

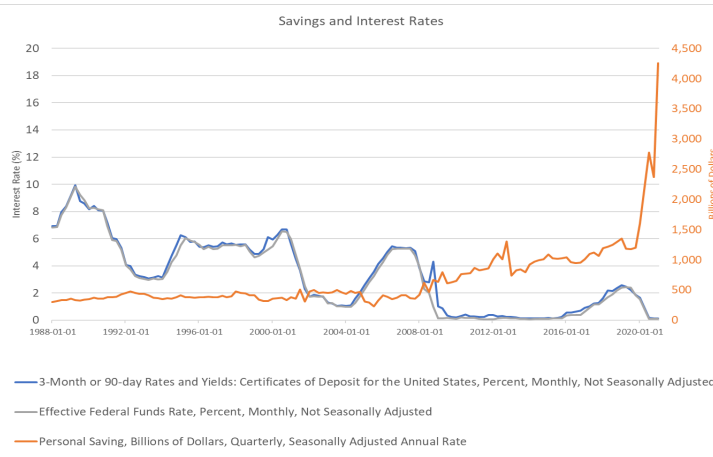


Market Musings

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

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The budget deficit has soared adding concerns to the idea that the increasing national debt is bad for the economy as federal government borrowing will force interest rates higher. Note the relationship between interest rates and personal savings. Apparently, the huge increase in budget deficits produced an enormous increase in personal savings that, in turn, forced a collapse in interest rates as can be seen in the chart.



The Long-Term Effects of Afghanistan

We are all overwhelmed by recent events in Afghanistan. Having been in Vietnam at the outset of that engagement in 1965 and witnessing the abrupt withdrawal in 1974, we were shocked by the military and political decisions surrounding a similar withdrawal from Afghanistan. As with Vietnam, many of the personal tragedies could have been avoided with appropriate planning and implementation. From our point of view that has not happened during this withdrawal. The result could have a long-lasting impact on our position as a leader that was committed to protecting democracy around the world.

We could be at a turning point in the history of our country as our global policeman role is coming to an end. The broad failure of our commitments is not only to Afghanistan but to all our partners in defending the duly constituted government of that country and others in similar circumstances. The question is: Do we ever want to get involved in helping a foreign country become a democracy while putting our own citizens at risk? Americans are unlikely to support such ventures in the future. Much like the at-home movements such as “defund the police,” the response by American citizens to the need for the United States to act as the proponent of democracy may be similar.

One obvious impact of this situation is the reduction in spending on traditional defense measures that are related to time-honored warfare. The shift is more likely to be toward state-of-the-art warfare and away from the more traditional air, ground, and water defense methods. By engaging advanced technologies to control cybersecurity that is a growing threat, perhaps our country could be at the leading edge of “fighting” the unknown enemy instead of having troops in the air, on the ground, and at sea around the globe.

Threats by terrorists have always lurked in the background but now exist in plain view as they voice their plans to cause additional turmoil. Given the state of the American mindset, if such a terrorist act occurs, there will be a wave of reaction to quell such unruly and unnecessary attacks. Moreover, the American public will likely make demands that their leader implement a solution to the situation – something the current administration will unlikely perform.

“France, though armed to the teeth, is pacifist to the core.”

Winston Churchill, 1932

Market Commentary

The stock market rally continued during the month of August with the major indices setting record highs. The commitment by the Fed to keep interest rates low contributed to the rally as investors became less concerned that higher rates were imminent. Major indicators of economic health continue to flash green and corporate profits continue to surprise on the upside. Meanwhile, low interest rates have continued to punish investors in fixed income securities. The markets are still experiencing a rotation among different asset classes. During August, many large cap growth stocks outperformed their brethren large cap value stocks, reversing the rotation that began in the fall of last year. Foreign equities continue to post single-digit returns to date while emerging market equities are still negative so far this year. Investing at home is still the best policy!

An estimated 7.5 million out-of-work Americans will stop receiving federal unemployment insurance benefits a week from today (Monday 9/06/21).

Source: Pandemic Unemployment Assistance