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Capital Management, Inc.

Market Musings

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

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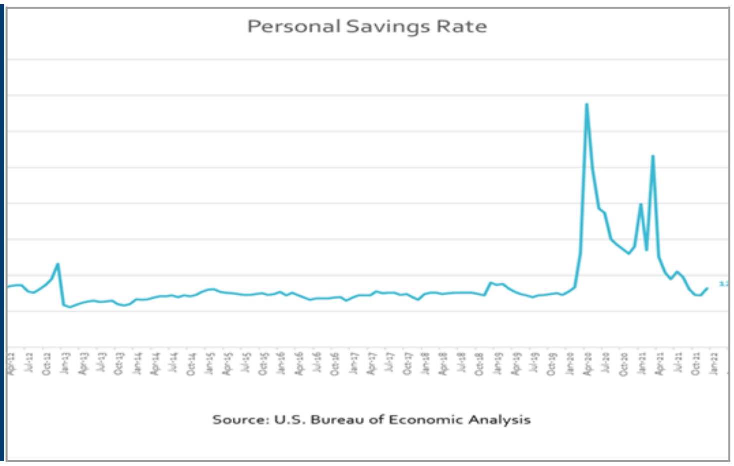
The jump in savings due to the record distribution of cash by the government is reflected in this exhibit that highlights what consumers did with their "Covid" money. They saved it and then spent it and improved their standard of living along the way. Today, the rate is back down to more historic levels.



Show Me the Money

The data that kicked off the return of inflation was a rise in used car prices. When we recognize that one person's cost is another person's income we struggle with the idea that rising used car prices contribute to inflation. More likely, there has been a change in prices for used cars reflecting a shift in wealth from one consumer to another. Take the following story as an example. A friend of ours was going to turn in his car at the end of his lease and get a new car. However, the buyout at lease expiration was $32k. Rather than turning the car in, he went online to a company that buys used cars that quoted a price of $40k for the car. Obviously, he sold the car to that firm, leased a new car, and pocketed $8k. This transaction gets reflected in the price the person who buys that car will pay. When viewed at the macroeconomic level, the transaction is a wash when it comes to inflation. To the extent that the buyer has less to spend because of the higher price, our friend has that much more to spend.

In other words, inflation may or may not affect your standard of living depending on what side of a transaction you are on. Supposing high inflation coexisted with a rising standard of living? Or, if low inflation coexisted with a falling standard of living. Which would you prefer? Obviously, under these circumstances, inflation is acceptable. Individuals have had an increase in wealth due to the government handouts during the Covid crisis. As a result, their standard of living went up. However, a little too much money put pressure on the existing supply of goods and their increased standard of living suffered a little bit. On balance, consumers are better off today. Once all that excess money gets digested, inflation should fall back to where it was prior to the pandemic and that was in the 2-3% range.

Even in the case of oil, higher prices translate into higher profits for oil companies and lower spendable income for consumers. All these examples reflect "inflation" in the general sense of the term, yet policies that are meant to level the playing field between buyer and seller are likely to distort the functioning of a free market.

"There's nothing wrong with cash. It gives you time to think "

Robert Prechter Jr. — The Elliott Wave Theorist.

Market Commentary

After a brutal first half, stocks rebounded in July even though there was a broad range of earnings reports that forced a reassessment of the full-year outlook. The NASDAQ Composite gained 10.9% while the S&P 500 finished up 9.2%. Both Small and Mid-cap stocks also posted strong returns for the month. Foreign markets mostly gained as well with Europe up by 7.6%, Asia up by 1.9% but Emerging Markets trailed with a 0.6% loss. Bonds continued to suffer across the globe. Both the ECB and the Federal Reserve raised interest rates in July in an effort to slow inflationary pressures. As we move into the two worst performing months for the stock market—August and September—there could be a continued rebound as expectations for inflationary pressures recede.

The next two months (August and September) have been the two worst performing months for the S&P 500 over the last 30 years; 1992-2021. These months are the only months that have had a negative average total return over the last three decades, losing 0.15% and 0.30% on average since 1992.

(source: BTN Research)