

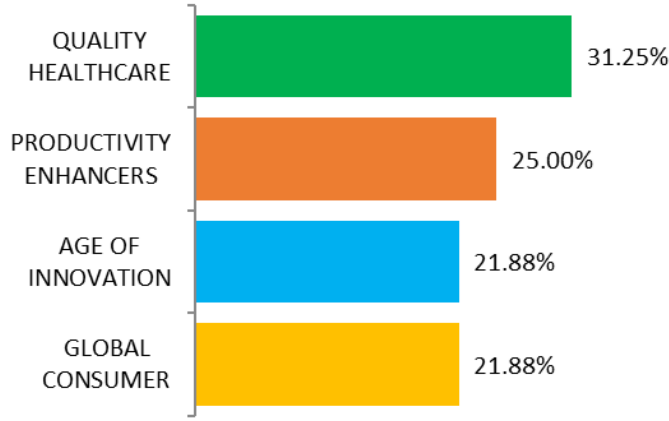


Market Musings

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

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Macroeconomic themes coupled with bottom-up stock selection are the basis for our portfolio construction. When we identify more stocks in one theme than another, then this theme can have a heavier weight in the portfolio. The chart depicts current model portfolio themes and the associated weightings.



Using a Theme Approach to Investing

In 1994, when we initiated a “theme-based” approach to investing, we were convinced that such a strategy could provide above-average equity returns. We believe that success in the stock market involves identifying powerful, secular economic and demographic themes shaping the world – for example, rising global standards of living and higher disposable income, “disruptor” entrepreneurs and technologies, and increasing breakthroughs in biotechnology-based healthcare. At that time, we happened to be at the beginning of a technology-led rally in equities based on the fear that computers would not reflect the year correctly since only the last two digits of the date were programmed. Companies and countries took pre-emptive measures to check, fix, and upgrade their computer systems to address this problem, resulting in a stock market rally in 1995, 1996, 1997, 1998, and 1999.

Contrary to expectations, few major errors occurred in 2000. That’s when we recognized that themes do not last forever. Between 2000 and 2007, we broadened our theme identification by utilizing various fundamental and technical tools to expand the number of themes to increase portfolio diversification. Today, we have defined four themes with selected stocks for both growth and growth & income portfolios. These themes transcend the traditional sector approach to stock selection, as economic and political events can dramatically impact the performance of certain stocks. For example, in the mid-2000s, one of our themes was Global Growth, which included many Chinese stocks trading as ADRs on the NYSE. When the Chinese government became more dominant in the private sector, many of these companies failed and were sold from the growth portfolio.

In early 2022, we identified our Age of Innovation theme because revolutionary changes in technology and the extension of the Internet have transformed how we communicate and transmit information. The internet is now ubiquitous, with applications including wireless, social networking, e-commerce, and video streaming in our everyday lives. New applications such as cloud services, big data, IoT, artificial intelligence, autonomous vehicles, augmented reality, and new media are gathering momentum. More recently, the artificial intelligence element of this theme has caught the attention of global investors while our theme-based investment methodology got us early into this phenomenon. This top-down theme approach, coupled with a bottom-up stock selection process and sell discipline, is the basis for the firm’s proven success in the thematic growth equity strategy.

“You are never too old to set another goal or to dream a new dream.”

- C.S. Lewis

Market Commentary

December: a month to remember, and not in a good way since most equity markets around the world declined. The S&P 500 fell 2.4%, while mid- and small-cap stocks fell more than 7%. Across the pond, the picture was the same, with the S&P Europe 350 ending the month down due to France. Asia was the bright star for the month, with Japan, Malaysia, and Taiwan finishing in the green. Fixed income markets also declined worldwide after the Fed reduced the target fed funds rate by 0.25% and said that further reductions in 2025 would be fewer than anticipated. The ECB also lowered interest rates by 0.25% to 3% as inflationary pressures in the European Union subsided. Latin American equities spent most of the year in the red (except Argentina, as highlighted in our recent Missive) and stayed there during December.

Since the Fed rate cut on 9/18/24, the 10-year US Treasury yield increased 81 basis points. Since 1994, the only other time the 10-year yield has had a larger three-month increase after a rate cut followed the January 1996 meeting .

(source: Bespoke Investment Group)