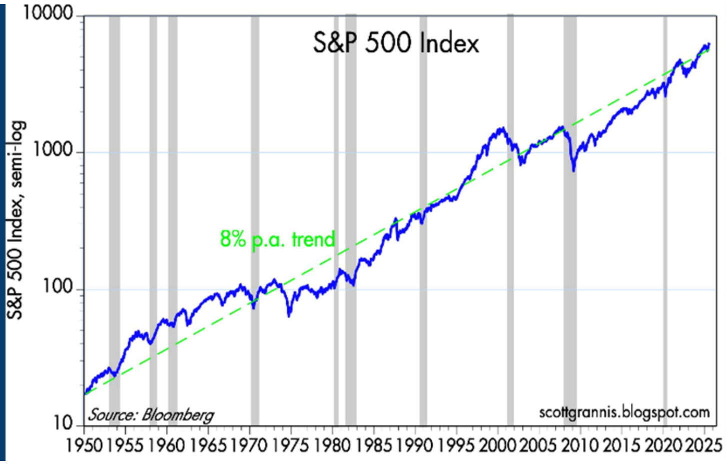
September 2, 2025

Market Musings

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

VOL. 8, ISSUE 9

Using the S&P 500 (a broadly diversified group of large capitalization stocks) as a measure of domestic stock market performance, the index has achieved a compound annual return of over 8% since 1950, despite short-term fluctuations. This long-term historical performance supports the continued investment in a diversified portfolio of domestic stocks.



The Great Tariff Experiment

Since April, financial markets have been subject to the vicissitudes of a new political order--the historic introduction of tariffs to “Make America Great Again.” Will they work? The jury is still out, but most economists see tariffs as a deterrent. In other words, a tariff is a tax, a tax that is paid by the consumer who either pays the higher price or finds a substitute. The problem is that economists end the story there and neglect to include in their analysis some other factors that contribute to a final judgment about these “taxes.” The President’s position is that tariffs will attract companies to the U.S. and encourage production, increasing demand for workers who, in turn, will contribute to economic growth. If they are imposed, the costs of imports will also increase, while the price and demand for exports will decrease, ultimately slowing the economy. The “tariff wars “of the 1930s contributed to the depression, although they were not the cause. Many economists use this example to compare it to today, but this is not a valid comparison, as the 1930s experienced a decade-long stock market decline. Today, corporate America is optimistic, as seen by companies buying back stock approaching $1 trillion. Additionally, the rising stock market is a pretty good forecaster of economic growth, as evidenced by the latest upgrade from GDPNow, from 2.2% to 3.5% for the third quarter. What has helped keep the economy growing is stable interest rates, despite the Administration’s constant badgering of the Fed to reduce the fed funds rate. The importance of stability has been emphasized in this communication before, and we continue to believe that a combination of no change or a 25-basis-point reduction in the Fed funds rate could be beneficial for markets. The answer will lie in the Fed’s explanation of why they cut or did not cut at the upcoming September meeting. The latest data on consumer confidence has fluctuated, but more importantly, corporate profits have come in above expectations. In the second quarter, profits rose 2% after a decline in the first quarter, reaching $3.3 trillion. Undistributed profits surged 6.7%! The AI revolution is still working in the economy’s favor as demand for technology continues to soar. The worm in the apple continues to be the carnage in Ukraine, where the chances of peace are slipping away.

“We’re moving from a world where we have to understand computers to a world where they will understand us .”

- Jensen Huang

Market Commentary

U.S. equities finished their fourth consecutive month of gains in August, with the S&P 500 rising 2%. During the month, tariff-related uncertainty and geopolitical tensions continued to weigh on the market; however, optimism about a potential upcoming Federal Reserve rate cut and strong earnings from Big Tech helped push the index to a new all-time closing high on August 28. More importantly, the rally broadened, with mid and small-cap stocks outperforming their large-cap counterparts. The S&P MidCap 400 and S&P SmallCap 600 gained 3% and 7%, respectively. The S&P Pan Asia BMI increased 4%, supported by strengthening local currencies, especially the Japanese yen and the Australian dollar. Across the pond, the S&P Europe 350 index ended higher, returning 1% --extending gains for this year.

According to Lightspeed, 44% of US adult consumers admit that they have ordered from the kids' menu at restaurants for their own meals. Smaller portion sizes were the number one reason (38%), but 31% cited more budget-friendly prices.