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VICTORIA Capital Management, Inc.

Market Musings

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

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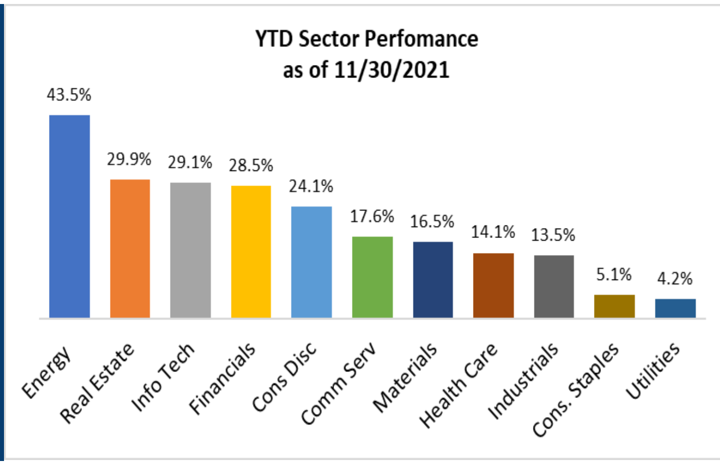
The chart to the right shows returns for key sectors in the S&P 500. The wide disparity is an indication of the importance of broad diversification in building investment portfolios with a long-term time horizon due to short-term gyrations.



"The best argument against Democracy is a five-minute conversation with the average voter."

Winston Churchill

How We View Inflation

The traditional definition of inflation is too much money chasing too few goods. The current inflation experience should be characterized by the too few goods than by the too much money (although the government has provided a record amount of money). The publicized logjam at ports of entry for goods is just a by-product of the inflation story. The real story is that the U.S. government embarked on an experiment in Modern Monetary Theory (MMT) where a knee-jerk shutdown in the face of a pandemic was about to cause an economic collapse that happened briefly (the recession was the shortest on record) because the government immediately pumped trillions of dollars into the economy. This effort and the economy began to move toward a more normal growth path. The two-month pop in inflation in recent months was an obvious residual of the Fed's putting a huge amount of money into the system at a time when output was slowing.

History tells us that there is good inflation and bad inflation. Good inflation occurs when corporate profits, personal income and state and local government revenues are rising leading to an overall increase in standards of living. (Can you believe that the state of California has a $64 billion surplus?) A review of the recent boom in both the stock market and the housing industry tells us that things are not as bad as some economists try to tell us. Record levels of both corporate and personal wealth tell us that inflation is not necessarily a bad thing.

Venezuela is an example of bad inflation since growth has collapsed on the back of corrupt economic policies resulting in hyperinflation and disintegrating standards of living. (For example, the inflation rate in that country in 2020 was 2,400% and the economy shrank by 35% in 2019). Thankfully, on our shores the surge in stimulus is making life better for both individuals and companies. Once the surge is over, the economy should return to a better growth trajectory as it has historically after times of enormous dislocations. In the meantime, we have learned a lot about how to live during a period of substantial dislocation and found ourselves in a better economic position after the crisis was over. One important fact that market pundits are overlooking is the recent decline in oil and natural gas prices and their effect on upcoming inflation reports – perhaps there is light at the end of the tunnel in this regard.

Market Commentary

As November ended, another variant of the coronavirus out of Africa (Omicron) spooked the market resulting in domestic losses for the month across the board. Foreign stock markets also came under selling pressure while emerging markets plunged to losses of more than 6% year-to-date. Investors plowed money into bonds sending interest rates back down below 1.5% as measured by the 10-year treasury note. There are only thirty days left in the year and during the upcoming holiday season we anticipate some increased volatility on low volume in both stock and bond markets primarily due to the uncertainty surrounding the impact of the Covid variant.

Job openings in the USA have increased from 6.611 million as of 9/30/20 to 10.438 million as of 9/30/21, an increase of 3.827 million or 10,485 new job openings per day.

(*source: Bureau of Labor Statistics)*

Market Musings represents the views and opinions of VCM and does not constitute investment advice, nor should it be considered predictive of any future market performance. Data are from what we believe to be reliable sources, but cannot be guaranteed.