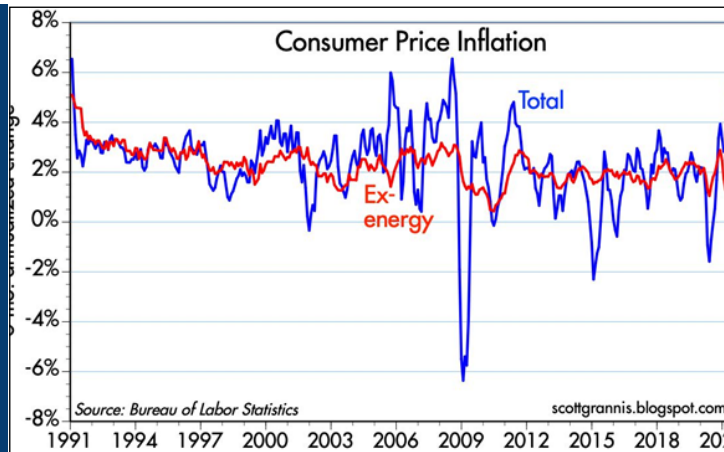


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Inflation has dominated the economic outlook on the back of fears that rising prices will undermine our standard of living. The Fed has indicated that inflation is going to be “transitory”. We expect to see price increases return to reasonable levels after the economic resurgence has returned to a traditional growth rate of 3-3.5%.



“The present exists, the past and future exist only in conversation.”
Fernando Flores

Market Commentary

The rotation among groups of stocks continued during the month of June. Of particular importance is that growth stocks bounced back as the second quarter came to an end. Even in the face of a barrage of inflation forecasts, growth stocks rebounded strongly. With a big GDP number expected for the second quarter of the year and a surge in earnings growth to be reported in early July, the stock market is ripe for continued gains. The inflation story is fading in importance as commodity prices have rolled over and fallen during the month and interest rates have not reflected a resurgence of inflation. Take for example the supply of hand sanitizers and toilet paper. Need we say more about productivity?

Flu cases have dropped dramatically during the pandemic. The number of Americans testing positive for the flu during the 2020-2021 flu season was the lowest number recorded in 25 years.
(source: CDC)

How the Pandemic Changed Our Lives

Recently the Wall Street Journal attempted to quantify the impact of the Pandemic in an article entitled: “7 Ways Our World Has Changed.” These “ways” could have an enormous impact on investors and consumers. In summary, here they are:

- 1. A Revised Understanding of Effective Leadership** meaning that the uneven effects of the global pandemic will have long-lasting effects on individual country’s ability to recover from the pandemic and the related political upheaval.
- 2. A Mass Migration to the Suburbs Remakes America** reflecting the relocation of people from large cities to smaller suburbs and the work from home phenomenon. The trend will also contribute to a rise in consumer spending that accompanies this shift.
- 3. An Ongoing Puzzle for Life Insurers** as the unexpected mortality tables have been upset by the unusual number of deaths due to the virus.
- 4. A Fresh Brand of Success at the Mall** reflecting the shift in buying habits from the mall to the Internet, a process that is unlikely to reverse and has been in the making for many years. The pandemic effectively eliminated the middleman as the Internet gave consumers the opportunity to deal directly with the producer.
- 5. A Faster Future for Drug Development** based on the rapid response of drug companies and regulators to creating a solution to the virus and variants.
- 6. An Existential Crisis for Higher Education** is the shift from the campus to the home computer and all that implies for the traditional expensive educational system.
- 7. A New Era of “Big Government” Begins** reflecting the response of the federal government to the pandemic through massive increases in debt and the Federal Reserve’s zero interest rate policy. These changes will be an important factor influencing investment decisions in coming months. So far, these changes have had a positive effect on the economy and equity markets.