

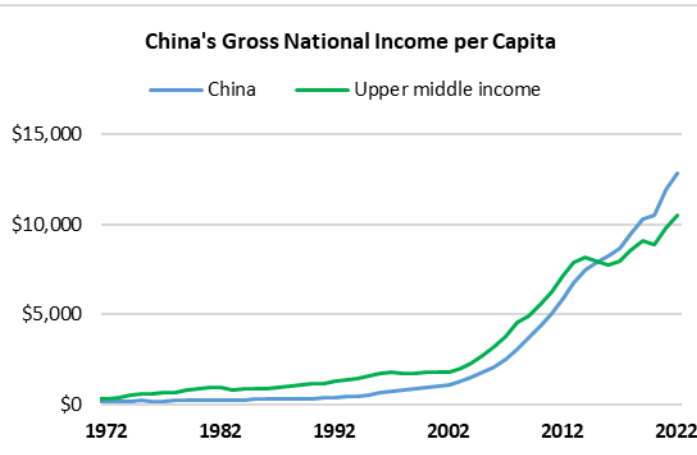


Market Musings

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The accompanying chart reflects the rapid growth of living standards in China ever since the country opened its doors to the global economy. In other words, China is no longer some third-world state, but a society that has been characterized by a capitalist economy and a communist government. A return to a communist economy may slow China's growth. (source: World Bank)



“It’s better to look ahead and prepare than to look back and regret.”

Jackie Joyner-Kersey

Market Commentary

Despite a strong recovery in the latter part of the month, the U.S. market rally took a breather in August, with the S&P 500 down 1.6%, as inflation concerns coupled with uncertainty around the future trajectory of rate hikes contributed to the decline. Mid-cap and small-cap stocks performed even worse, with the S&P MidCap 400 down almost 3% and the S&P SmallCap 600 down 4%. The NASDAQ Composite also finished weaker by 2.2%. At the sector level, energy was the sole winner for the month. Foreign equity markets also finished in the red for the month while almost all fixed-income indices were slightly down. Two bright spots were declining volatility and a U.S. dollar rally.

Many advisors recommend that by the time you turn 50, you should have around six times your annual salary saved for retirement. Unfortunately, Americans aged 50 to 59 have an average 401(k) balance of just \$190,000 and the median balance is just \$57,000.

(source: Fidelity)

The China Syndrome

The recent trip to China by Secretary of Commerce, Gina Raimondo, was aimed at restoring relations between the two countries that have plummeted to their lowest level in decades due to disputes about technology, security, Taiwan, and other issues. Her visit was designed to protect U.S. corporations by creating a level playing field in China for conducting business. The worsening conditions of doing business in China such as raids on firms, unexplained fines, and unpredictable official behavior have resulted in business confidence plunging to record lows.

The U.S. imposition of tariffs and other trade restrictions have also heightened tensions between the two trading partners. The U.S. imports over \$575 billion in goods and services from China while China imports over \$175 billion from the U.S. Ever since China adopted a capitalist system to manage the economy, products and services imported into the U.S. have grown exponentially because of lower prices for those imported goods relative to what they would cost to produce in the U.S. The U.S. demand for Chinese products has given a huge boost to standards of living in China. However, as China has gained prowess in the world economy, the U.S. has attempted to curtail China's ability to grow. Raising tariffs on exports while banning the export of selected U.S. computer chips has kept the U.S. from enhancing the relationship between the two countries.

China has become a major world power in many ways such as landing an unmanned vehicle on the dark side of the moon and succeeding in producing a fusion reaction for minutes, not seconds. These and other feats demonstrate that they are world competitors to U.S. global dominance. The ability to continue down this path is heavily dependent on the attitude of the ruling Communist party, which has shifted from an endorsement of the capitalist model back to the government's interference in how the private economy is managed. As a result, the Chinese economy has slowed. What struck us as significant was a recent report in the Wall Street Journal that there will be close to 12 million university graduates in China this year! Just imagine that these graduates will be competing in the workforce for jobs that will contribute to China's advances on the world stage.

Back in 2006, on a visit to China, (that is, 17 years ago) we were overwhelmed by the commitment of parents and students (in this case five- and six-year-olds who were playing musical instruments) to advancing their children's successful education. The bottom line is that our leadership will be challenged in the coming years based on education alone unless we can restructure our own educational system to produce a motivated and competent workforce.