December 1, 2023

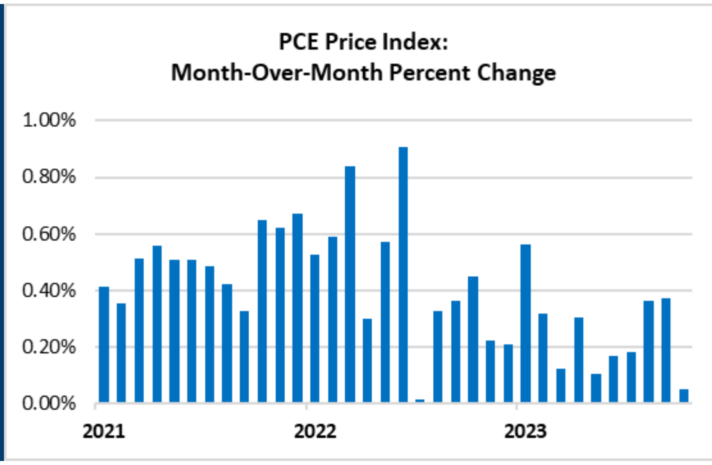
Victoria Capital Management, Inc.

Market Musings

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

VOL. 6, ISSUE 12

The Federal Reserve relies on the Personal Consumption Expenditures (PCE) metric to make decisions about changing interest rates. The most recent measure (October) shows the core rate falling to 0.2% indicating that inflation is fast becoming a non-problem after being in the spotlight for the past 18 months.



Inflation: The Winners and the Losers

Early in 1975, a young economist and part-time college instructor was interviewed by a reporter for the New York Times. In one following Sunday edition of the paper's Finance section, an article that was derived from the interview appeared. What caught the interest of the reporter were the answers to a question posed by the instructor regarding inflation. Early in his classroom training, he posed the following question: If you woke up tomorrow morning with an extra $1,000 in your pocket, what would you do with it? About half the students answered, “I’d save it.” The other half said that they would save some and spend some. After two years of brutal inflation in the aftermath of the Arab Oil Embargo, the teacher asked the same question and got a different answer from the students. There was the usual response: save it all and spend some, save some. But there was a new response: Some would borrow the money from savers and invest in real goods.

This story deserves retelling in the aftermath of the recent surge of inflation. Fast forward to today to find that the $1,000 surprise of 1975 is the government’s $5 trillion (about $15,000 per person in the U.S.) in spending. Many recipients saved that money as evidenced by the enormous surge of investment in money market funds and treasury securities—driving safe securities to record low yields. Other individuals borrowed that money at low rates for investment—record low mortgage rates as one example. When some of the savers caught on, they began buying homes and the prices of those homes skyrocketed. Corporations went down that same path buying tracts of homes to rent out. Consumers who didn’t benefit from the federal or state government’s largesse took the brunt of rising prices. Yet, somebody benefited from those rising prices—the winners were businesses and individuals who had the opportunity to take advantage of this unusual distribution of money across the economy. The lesson to be learned from periods of high inflation is to recognize the prospect of a depreciation in a currency and to transfer wealth into real assets.

“Success is no accident. It is hard work, perseverance, learning, studying, sacrifice, and most of all, love of what you are doing or learning to do.”

Pele

Market Commentary

November was a positive month for investors in both stocks and bonds globally. Domestically, all three major stock indices ended higher, snapping a three-month losing streak. The blue-chip Dow had its best month since October 2022. Also, investors bought bonds that sent the price of the widely tracked Bloomberg U.S. Aggregate index up 4.8% for the month, representing the biggest gain since the mid-1980s. (Yields fall as prices rise). Foreign markets also benefitted from the pullback in interest rates from recent highs and a slight weakening in the U.S. dollar. Most notably, Japan, Taiwan, and select markets in Europe have benefitted from these favorable macroeconomic trends. Importantly, volatility in financial markets has subsided from traditional summer-high levels as investors prepare for the year-end.

In the 12 months leading up to Presidential Elections since 1944, the S&P 500 has posted gains 18 times out of 20 for an average move of 9%.