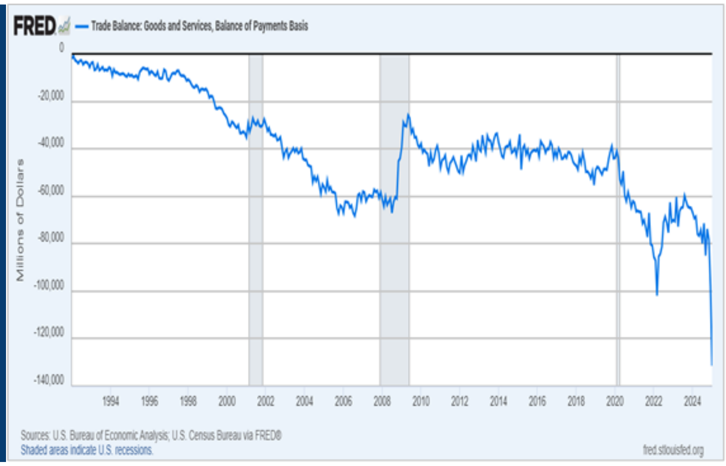
Market Musings

Victoria Capital Management, Inc.

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

VOL. 8, ISSUE 4

Although tariffs are set to take effect in April, they have already had a significant impact on our balance of trade. In anticipation of potential tariffs, our trade balance plummeted in early 2025, reaching a record low, as reflected in the chart. Unless this aberration is temporary, there could be further erosion in the value of the dollar.
(source: St. Louis Federal Reserve)



Have We Certainly Entered a Period of “Uncertainty?”

As President Trump embarks upon some unanticipated programs to “Make America Great Again,” there is the prospect that some investment opportunities will fall by the wayside during the next four years. The President has moved quickly to implement many of his key promises, including reversing illegal immigration, draining the swamp, eliminating DEI, and resolving global disputes. In the process, Trump has run into broad pushback from the judicial branch, where several district judges have overruled many of his decisions. The obvious question is: Will the judiciary begin to assert its power over the executive branch? Do district judges have the power to impact areas outside their jurisdiction? During the coming months, the Supreme Court will be weighing in on the role of the executive branch and the ability of district judges to make decisions that overrule presidential decrees. The outcome of this ruling could determine the structure of our government!

The outcome of the “tariff wars” could also have a significant impact on our economy and financial markets. Tariffs and subsequent retaliations could lead to higher prices and reduced output across the global economy. Financial markets have been reeling due to the go-no-go announcements that keep us on our toes. Additionally, there has been little discussion about the impending expiration of the tax cuts implemented during Trump’s first term. If they are not extended, a further economic downturn could occur. As April 2nd approaches, so does the implementation of round one of tariffs. Can we expect that one of our major trading partners will back down, or are we due for a lengthy period of trade wars?

The ongoing conflicts in the Middle East and Ukraine add further insecurity. Though some reduction in fighting is taking place in Ukraine with a potential peace deal in the works, the Middle East conflicts continue to flare up on a week-to-week basis. Significant attacks by participating entities increase the chances that conflicts could expand into a broader war.

We have certainly entered a period of uncertainty. Yet, this uneasiness is not always something to be concerned about. We have learned in the past that staying invested during these times pays off. Investors should focus on the bigger picture and the favorable long-term trends, such as advances in technology that will continue to improve our living standards. As Deepak Chopra says, "All significant changes are preceded by chaos." We are in an unusual environment, and, like a summer storm, should pass to sunnier times.

“Courage taught me no matter how bad a crisis gets ... any sound investment will eventually pay off.”

- Carlos Slim Helú

Market Commentary

The prospect of a global trade war roiled markets in March that were already jittery about the state of the U.S. economy and stickier-than-expected inflation. All domestic indices declined, with large-cap tech stocks (NASDAQ down 10%+) and small caps, (Russell 2000 down nearly 7%), faring the worst. Mid-cap stocks also fell. The investment sun continued to shine on markets in Europe, most notably in Germany, Italy, and Spain, which are up by double digits year to date. Asian stocks were mixed, with India experiencing the largest rise in March, at 7%. Gold surged to a new record, while U.S. Treasury yields declined, signaling that investors were moving into safe assets.

According to S&P Global, stock buybacks by S&P 500 companies increased 18.5% to a record annual high of $943 billion in 2024.