

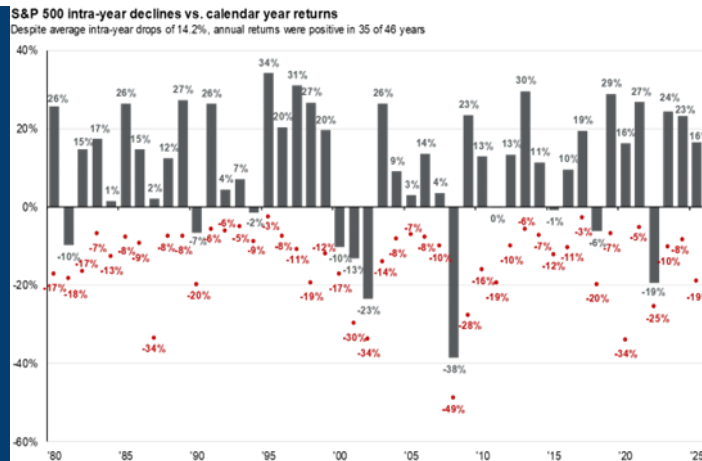


Market Musings

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

VOL. 9, ISSUE 2

The annual bar graph of S&P 500 returns created by JPMorgan shows the broad stock market's volatility: negative swings over one-year periods can be substantial, but they may be mitigated by positive total-year results.



“Who are you going to believe, me or your own eyes?”

- Chico Marx, brother of Groucho Marx

Market Commentary

What a rollercoaster beginning of the year for U.S. equities! Surprise tariff-related tensions on January 20th contributed to the S&P 500's worst single-day drop since October 2025, yet the index hit all-time highs and closed January up 1%. Most large-cap sectors finished higher, led by a rotation to Energy and Materials. Mid- and small-cap stocks began to catch up with their large-cap brethren, returning 4% and 6%, respectively. Asia-Pacific equities had a strong January, with the S&P Pan Asia BMI up 7% on strength in developed markets, supported by local-currency gains against the U.S. dollar. Japanese equities continued their upward move, with the S&P Japan 500 gaining 5%, marking its 11th consecutive monthly rise. Across the pond, the S&P Europe 350 started off on the right foot, rising 3% for the month. Gold and silver reached record highs, the dollar declined, and bonds were stable.

According to the Wall Street Journal, the typical enrollee in an Affordable Care Act Marketplace health plan will see a 114% increase in their premiums if they choose to stay on the same plan as last year.

The Perils of Short-Termism in Equity Investing

There is no shortage of stock market prognosticators who forecast the next decline or a coming bear market. Investors saving for retirement become worried about investing in the stock market as they enter their 60s and 70s, due to such stories. Soothsayers can be convincing and have no problem making recommendations on TV to sell individual stocks or the overall market. Many of these seers use historical data, such as the market's monthly performance or the outcome of the Super Bowl, to forecast market returns. What usually results is short-term volatility, especially after indices such as the Dow Jones Industrial Average, the S&P 500, and the NASDAQ reach record highs. When such events occur, the tactic of “taking profits” emerges. Then there are the short-term economic events, such as the introduction of tariffs, that can trigger major market declines. These drops encourage some long-term investors to abandon their convictions and sell.

Investors must also be aware of participants in the stock market, as it can be dominated in the short term by bad actors who speculate or use derivatives such as futures and options contracts to attempt to gain more than the stock market alone would return. When such wheeler-dealers use these derivatives with borrowed money, the risk can be magnified. Fortunately, the volatility caused by these forays is temporary, as long-term fundamentals emerge and recovery from these episodes occurs within a reasonably short period. When we look at one-year periods, as in the chart above, we can see how intra-year losses can occur even when the market has made positive returns for the entire year.

Even though the stock market is negatively influenced by short-term traders, strong underlying fundamentals such as low inflation, low interest rates, accelerating earnings growth, and solid corporate profits have provided the basis for positive long-term returns.