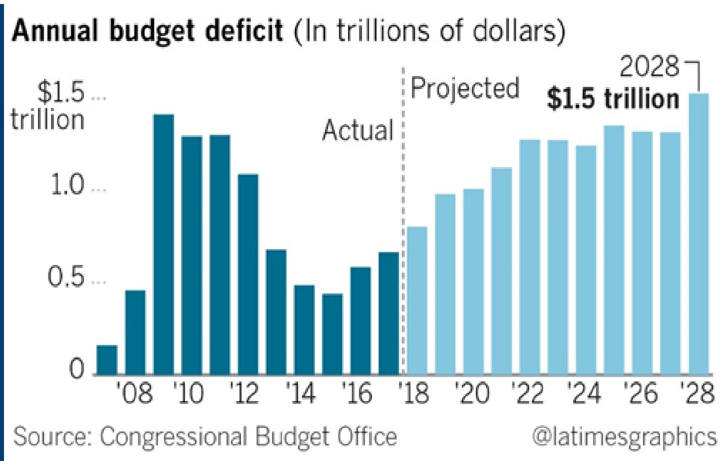
Economists and politicians have warned about future budget deficits. Imagine what these pessimists will think after spending on the Coronavirus. Do not be surprised to see these forecasts in multiples of $1 trillion in coming weeks as expanded government spending and collapsing revenues balloon the deficit.



Turning Points

Throw all traditional economic and market analysis out the window in the face of a global virus attack that is accelerating with no viable timetable for resolution. Early in March, the outlook for economic growth for the first quarter was an attractive 3%. The Coronavirus and the oil price collapse has changed everything. Each day the forecast for economic growth shrinks by leaps and bounds. The US economy could contract at about a 35 -40% annual rate in both March and April—the worst declines in American history. The growing shutdown of many businesses across the U.S. will add to this economic decline and to rising unemployment.

There is growing pressure on the Administration to loosen the shutdown and allow younger people to go back to work. Some ask: Is the cure worse than the illness? These shocks have created a turning point in our lifestyle and standard of living. While restaurants and bars are forced to close and lay off many workers, home delivery of food services is skyrocketing, and grocery shopping services are in such demand that you must wait a few days to get a delivery. Amazon is hiring an additional 100,000 workers to meet rising demand. Families who have never used these services are using them now and recognizing their value.

After the virus has passed, will consumers go back to their old habits? The lockdown that has forced working from home has created soaring demand for computer applications that allow work groups to communicate and collaborate on work projects. As this process becomes an ingrained part of doing business, will management see the cost savings in a workforce at home versus a costly commercial office building? Will “We Work” become we work at home? Two weeks ago, real estate REITs plunged in value suggesting investors see what’s coming. For the work at home crowd, buying a viable laptop was an impossibility. The surge in demand cleared out the inventories of companies like Best Buy. Last year’s public launch of the video company Zoom has been “zooming” up lately in the face of soaring demand. Wall Street strategists haven’t missed the trend. For a change, the advantage is being given to active portfolio managers like us who can pick stocks and profit from a change in the economy’s structure.

“Adversity has the effect of eliciting talents which in prosperous circumstances would have lain dormant.”

Horace

Market Commentary

Investors struggle to understand the magnitude of the decline in stock prices during March. Yes, they are aware of the growing threat of the Coronavirus but many have been there before with the SARS and H1N1 viruses. The problem with sudden shocks to the stock market is the lack of liquidity that goes hand in hand with fear and mechanical selling based on traders and speculators accelerating the decline. More than one hedge fund is liquidating due to abnormal market volatility. When all these factors depress the few buyers that are left, stock prices plummet. Volatility will continue even though the market is buffeted by large government assistance programs, Federal Reserve safety net operations and swings in the battle against the virus.

Long-term investors should consider that since 1928, through 14 recessions and 21 bear markets, equity markets have never failed to regain a prior peak.