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Victoria Capital Management, Inc.

Market Musings

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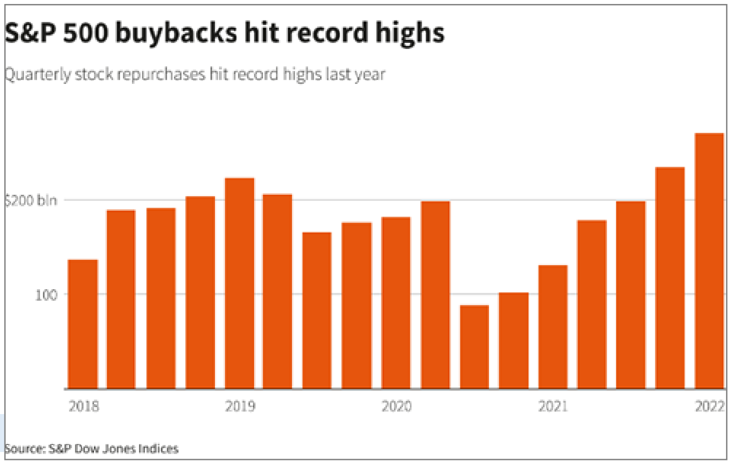
One important use of corporate cash is stock repurchase programs. Companies typically buy back their shares when they are feeling confident about the future and view their stock prices as undervalued. As the exhibit shows, buybacks are accelerating and with them the ongoing shrinkage of stock outstanding.



"The key to making money in stocks is not to get scared out of them."

Peter Lynch

Market Commentary

As May came to an end, the broad stock market experienced a last-minute rally just before it looked like we were entering a bear market. Finally, "April showers" brought us a few "May flowers" in the sense that the broad market began to recover some of the substantial losses incurred since January. However, the rally has not included some of the "crypto-currencies" and other newly minted speculations that have characterized the market rally over the past two years. The S&P 500 finished up 0.8% while the Mid Cap 400 and Small Cap 600 increased by 0.8% and 1.9%, respectively. Foreign equities also posted slight gains in May while emerging market equities and bonds finished mostly flat.

The Origins of Our Inflation

The basic tenet underlying the presence of inflation is too much money chasing too few goods. Either one of these variables can be the cause of inflation or they can both be culprits. The last serious period of inflation occurred in the early '70s when President Nixon took America off of the gold standard which allowed the U.S. to print money. Couple that with the fact that OPEC (the Organization of Petroleum Exporting Countries) placed an oil embargo on us in protest of our support for Israel in the Yom Kippur war. The result was a quadrupling in the price of oil! Financial markets were in turmoil all through the 70s and the stock market decline in the 73-74 bear market was over 45% for the Dow Jones Industrial Average.

The current inflation scenario does not compare with this prior crisis. By the end of that decade, mortgage rates were 17% and car loans were around 21%. In 1980, a 30-year government bond yielded 15%! Those were the years of double-digit inflation. Today, we are adjusting to the fact that the federal government spent too much money on minimizing the effects of the Covid pandemic. A normally functioning economy in early 2020 had to cope with both a surge in money supply and a shortfall in goods and services. The first sign of problems showed up in the value of real assets; surging home prices, the rapid recovery of the stock market and the rise of speculative investments such as bitcoin, non-fungible tokens (NFTs) and SPACs. Billions of dollars also flowed into the bond market keeping yields on intermediate and long-term bonds near record lows.

To complicate the inflation story, the government proceeded to find ways to restrict domestic oil and gas production. Closing the Keystone pipeline project that would have brought thousands of barrels of crude oil from Canada to the U.S. was cancelled as were other such pipeline building efforts across the country. Shale oil production came to a standstill in areas where there were proven reserves, and they were designated as "off-limits". Putin's offensive against the Ukraine added fuel to the fire and sent oil and natural gas prices higher as Europe looked to find new suppliers other than Russia. The U.S. was a good place to bid for that oil and gas. Oil surged to over $125 per barrel and added further pressure to inflation on the home front.

Tax receipts collected by the U.S. in April 2022 were $864 billion, creating a monthly surplus of $308 billion, both numbers representing all-time monthly records for the United States.

(source: Treasury Department)