

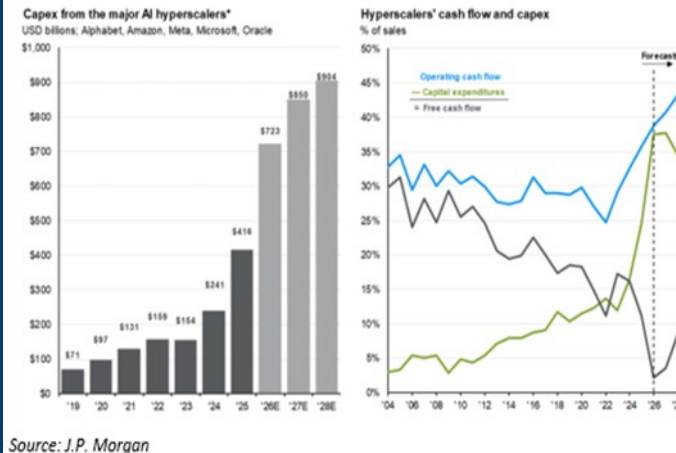


Market Musings

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

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The term “hyperscalers” refers to a few large companies spending billions of dollars on artificial intelligence, as shown in the chart. This enormous amount of investment will be a major contributor to economic growth over the next three years. The profitability of these companies can support such expenditures.



“Knowledge is power and enthusiasm pulls the switch.”

- Steve Droke

Market Commentary

May was another positive month for global equities as attention turned away from the Middle East towards AI. The S&P 500 closed up 5%, while the S&P MidCap 400 rose 2% and the S&P SmallCap 600 gained 1%, weighed down by rising Treasury yields and inflation worries. Gains were heavily skewed towards Information Technology, up 16%. Asian equities gained 7% on the back of South Korea’s meteoric rise of 31%! Gains in Europe were muted, with the S&P Europe 350 index rising 3%. Latin American country indices posted mixed returns, with gains or losses depending on the country. The U.S. dollar finished modestly higher, while long-term U.S. Treasury bonds were under pressure as investors worried that interest rates could remain higher for longer.

The UFC’s upcoming “Freedom 250” mixed martial arts event will be held on the South Lawn of the White House on 6/14. No public tickets are available for the roughly 4,000-seat venue, so a \$1.5 million sponsorship package has become the most reliable way in without a direct invite from the president or UFC executives.

(Source: Yahoo! Sports)

A Growth Economy

Economists and stock market prognosticators rely on past experiences to make forecasts. One of those age-old beliefs is that the stock market leads the economy by about six to nine months. In other words, if the stock market is doing well, the economy is sure to follow. Incidentally, another less optimistic strategy is to “Sell in May and go away.” Since the stock market has been hitting record highs all year, the economy is on a growth path through the end of 2026. There are two factors that are driving the economy. The first is the massive commitment of large-scale computer companies to spend hundreds of billions of dollars on artificial intelligence infrastructure. This spending will create jobs across the country, which is one reason the unemployment rate has remained low, currently at 4.3%. The latest growth forecast from the Federal Reserve Bank of Atlanta’s GDPNow model is 3.8% for the second quarter. Regional data is also supporting continued recovery. The Chicago business barometer surged to 62.7 in May, up from 49.2 in April. A reading above 50 indicates expansion. Corporate earnings growth for technology companies continued to exceed expectations by a wide margin in May. As many market forecasters had expected, the companies that indirectly benefited from a surge in AI investments began to reflect strong earnings growth.

Another area supporting stronger economic growth is the required defense spending, given the impact of both the Iran conflict and the war in Ukraine. As of this writing, both AI and conflict-related spending are contributing to an improving economy, even though measures of consumer confidence have been reaching record lows. The rebuilding of America’s weapons stockpile and President Trump’s intent to spend \$1.5 trillion on defense make a convincing argument for earnings growth among U.S. defense companies.

The conflict-related increases in oil prices are a major contributor to higher gasoline prices and inflation, which are producing lower consumer confidence. However, once the conflict with Iran is resolved, oil prices are likely to decline, as there is some substitution due to high oil and gas prices. Suddenly, electric cars are back in demand! Oil companies are looking for new places to drill for oil. And oil users are, where possible, shifting to natural gas. These factors may drive oil prices below their pre-conflict levels.