November 5, 2024

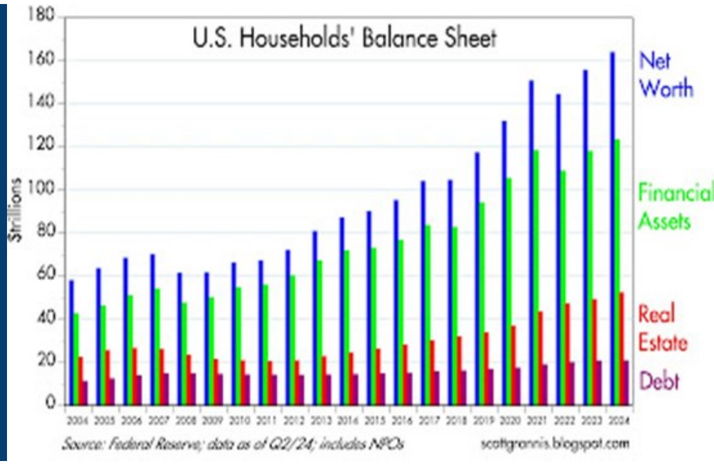
Capital Management, Inc.

Market Musings

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

VOL. 7, ISSUE 11

The chart from Scott Grannis shows that private sector net worth has increased by 167% over the past 20 years and is now $164 trillion. The biggest gains have come from financial assets, which have increased 149%. Real estate assets have increased 144%, while liabilities have increased only 44%. The federal government is heavily indebted, but not the private sector.



A Remarkably Good Year

Here we sit only two months from the end of the year and find the economy and financial markets are humming. The latest forecast from the Federal Reserve Bank of Atlanta (GDP Now) is forecasting 2.3% growth while the equity market, as measured by the S&P 500, is up 21% through the end of October -- over twice the long-term growth rate. At the beginning of the year, the consensus of economists was expecting an imminent recession as the policy of the Federal Reserve was to reduce inflation by raising short-term interest rates. They forecast that the sharp rise in interest rates over the past year would induce unemployment and an economic downturn. It did not happen. The unemployment rate hardly budged, and the economy did not contract but continued to grow. While wars in Eastern Europe and the Middle East accelerated over the past two years, those conflicts had little impact on investors' optimism about investing in the stock market as Artificial Intelligence captured everyone's interest.

Concerns about the effects of Fed policy on the economy produced a major change in the outlook for interest rates. Recently, the Fed relented and lowered the Fed funds target rate by 25 basis points ushering in expectations of further cuts in the future. History tells us that a series of reductions in the fed funds rate leads to better economic times. Such changes also lead to better equity market returns. So far, that relationship remains intact.

Our friend, the economist Scott Grannis, has posted the net worth of the U.S. private sector over the past 20 years highlighting the net value of assets and liabilities of individuals and non-profit organizations. He shows that as of the end of June 2024 (most recent data available), the total net worth of the U.S. private sector was $164 trillion, and the net worth of the average person living in the U.S. was almost half a million dollars. Moreover, the U.S. had 2,800 billionaires, whose net worth totaled in the range of $17-20 trillion. In the face of rising concerns about the federal debt and budget deficits, American wealth continues to grow and contribute to rising standards of living.

"If you want to increase your success rate, double your failure rate."

- Thomas Watson, IBM President, 1914–1956

Market Commentary

October proved to be typical, as most fixed-income and equity markets worldwide were haunted by uncertainty. Domestic markets shrugged off inflation fears but suffered from concerns about the upcoming election, with mega-caps giving back some gains and financials moving higher. Shifts in the domestic bond market were more dramatic, with Treasury yields extending their recent climb as the 10-year yield notched gains for seven consecutive weeks, the longest such streak since October 2022. Asian equities also floundered as local currencies, particularly the Japanese yen, weakened on rising U.S. interest rates. Across the pond in Europe, most indices finished in the red, with mid-and small-cap stocks suffering the most. Latin America continued to be weighed down by Brazil and Mexico.

Mentions of AI and AI-related topics in earnings conference calls of more than 7,000 firms surged more than six-fold in the year after the release of ChatGPT.

(Source: St. Louis Fed)