

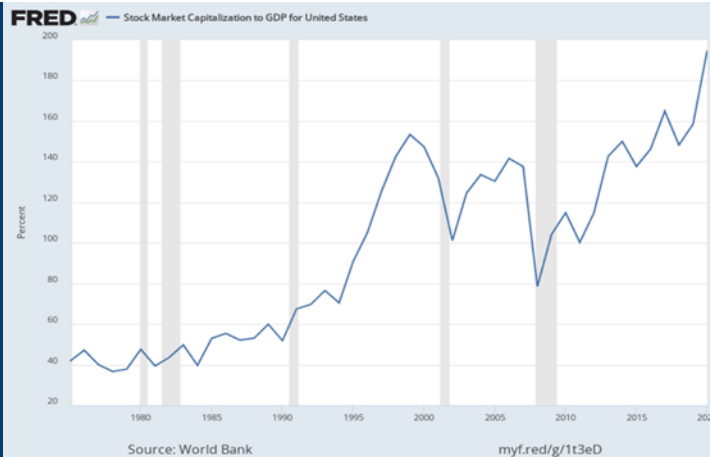


Market Musings

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

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Contrary to the perception that record-high stock market capitalization signals an overvalued market, this chart illustrates the immense accumulation of wealth in the economy relative to GDP, reflecting broader economic dynamics rather than an overvaluation.



“In the business world, the rearview mirror is always clearer than the windshield.”

- Warren Buffett

Market Commentary

Domestic stocks significantly outperformed foreign equity markets during November. The S&P 500 returned almost 6%, marking the best month of 2024. Moreover, mid- and small-cap stocks soared, with the S&P MidCap 400 and the S&P SmallCap 600 up 9% and 11%, respectively, demonstrating a broadening of the market rally. Despite looming uncertainty over potential tariffs, the future trajectory of inflation, and Fed rate cuts, the VIX (a measure of volatility) closed the month below 14, the lowest level since July. Asian markets had a wide dispersion, with developed regions outperforming their emerging counterparts while only a handful of European equity markets finished in the green. Despite the expectation for rising Treasury yields for most of November, fixed-income indices posted gains, and the dollar remained stable.

The Stock Market and the Economy

One adage says the stock market leads the economy by six to nine months. During November, the stock market surged to record highs suggesting that the economy could gain strength during 2025. What happened to that recession everyone was worried about? The most recent forecast for economic growth from GDPNow (the Federal Reserve Bank of Atlanta) is a solid 2.7% gain for the fourth quarter -- up from a prior forecast of 2.6%. The stock market's rally was reinforced by positive economic statistics, including inflation falling below 3% and better-than-expected corporate profits. The uncertainty of the election is behind us, and the continuation of this year's rally suggests that investors are looking forward to the impact of a few economic proposals that dominate the Trump agenda.

The prospective decisions affecting the economy could change the power struggle between big government and the private sector. A far-reaching change could be the announcement that government regulations will be reduced or eliminated to give greater freedom to businesses. Such transformations could lead to lower costs, higher profits, and additional business opportunities. The last time such changes were proposed and implemented was during the Reagan Administration from 1980-1988, over 35 years ago! Any of these changes could be subject to review by Congress, but the president does have the executive power to change or eliminate some rules of the game.

Another favorable development for corporate America and the stock market is the prospect of extending tax rate cuts that were set to expire in 2025 in addition to further tax reductions for both individuals and corporations. Targeted tax decreases for the restaurant industry, the elimination of taxes on overtime, and the removal of income taxes on Social Security distributions are novel steps at relieving the unfairness of the tax code. To the extent that these changes are implemented, the overall economy will likely get an additional boost that should add to greater consumer spending and higher corporate profits.

If some of these regulatory and tax policy changes were implemented, Americans would enjoy living in a healthy economy like the Reagan years when substantially lower tax rates and less regulation provided a favorable growth environment. When Reagan took office, inflation was 13.5%, and interest rates were more than 20%! Today, Trump has an advantage in that inflation is below 3%, and interest rates are at 7.75%.

According to Bespoke, the Philadelphia Fed's November Manufacturing Business Outlook survey showed that sentiment for future conditions has surged 40 points since September for its fourth largest two-month increase since 1968.