The Outlook: Jan. 10, 2023

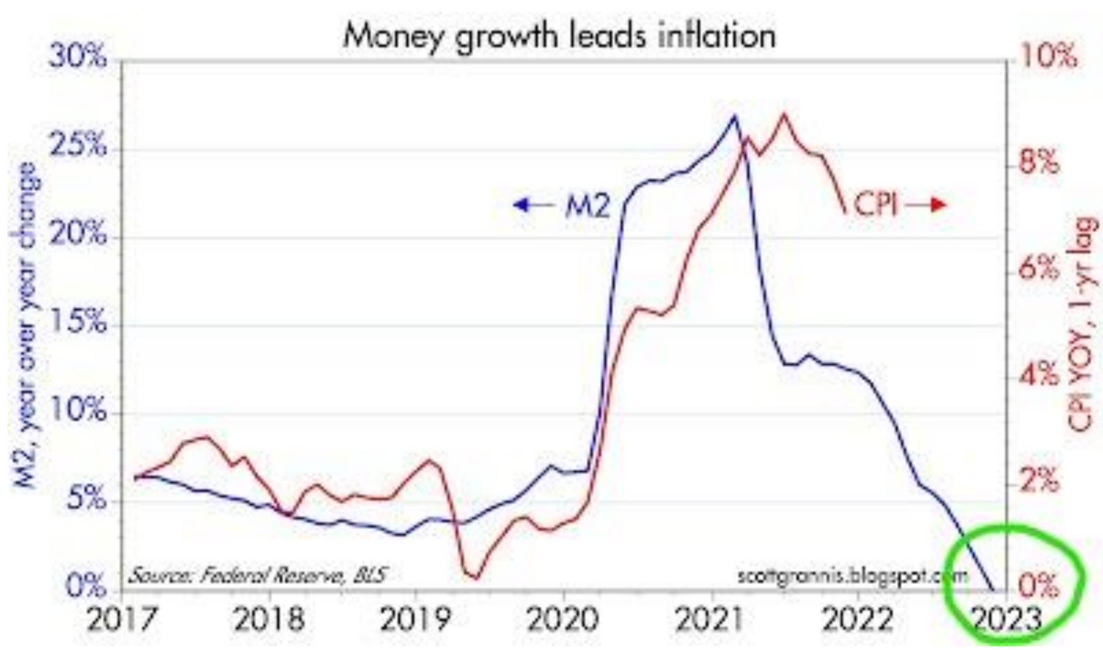
Main Street whistles past Wall Street's graveyard . . . as usual.

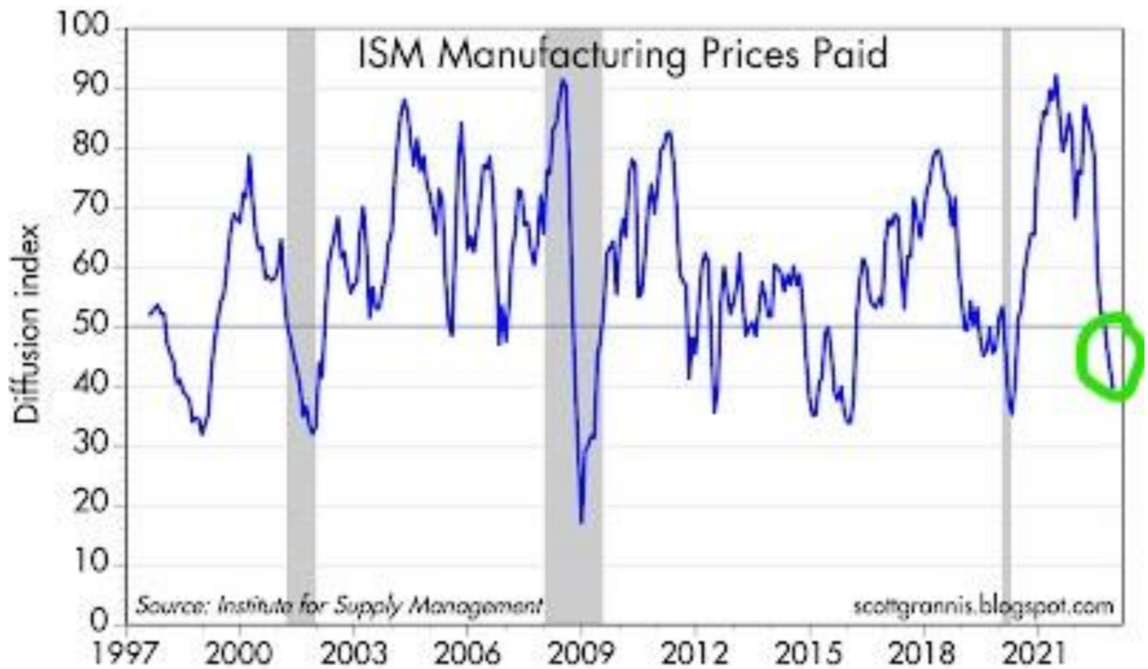
"Seas of Green" were kind of scarce last year—so in the spirit of whistling past the graveyard let's enjoy this one, early in 2023, and hope we see more.

