January 5, 2022

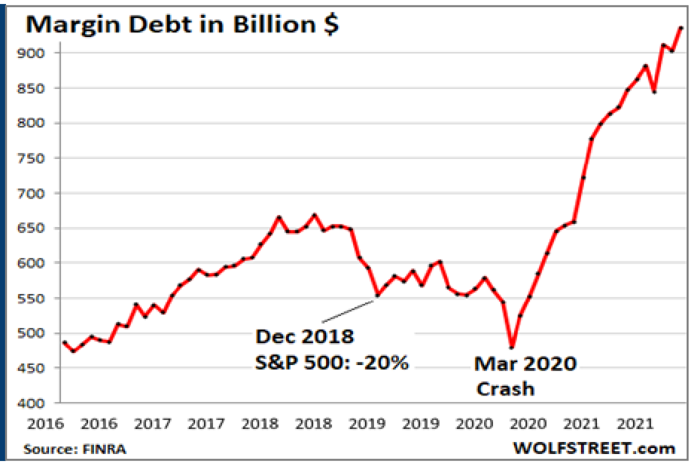
VICTORIA
Capital Management, Inc.

Market Musings

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

VOL. 5, ISSUE 1

An important factor in assessing risk in the stock market is the level of margin debt. This metric measures how much borrowing is being used to finance the purchase of stocks. When the Fed begins to raise interest rates, speculators may be forced to unwind their bets resulting in extreme short-term losses.



The Outlook for 2022

Many years ago, a knowledgeable Wall Street economist characterized the economy as a "Rosy Scenario." Looking at economic data points today, we could not agree more. While the COVID pandemic and lingering variants are inhibiting a full return to economic expansion, we do not underestimate the private sector's ability to go after the disease with a variety of weapons that include vaccines, antibodies, pills and just plain old masks and distancing.

A while back we compared the response to the virus as our response to World War II. By April of 1942, a few short months after the beginning of the war, the U.S. stock market bottomed and began a rally of significant proportions. The emergence of the variant is like the German counterattack at the Battle of the Bulge that was ultimately thrown back. Following that victory, U.S. bombers pounded Germany into oblivion as our pharmaceutical companies are pounding the virus and its variants into oblivion. In other words, it is just a matter of time before we conquer this enemy.

The latest economic statistics continue to support our thesis that the outlook is getting better. We are not engaged in any major warfare around the world, America is strong as demonstrated by the rising value of the U.S. dollar and the desire of foreigners to come and invest here. Retail sales registered a record gain during the holidays, corporations have repurchased shares of their stock and have increased dividend payouts by a record amount. Fears of inflation should be quelled by data on traditional indicators of inflation such as gold that closed out 2021 in the red. The dollar is strong, interest rates are near record lows and workers—both blue and white collar—are experiencing increased compensation to offset the short-term pop in inflation. Fiscal policy will continue to pour dollars into the economy during 2022 and continued corporate stock buybacks will add to an unbeatable combination of events that will buoy the stock market next year.

On the other hand, bond markets have continued to disappoint investors as interest rates have remained low. High yield bonds have been the stars of fixed income investments during the year as yields trumped capital gains to derive some return from this market. If interest rates remain low, bonds are a poor long-term investment.

"In investing, what is comfortable is rarely profitable. "

Robert Arnott

Market Commentary

December was a "stop and go" month for equity markets. The emergence of the COVID variant added uncertainty to the recovery as governments at all levels began to impose mandates that slowed business activity. Then year-end RMDs (required minimum distributions) from retirement plans put pressure on prices as selling to meet these withdrawals depressed stocks. However, as the year ended the Santa Claus rally emerged, and major stock market indices reached or surpassed their record highs. Emerging markets finished in the red due to losses in Latin America and U.S Treasuries were down for the year. Next year we may see leadership concentrated in the cyclical stocks that suffered under the COVID yoke.

An estimated $3.3 trillion of additional cash has been accumulated in bank accounts by American households since the beginning of the pandemic, i.e., cash that would have previously been spent (and not saved) if the pandemic had not occurred *(source: Longview Economics).*