

The Outlook: June 29, 2022

Recession without legs.

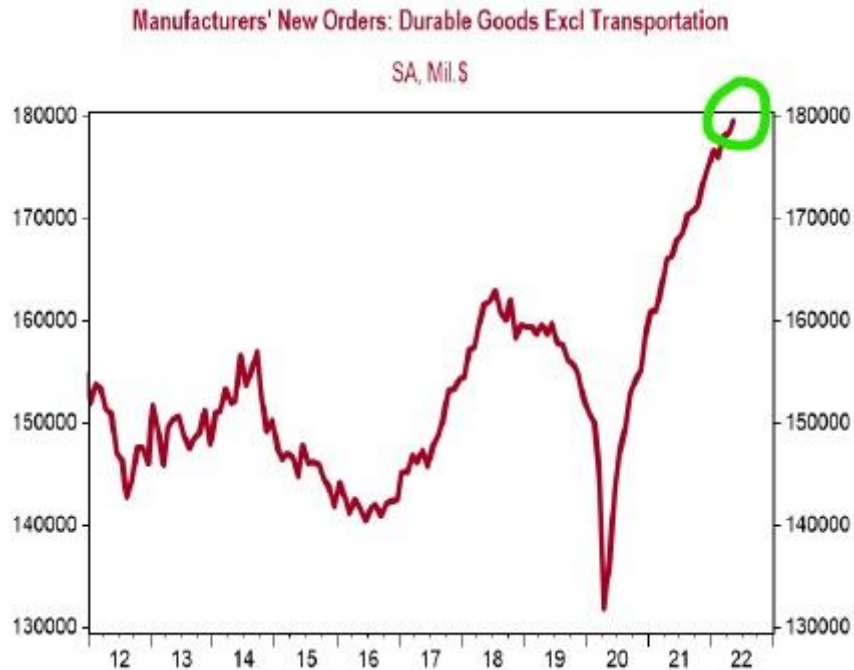
In track and field, the mile relay often comes down to the last “leg”: where each team places its fastest quarter-mile runner: the “anchor” leg. But the first three runners have done their work, and pretty often one team will begin the last leg with a 20 or 30-meter lead over second place. That’s a lot of ground to make up—but if your anchor is good enough, she can do it. So the stadium full of track fans watches the second-place anchor with the keenest attention, from her very first steps, to see if she has “the legs” to catch up. The stadium can’t tell in the first few steps, but by 100 meters, it always *knows* . . . even though she has 300 meters left to run.

That’s kind of how it is with recessions . . . especially the current suspect. This “possible” recession took the baton several weeks ago, and we’ve been scrutinizing every step ever since, wondering whether it “has legs” or not.

It doesn’t look like it, to Outlook Capital Management.

We should remember that “recessions” are not defined as “2 straight quarters of falling GDP” (total economic production.) That’s a handy definition for the media; but the National Bureau of Economic Research (which decides the question) rightly takes a much broader view. It says a recession only happens with “a significant decline in economic activity spread across the whole economy, lasting more than a few months, with falling GDP, real income, employment, industrial production and retail sales.”

That’s a broad, challenging definition. If this “possible recession” were anchoring a second-place relay team, wishing to show it has enough “legs” to qualify as the real thing, it would have 100 meters to make up, not just 20 or 30. And now that it’s run its first 100 meters, it sure doesn’t look like it has the legs to do it. Here’s yesterday’s Durable Goods Orders report, which tells us something about many things from industrial production to retail sales.



That's not a picture of a "recession with legs." That's a picture of "economic growth with legs." So are the pictures, up to the minute, of jobs, retail sales and industrial production . . . and a crowd of other economic signals. It would take an out-of-this-world change in speed for this "possible recession" to show we've been fooled by its first 100 meters. If it really were an anchor leg in a track and field stadium, the crowd would be saying, "We're watching . . . and that won't be happening."

We'll keep watching of course. We never know much of anything with perfect certainty. But we investors must make judgments based on our experience and understanding of what we're seeing. This "possible recession" just doesn't look like it has the legs to qualify.

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