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VICTORIA Capital Management, Inc.

Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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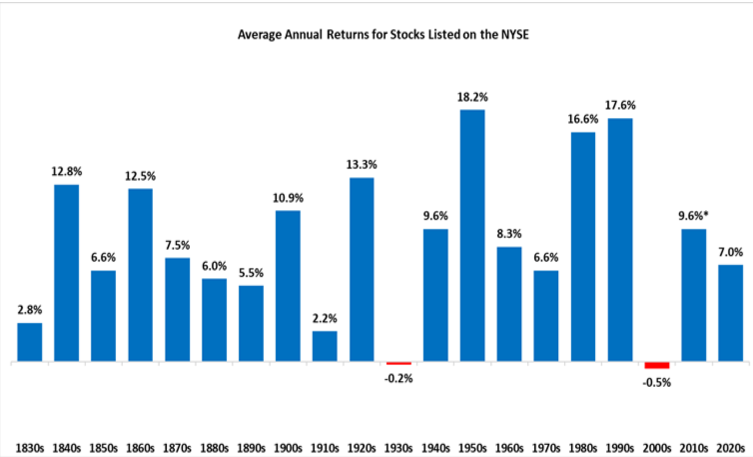
The chart to the right demonstrates that over long time periods, the return from stocks is positive. What is interesting are the returns after the two decades of negative returns. For the 2020s, one fun comparison is with the second decade after the 1930s depression. Could the 2020s roar like the 1950s?



How Long Can the "Boom" Continue?

Recently, the Wall Street Journal asked the question, "…what that boom will look like—how long will it last, what it might do for employment, how much inflation it might generate—isn't clear." As we monitor economic data, both domestically and abroad, evidence is building that the boom could last. For 2021, the estimate for GDP growth is between 6 and 8%, a growth rate that has not occurred since 1983 when the economy emerged from recession, double-digit inflation, and double-digit interest rates. This "recession" has been government induced and then reversed by record stimulative policies of enormous spending and record low interest rates. Clearly a different start than in 1983!

Another difference as we emerge from this recession is the level of global wealth. Individual wealth is at record levels and surging higher as two major components of the consumers' balance sheet are surging—the stock market and home prices. There are shortages of workers, houses, raw materials, rental cars, and restaurant reservations. Some economists fear that the stimulus is too big, and that inflation will be the next big economic factor. The recently announced tax rate increase on both individuals and corporations will slow the impact of government spending programs but not reverse them.

Looking ahead for the balance of this decade, the pandemic has changed many of the ways in which we spend our time and live. Innovations in technology have transformed the traditional work commute and office occupancy to working from home (WFH) that has created a whole new industry to meet these needs. Incidentally, Tom used to commute to Wall Street from New Jersey that consumed almost four hours per day, in addition to the cost of the trip! Now living in Charleston, he can walk to the office or work from home. WFH has not only cut expenses but also time resulting in improved productivity and less stress. Companies have realized they do not need all the marketing and travel expenses to meet their sales goals and are seeing their bottom line expand as a result. The implications are that rising productivity—hard to measure by traditional standards—will allow both the corporate executive and the blue-collar worker to enjoy a higher standard of living.

The good news is that the economy is expanding, and government programs will continue to contribute to rising employment and better paying jobs. A rising stock market will help fund retirement plans at a time when fixed income investments do not help grow those assets. If demand gets "hot" and prices rise as a result, a growing economy can absorb those price increase without undermining the likelihood of a long-term period of good times.

"A person's greatest virtue is his ability to correct his mistakes and continually make a new person of himself."

Yang-Ming Wang

Market Commentary

April witnessed a strong month for stock prices as the Dow Jones Industrial Average, the S&P 500, and the NASDAQ reached all-time highs. This year's uptrend continued due to the optimism regarding a rising number of vaccinations and slowing number of new Covid-19 cases and plans for many states to continue to relax pandemic restrictions that stifled economic activity. As first quarter earnings reports surprised on the upside, stocks reacted accordingly. Analysts continued to revise their earnings' estimates upward and, raised target prices higher for the stocks they follow. Foreign stock markets, as measured by the MSCI World ex U.S. index, lagged U.S. markets as the pandemic spread due to a slow vaccination rollout and increasing variants of the virus. After a strong first quarter, equities may consolidate before advancing through yearend.

The average US state receives 48% of its tax revenue from sales taxes, 41% from income taxes, 6% from license taxes, and 5% from other taxes.
(*source: Census Bureau*)