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Victoria Capital Management, Inc.

Market Musings

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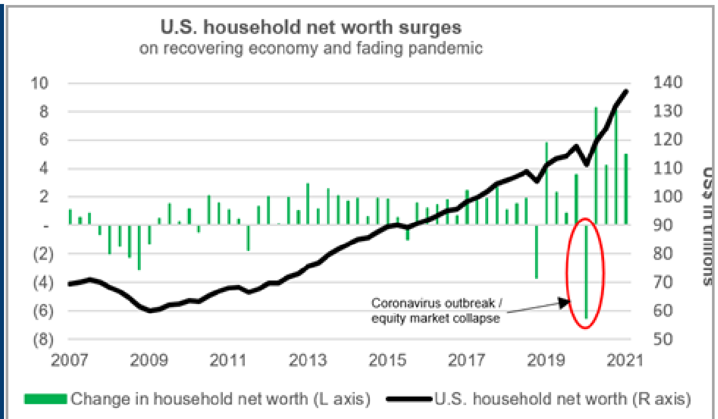
One of two broad measures of wealth are consumer and corporate wealth. This chart shows the increase in the net worth of consumers before and after the coronavirus. The left axis shows the change while the right axis shows the level -- which is at a record! A broad increase in wealth is a favorable development for the economy.



urce: Federal Reserve, RSM US

The Case for Wealth Creation

There is an experiment going on that nobody seems to be noticing. In response to the Covid pandemic, the federal government's overwhelming monetary and fiscal response has led a few economists to conclude that monetary and fiscal policy has aborted a recession and has provided a "safety net" that has underwritten a miracle recovery—without inflation. Even in the aftermath of a surge in Covid variants and debilitating arguments over the wearing of masks, the economy is still growing. Retail sales popped 0.7% last month or 8.4% at an annual rate. Consumers have saved an estimated $3.3 trillion dollars during the pandemic.

Most corporations have seen profits rise sharply and the depressed energy sector is having a banner year after many thought the industry would not financially survive (remember a minus $35 per barrel oil price at the crescendo of the pandemic?) There are millions of more job openings than there are applicants. Corporations have also been major beneficiaries of low interest rates as they have continued to refinance older high-cost debt. Uncle Sam likes that too as corporations have less interest costs to deduct from their liabilities meaning more tax revenues. Large companies are instituting major increases in the minimum wage. The federal government's willingness to underwrite trillions of dollars of costs associated with the pandemic is mind boggling. The bean counters cannot figure out a way to incorporate the cost transfer from consumer to government for the purpose of measuring inflation. Commitments from both the Federal Reserve to keep interest rates low and a probability of a multi-trillion dollar fiscal spending package being passed by yearend will provide another boost to economic growth with further contributions to corporate and individual wealth.

The growth of individual wealth is upsetting some politicians. Proposals to raise both income and capital gains tax rates could be a problem depending on the magnitude of the final package. More disconcerting are proposals to tax wealth, not income, and to impose a monster tax on the unrealized capital gains of billionaires. If such proposals gain a following, we could be in for tough times if all that forced sale of stock to pay taxes puts major downward pressure on stock prices.

"The present exists, the past and future exist only in conversation."

Fernando Flores

Market Commentary

So far this year, domestic stock indices are up in the healthy double digits with Energy, Financials and Real Estate leading the way. Most Asian and European stock markets are also up through the end of the month, but Emerging Markets are marginally lower – mostly due to declines in Brazilian stock indices. Both Domestic and Foreign Bonds are down more than 4% so far this year demonstrating that investing in fixed income assets is not providing a viable rate of return for investors. A fact we have written about for years. Stock market moves to new highs at the end of October reflects a continued surge in corporate earnings, an economy recovering from the pandemic and a hopeful positive finish to the year.

There were 724 billionaires in the United States as of April 6, 2021.

(*source: Forbes World's Billionaires List).*