The Outlook: March 24, 2023

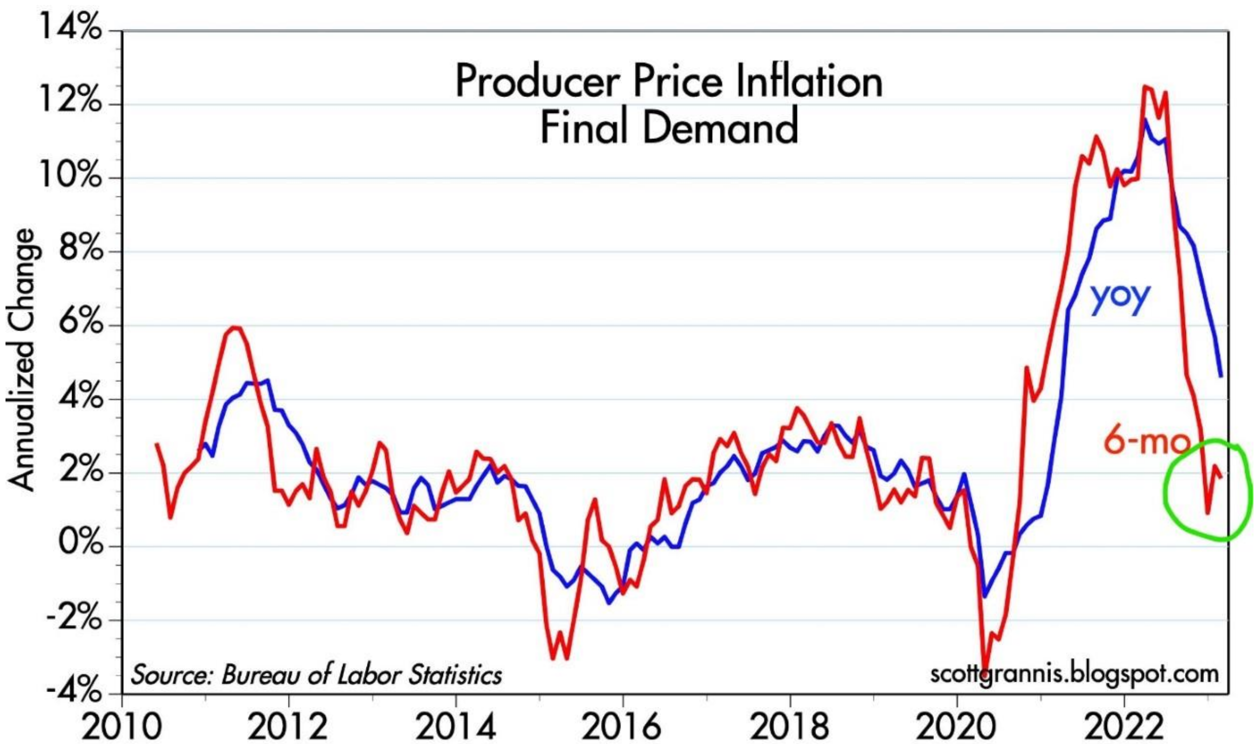
"Bank Panic!" The silver lining in every cloud.

"Bank Panic!" has been the headline all week. It's a good headline for the media and for the market's betting crowd because it strikes fear into our hearts, as the saying goes. It does that so well because, unique among fearful headlines, "Bank Panic!" is a self-fulfilling prophecy. Nobody in the world, from eminent CEO to plumber, reads that headline without thinking, "Is my money safe?" And "Is my money safe?" is a short step indeed from "Better pull it out of my bank, just in case." Because the answer to "Is my money safe?" is very simple, and always the same: "If there's a bank run, it's not safe . . . no matter how foolish the "runners" might be, or how strong my bank actually is."

As Outlook has mentioned a few times, that's the nature of banking. A run will kill any bank, anywhere, anytime, because banks can't stay in business if they keep all our money ready for us to withdraw. So Government alone can stop runs (being able to print money at will) . . . and that is just what Government should do.

As usual, that's "sort of" what Governments are doing these days, in California, New York, Switzerland and no doubt elsewhere in the days ahead. They're doing it clumsily, haltingly and with much mysterious jargon . . . but that's how politicians and bureaucrats always do things, with very rare exceptions. Meanwhile nothing changes the clearest underlying fact about the US banking system as a whole (and probably most of Europe's too): the vast majority of banks are strong beyond anything in history, having spent the last 13 years (since the Calamity of 2008 – 2009) in round after round of strengthening actions, because regulators forced them to. The upshot of all this is probably more days and weeks of "Bank Panic!" headlines and chances for quick betting profits in the speculating mob; but not a repeat of 2008 – 2009.

Here's a ray of sunshine amidst all this gloom—thanks to economist Scott Grannis.



That green circle, down there in the 1% - 2% neighborhood, is kind of like a lighthouse on a storm-swept cape at midnight. It's shining its beam out to sea where tossing ships can see it from miles away . . . and head in that direction, because they know it's lighting up the entrance to safe harbor. In the investment world, that green circle is where future inflation numbers are eventually going to arrive. Mr. Grannis would say (rightly, in Outlook's opinion) that those future numbers were heading down that way no matter what, whether the Federal Reserve had been wallowing in its "Hike Rates Until the Bodies Pile up on Main Street!" campaign or not. The current so-called "Bank Panic!" will surely help with the body count, and help the inflation numbers get there even sooner, and with even more certainty . . . because banks wondering if their turn is next, in the "Bank Run!" game, will go slower on lending to Main Street for a good while, until they feel safe again.

So it's not the cheeriest green circle in the world, but it certainly means that we're not about to see the Fed adopt "Rate Hikes Forever!" in place of its previous motto, "Zero Rates Forever!" . . . which was too silly even to label "clumsy, halting and mysterious." Zero Rates Forever deserves stronger language than that . . . but doesn't need it from us, this Friday evening. The best label for that picture up there is probably, "A silver lining in every cloud!" That turns out to be true almost every time, amazingly enough, and we're sure it's true this time.

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