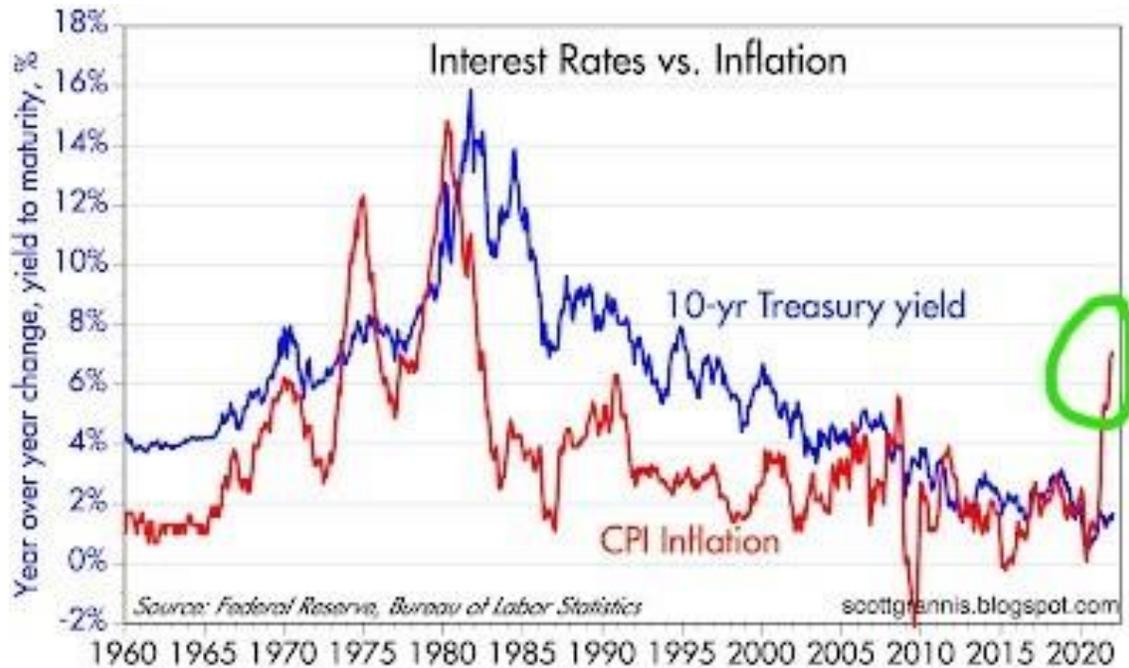


The Outlook: January 14, 2022

Startling events . . . but cheerful, by and large.

It was a week with a few startling or dramatic events. Though every day's headlines would like to give us the impression that "startling and dramatic events" happen all the time . . . they don't, of course. This week, though, the Supreme Court earned the "drama" award . . . but for us investors, the "startling" award was the 7% inflation number for December. It got screaming headlines, which it didn't quite deserve; but big print on Page One was justified. Courtesy of economist Scott Grannis, let's take a quick look:



There's the long-term picture of inflation against interest rates. Mr. Grannis' message, from this picture, was simple: "The bond market (being made up of fairly normal people like every other market) wakes up to dramatic real-life changes slowly and late." It can easily take a year or two, or even three, to come to the collective realization that something big has changed. We can see it from 1960 to 1980, as inflation jumped like a gymnast on a trampoline—and the bond market took its sluggish time, for a good while, to grasp the seriousness of the problem. And we can see it from 1980 to 1995 or so, as the bond market struggled to believe inflation really had been clobbered, mainly by Fed Chairman Volcker's willingness to tolerate the economic agony of 20% interest rates in order to pound inflation down.