SYMBOL ▲	NAME	LATEST	$ CHG	% CHG	AS OF (ET)
CAT	Caterpillar Inc	250.44	3.82	1.55%	01/10 16:00
CMI	Cummins Inc	247.76	3.47	1.42%	01/10 16:00
COP	ConocoPhillips	118.07	0.71	0.60%	01/10 16:00
FCX	Freeport-McMoRan Inc	44.70	1.87	4.37%	01/10 16:00
LMT	Lockheed Martin Corp	462.22	3.23	0.70%	01/10 16:00
MSFT	Microsoft Corp	228.88	1.76	0.77%	01/10 16:00
MU	Micron Technology Inc	57.23	0.87	1.54%	01/10 16:00
TXN	Texas Instruments Inc	178.42	1.74	0.98%	01/10 16:00
XOM	Exxon Mobil Corp	110.08	1.61	1.48%	01/10 16:00

Why this one? A very old saying goes, "The answer to that and a nickel will buy you a cup of coffee." The coffee is around a hundred times more costly in 2023, but the saying still works: explaining "why" the market did anything, any particular day, is always a guess, good for idle talk and not much else.

But let's guess, anyway. Here are a couple of pictures thanks too economist Scott Grannis.





These pictures tell a pretty striking story, guesswork or not. There on top, in blue, is the money supply, exploding from its normal 6% (or so) to 25% during the 18 months of the Lockdown Calamity. And, of course, there in red is the inflation rate, following with a lag, exploding from around 1% to around 9% in 2022. We know this story: truly jaw-dropping government spending with printed money, trying to soften the damage from the world's first economic lockdown. Too much money chasing too few goods, indeed.

That's only part of the "striking story," though. We see the blue money line falling off a cliff to nearly zero . . . that is, zero growth in money from the previous 25% growth. And these pictures don't show it, but at the same time Main Street gradually fixed the chaos created by Lockdown, and produced more and more goods and services: hence "a lot less money, chasing considerably more goods." And that's the green circle in the bottom picture. The prices paid by Main Street factories for the vast array of goods and raw materials they need to make their own goods have fallen off their own cliff. Lately (green circle) more than half of Main Street's factories say they're paying <u>less</u> than they did just a few months ago.

For a short but frightening few months, last year, Main Street began to feel like it did in the 1970's. Prices of everything seemed to be rocketing up, and "everyone" from unions to construction companies to computer makers was making noises along the lines of "We want our share!" Back in the Seventies, when the money supply rocketed up and stayed there for years; when inflation followed and regularly flirted with numbers like 10% - 15%; that "we want our share" feeling really dominated Main Street and the whole economic world. It felt fairly impossible to cure that inflation . . . until a tough Fed Chairman named Volcker (with firm support from President Reagan) <u>showed</u> it could be cured with 20% interest rates and a lot of pain on Main Street.

But the picture in 2023 is not the picture from 1980. Ten years of reckless government spending and money printing back then; 18 months of it now. True, our 18 months featured such recklessness on a galactic scale . . . but it's been brief—so far—and that makes the "too much money chasing too few goods" picture quite different. At Outlook our guess is that the market's betting crowd is figuring that out, so its "Inflation!" nightmare has lost a good deal of its terror. Hence a "Sea of Green" despite a list of problems

(China, War, Interest Rates) which is at least as worrisome as usual. So we think it's OK to whistle past the graveyard these days. Graveyards exist mostly in the minds of the speculating crowd. Main Street never has much time for them.

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