

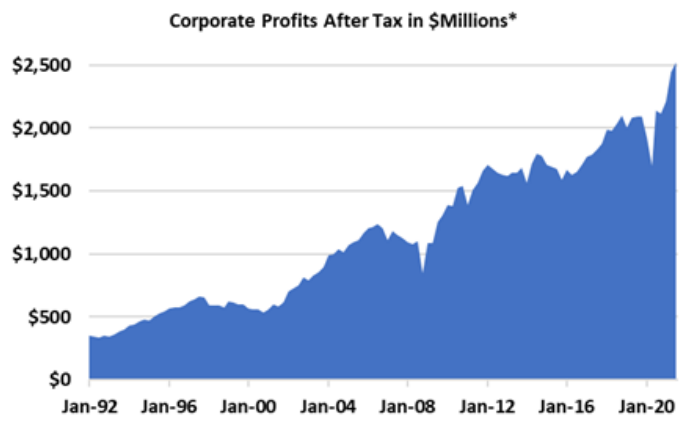


Market Musings

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

VOL. 5, ISSUE 3

Profit growth is the key to successful long-term investing. The chart tracks the growth of corporate profits as measured by the Federal Reserve Bank of St. Louis. Recent growth supports a strong stock market environment for those companies that are enjoying the best profit growth in their history.



“The best way to predict the future is to create it.”

Abraham Lincoln

Market Commentary

February was another tough month for stocks across the globe as rising inflation stoked volatility. At the end of the month, Russia’s invasion of Ukraine added to investor concerns about an expansion of the conflict. As a result, domestic stocks finished lower although growth stocks suffered the most as inflation expectations have been increasing. Small and mid-cap stocks fell more than the big cap names but companies reporting strong earnings did well, Target being one example. The prospect of war in Europe pressured European equity markets. Even the bond market weakened in the face of the prospect of a series of Fed tightening this year. Global uncertainty favored the dollar as it strengthened vs. other currencies.

The Effects of War on Global Financial Markets

The Russian invasion of the Ukraine and the global response has heightened the chance of another World War or has it? After an initial plunge in stock prices last Monday after the news of the invasion spread across the world, global stock markets (except Russia) rallied strongly. As we have pointed out in prior observations, the U.S. stock market bottomed in April of 1942, only four months after the entry of the U.S. into WWII. Even though we don’t foresee another war, the markets are telling us that a resolution is not far away. Undoubtedly, the world order could change because of this invasion, the outcome of which is still uncertain. What we do know, hour by hour, is that the global community is coming to the aid of the Ukrainians. This unity could become a major turning point for dictators’ ability to invade countries on a whim. Where is the United Nations under these circumstances? We are seeing a major change in attitude by many Western democracies toward increased defense spending that has been triggered by this invasion. Western countries are offering money and weapons to the Ukraine. Elon Musk has activated his Starlink Internet satellite system to insure communications within the Ukraine.

Financial markets may also be buoyed by the impact of the war on monetary policy. Investors feared that the Federal Reserve was about to embark on a series of interest rate increases that were designed to slow inflation by slowing the economy. The Fed’s reaction to the Covid pandemic crisis was to ease policy, not tighten. A similar strategy could arise from the invasion. Even though inflation may rise due to a shortage of goods relating to global trade, the Fed may be reluctant to step in and slow an economy that may be further penalized by a shrinkage in world trade.

Another important factor is that speculation in equity markets has been dampened by the broad market decline in January and February. Many speculative stocks have fallen by more than 50%. Cyber currencies have also experienced declines of over 50% from their highs. The speculation among stocks that was triggered by the pandemic appears to be over. A return to a normal market environment could follow the resolution of the Russian invasion. As far as we can see, corporate America is on a record setting growth path.

The U.S. government ran a \$119 billion surplus in January 2022, breaking a streak of 27 consecutive months of deficits, and its first surplus month during the pandemic.

(source: BTN Research)