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Capital Management, Inc.

# Market Musings

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

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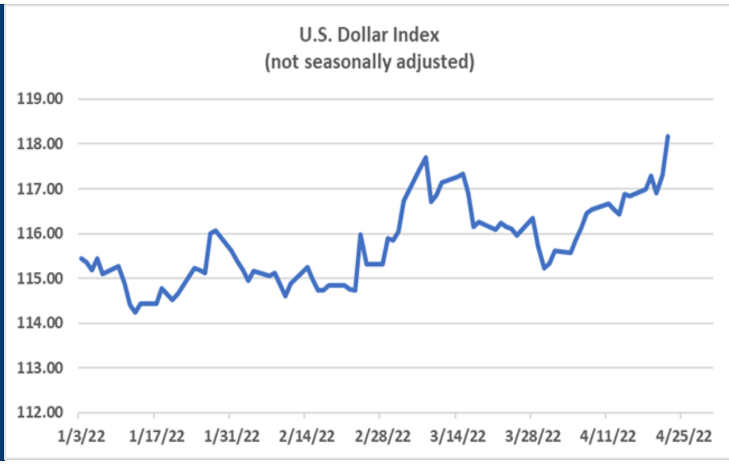
**In the face of rapidly rising inflation, the U.S. dollar is hitting record highs among the world's currencies. Fears that the U.S. has printed too much money is not borne out by this strength in the dollar. The last time we had big inflation in the early 70s, the dollar collapsed. That is not the case this time.**




### Economic Indigestion

There is nothing like a great Thanksgiving dinner. Americans eat about twice what we normally would, or more, on our most favored holiday for feasting. Of course, this overconsumption does not come without a cost. Later that day and even during the next few days, gastric and intestinal issues surface as our bodies go through a time of transition while getting back on track to normal eating patterns.

Recently, the U.S. economy has had a not dissimilar experience. The federal government's Covid spending largesse amounted to a $7 trillion gift, a true Thanksgiving Day feast if there ever was one. The problem was that the government could have responded to a lesser degree. The size of the stimulus was not planned but it was a knee-jerk response to offset the prior shut down of the economy. A measured reaction was unlikely in the face of the unknown associated with the pandemic. The government continues to plan for additional trillions of dollars in further stimulus. Can we have a third helping of turkey please?

The economic indigestion is inflation that disturbs just about the way everybody lives. Suddenly the federal government realizes that they have overreacted and, like the overeater, decides to go on a punitive fast to deplete the caloric intake as quickly as possible. The economic "fast" that the government has chosen to reduce the inflationary calories is a combination of higher interest rates, shrinking of the Fed's balance sheet plus a fiscal program that includes higher taxes on individuals and corporations. The inflation tax on higher incomes is taking hold and it looks like higher interest rates are a certainty.

All that stimulus does have a residual effect. Consumers will keep spending and companies will keep investing as long as there is demand for output. The Ukraine war and the shortage of oil and grain exports will keep inflation on the upswing. Tight money and higher taxes will unlikely help increase the goods side of inflation. Resolving economic indigestion will take a lot of increased supply of goods and services especially increasing the output of oil and gas. Stepping on the economic brakes under these circumstances could produce an uncomfortable level of indigestion.

*"Never regret anything that made you smile."*

*Mark Twain*

### *Market Commentary*

What a difference a month makes! Domestic equities declined in April on the back of weak earnings along with inflation fears and looming Fed rate hikes. The S&P 500 posted a loss of 9%, its worst monthly performance since March 2020. The S&P MidCap 400 and S&P SmallCap 600 fell 7% and 8%, respectively. Foreign equities declined for the month with the S&P Pan Asia index plunging 6% posting a fourth consecutive month of declines--its longest losing streak since 2015. Latin American equities slumped by 14% in April! European stocks declined less than 1% and the UK rose 1% bringing year-to-date gains to 6%. Fixed income markets tanked with both domestic and foreign long-term bonds losing around 11% so far this year.

The average property taxes paid on a single-family home in the United States in 2021 was $3,719, equal to 0.9% of the fair market value of the average home nationwide

*(source: Attom Data Solutions)*