



Market Musings

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

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This graphic depicts changes in the federal funds rate dating back to 2017. During periods of relative interest-rate stability, the economy has remained within an acceptable range for both inflation and unemployment. When either of these two variables falls outside its range, the Fed responds with rapid changes to the fed funds target rate.



The New Fed Head

Kevin Warsh is the new head of the Federal Reserve, otherwise known as the “Central Bank.” At the last Fed meeting (and his first), he presided over the decision to leave interest rates unchanged, meaning the target Fed funds rate would remain between 3.50% and 3.75% -- a range that has prevailed for the first six months of this year (the Fed funds rate is not actually set by the Fed but is a target rate that is affected by purchases and sales of government securities by the Fed). Keeping target rates steady rather than adjusting them month-to-month tends to introduce stability into economic transactions. When interest rates remain fixed, economic transactions tend to increase because planning is less risky due to greater confidence in the future, especially when borrowing plays a major role. This stability may have contributed to the ongoing rise in equity prices this month.

The Federal Reserve Reform Act of 1977 mandated that the Fed promote the goals of “maximum employment, stable prices, and moderate long-term interest rates.” This duty became known as the dual mandate as an economic consensus that the third goal is a natural byproduct of the first two. Congress has not changed that directive since, but the Fed’s real power lies in its role as the “lender of last resort.” During major financial crises, the Fed has stepped in to provide the necessary liquidity to prevent a collapse of the financial system. One good example is when the stock market came under heavy selling pressure on October 19, 1987, otherwise known as Black Monday, due to a combination of portfolio insurance and derivatives-driven program trading, resulting in double-digit declines. When the specialists on the NYSE could no longer buy stocks due to their limited financial resources, they began shutting down stock trading one by one. Around noon the next day, the Federal Reserve stepped in and provided as much liquidity as was necessary to maintain a stable trading market. Once market participants realized the importance of this decision and the concept of “lender of last resort,” a rally ensued, and the markets never looked back.

Given our extensive experience in economics and investment management, we expect Chairman Warsh will not adopt radical policies to achieve success in meeting the dual mandate. He is also less likely to be a forecaster and more of a pragmatist.

“America is another name for opportunity.”

- Ralph Waldo Emerson

Market Commentary

June was not a great month for equity markets, with the exception of domestic small-and mid-caps. Investors continued to take profits in mega-caps across the globe, but these declines did not harm second-quarter returns: the S&P 500 gained 15.2%, the S&P 400 rose 14.5%, and the S&P 600 finished up 19.7%. The S&P Pan Asia BMI returned more than 19% for the quarter while European equities continued their strong advance in June, with the EURO STOXX 50 Index rising roughly 5% to a record high. Latin American markets had mixed results in June, with commodity-related countries outperforming. Fixed-income markets generally posted positive returns in June, as bond prices rose while yields declined across much of the developed world. The dollar rallied during the month, mostly against the Japanese yen, which hit its lowest level in 40 years!

According to the Wall Street Journal, CEOs making more than \$100 million hit a four-year high in 2025, and nearly a dozen chiefs blew past the \$200 million mark. More corporate bosses surpassed \$50 million as well.