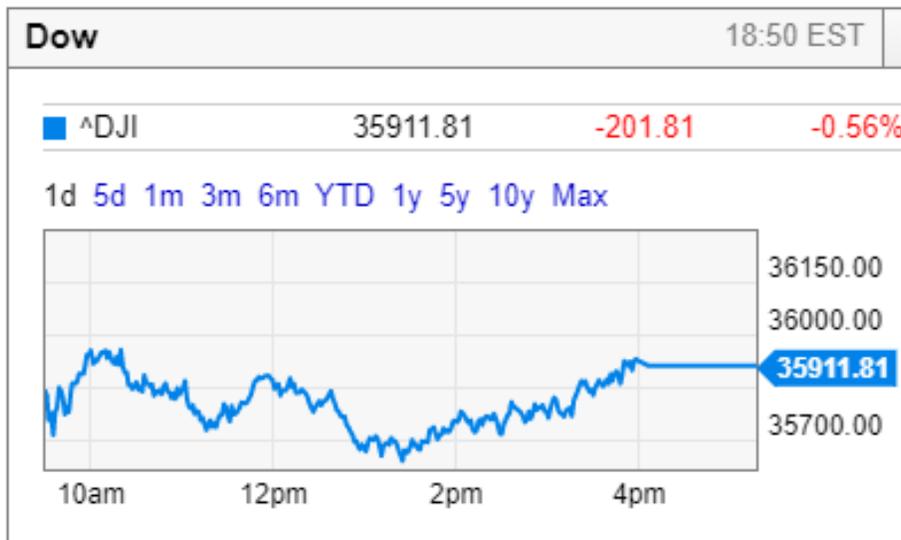
Mr. Volcker had convictions and courage. In public life such people are pretty rare, but they do show up when really needed, sometimes.

At the far right, in the green circle, stands this week's "startling event" winner: that 7% inflation number. It does remind us of the first couple of trampoline bounces in the Seventies, doesn't it? Here's an even more dramatic picture:



There's "core inflation," green-circled, subtracting energy prices, which are always at home on the trampoline. The simplest message from this chart is: "Either that jumping blue inflation line will be plunging back to earth soon . . . or that sluggish, near-zero red line (interest rates) will be getting on the trampoline itself."

It's Friday afternoon and no time for deep thinking. Let's glance at the last "startling" pictures:



There's the market, down 6/10ths of a percent. Nothing very odd about that.

Overview Data Events Alerts News

Symbol ▲	Name	Price	Change	% Chg	As of (EST)
CAT	Caterpillar Inc	228.96	+1.96	+0.86%	01/14 15:59
CME	CME Group Inc	223.27	-0.46	-0.21%	01/14 15:59
CMI	Cummins Inc	237.64	+1.66	+0.70%	01/14 15:59
COP	ConocoPhillips	86.83	+3.21	+3.83%	01/14 15:59
FCX	Freeport-McMoRan Inc	44.09	-0.24	-0.54%	01/14 15:59
LMT	Lockheed Martin Corp	372.63	+7.45	+2.04%	01/14 15:59
MSFT	Microsoft Corp	310.20	+5.40	+1.77%	01/14 15:59
MU	Micron Technology Inc	97.27	+1.65	+1.73%	01/14 15:59
TXN	Texas Instruments Inc	187.01	+2.86	+1.55%	01/14 15:59
XOM	Exxon Mobil Corp	71.89	+1.26	+1.79%	01/14 15:59

But there are Outlook's core stocks, another (nearly) Sea of Green. That's odd enough to compete for the week's "startling events" award. It's one thing for one's favored companies to rise when the market rises . . . but more, leaving us cheerful on a Friday night, but not too startled. But it's quite another thing for an investor's favored companies to turn a deep Sea of Green while the market as a whole is more like a Sea of Red. That doesn't happen much. Why this time?

Outlook's answer is: "Look for the obvious." The obvious explanation (which clients and friends have probably heard so often they've memorized it) is:

- These companies, mostly, will handle inflation pretty well . . . "very well" for such as Conoco and Freeport.
- These companies have endured endless doubts and many years of skepticism from the market's daily betting crowd. They're not "priced for perfection." They're still "priced for stagnation."

That's means one thing, startling events or not: "Buy, and keep buying." That's what Outlook Capital Management is doing.

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