**<u>The Outlook:  Sept. 20, 2022</u>**

***"Don't confuse us with the facts—we're busy being terrified!"***

This market is absolutely wallowing in its current Nightmare.  That Nightmare is simple and stark: "Interest rates will rise from today through eternity (or beyond the horizon, at least) so we're all doomed: the U.S. and world economies, the market, and us terrified speculators."  Of all the Nightmares the market has wallowed in through the last century or so, this one is its favorite.  We'll call it "Killer Interest Rates!" for short.

At Outlook we use the word "Nightmares" a lot . . . because it's exactly the right word.  What happens in a Nightmare?  Our sleeping minds focus on some fearful Thing.  The Thing usually has a connection to something real in our lives:  something we don't like, or are worried about, or maybe even afraid of.  Sounds reasonable so far.  But it's not, because in our Nightmares the Thing is always so grossly distorted and exaggerated that its resemblance to reality is ridiculous . . . which we only grasp when we wake up.  And when we wake up, what floods into our minds is . . . perspective.  That is, all the rest of the facts in our lives—especially those surrounding the Thing—which cut it down to size and suck most of the terror right out of it . . . when we're awake and able to see the Thing with perspective.

"Don't confuse us with the facts—we're busy being terrified!" sums up the market's attitude toward its Nightmares.  But why on earth does it have that attitude?  Outlook's clients and friends know.  It's because the engine driving each day's market behavior is that vast crowd of betting gents (and gals) who plunk down real money on today's and tomorrow's mood within that same vast crowd of bettors.  "Moods" are most powerfully formed by "impressions" . . . especially fearful impressions.  The single most powerful and contagious mood which can infect any crowd is <u>fear</u>.  Whatever is in second place in the "infect the crowd" contest—greed, good cheer, ecstasy—is <u>way</u> behind.

All that means one certainty for us investors.  Whenever the market happens to be wallowing in a Nightmare . . . it <u>will</u> be distorted and exaggerated, usually far beyond its genuine meaning in the real world.  That's what is going on at this moment . . . and has been going on, in an intensifying way, all this year of 2022, pretty much.

That brings us straight back to Fisher Investments—which is getting a lot of praise from Outlook lately, and deserves it.  Here's what the Debunking Kings at Fisher put together recently, on the "Killer Interest Rates!" Nightmare.

**Exhibit 1: 10-Year Yields and Stocks—No Set Relationship**

| | Stocks Up | Stocks Down |
|---|---|---|
| Yields Up | 24 | 7 |
| Yields Down | 23 | 6 |

Source: Global Financial Data, Inc. and FactSet, as of 9/19/2022. Annual change in 10-year Constant-Maturity Treasury Yield and S&P 500 total return, 1962 – 2021.

Even during the hotly inflationary 1970s, this lack of relationship exists. (Exhibit 2) The idea we *must* see rates fall for a recovery seems questionable.

**Exhibit 2: Rates and Stocks in the 1970s by Year**

| Year | Stocks | Yields |
|---|---|---|
| 1970 | Up | Down |
| 1971 | Up | Down |
| 1972 | Up | Up |
| 1973 | Down | Up |
| 1974 | Down | Up |
| 1975 | Up | Up |
| 1976 | Up | Down |
| 1977 | Down | Up |
| 1978 | Up | Up |
| 1979 | Up | Up |

On top the Fisher folks looked at 60 years of market history and asked, "In years when interest rates go up, do stocks always go down?" Our green circle answers that question: "Nope. Not remotely close." Stocks rose in 47 of those 60 years. Half that time, rates were rising; half the time they were falling. Then, at the bottom, Fisher looked at the "Decade of Runaway Inflation:" the Seventies. Of the 10 years, stocks rose when rates rose 4 times, and fell 6 times. That's close enough to 50/50 for us to rightly say, "Nope. No connection. No such thing as "Killer Interest Rates!" . . . at least, not for any lasting time period at all.

When we investors wake up after a Nightmare, <u>perspective</u> floods in pretty fast: meaning we remember the facts our minds were ignoring when asleep. Exactly the same thing happens to the market's Nightmares . . . but it just takes a lot longer, pretty often, than tomorrow's dawn and sunshine. This Nightmare's "Killer Interest Rates" have a task to do—wrecking Main Street USA—which is so far beyond its capabilities, compared to the Seventies, that it's, well, ridiculous. That Nightmare was unable to wreck Main Street USA in the Seventies, and the financial strength of Main Street 2022 is beyond that of Main Street Seventies like Usain Bolt's speed is beyond an aging couch potato. The market will wake up and that perspective will sink in eventually, as it always does.


Outlook Capital Management, LLC

125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

*The remarks above aren't a general recommendation to buy or sell particular securities.  Such decisions should only be made in the context of an investor's own circumstances.  Stocks and bonds carry the risk of loss.*