

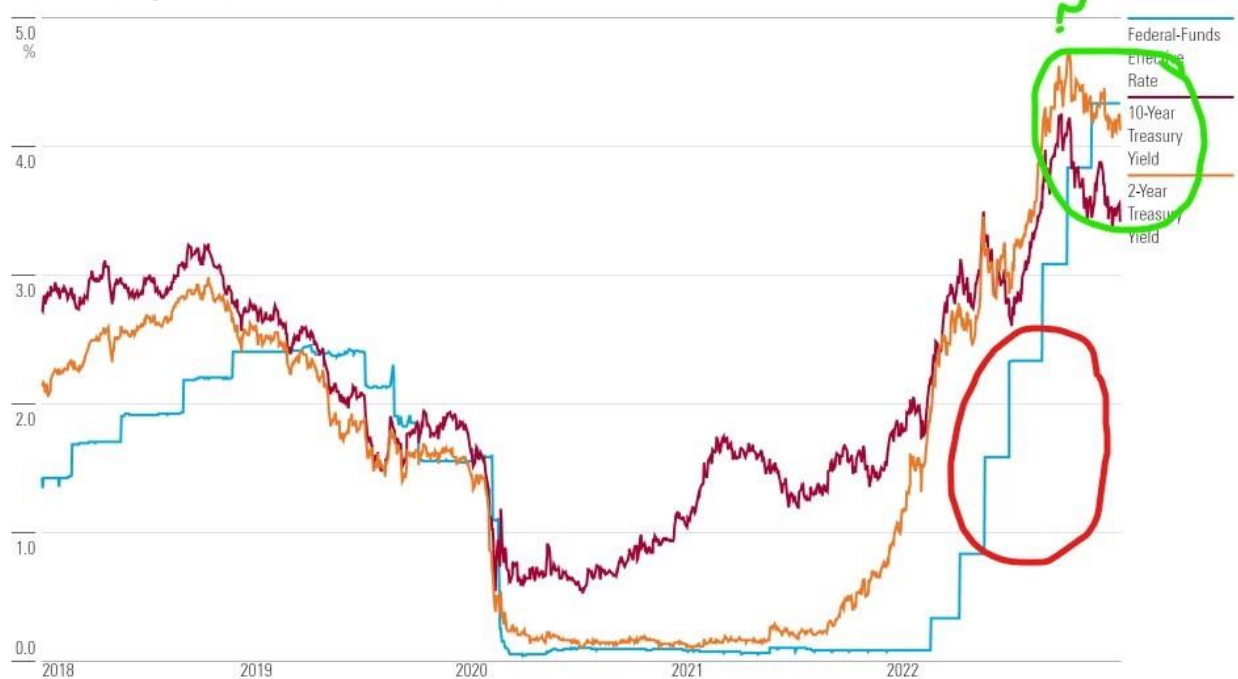
The Outlook: Feb. 3, 2023

Jobs rocket up. Falling sky postponed.

We use the phrase “the sky is falling” all the time. Outlook’s clients and friends must be sick of it, and we’d be glad to think up a better one . . . but no luck so far. Unfortunately “the sky is falling” just hits the nail on the head when it comes to describing the nature of the market, of the media and of the investment world. We investors are bombarded around the clock and all year, pretty much, with endless versions of “the sky is falling.” Of all the Golden Rules for investment success, the most Golden may well be: “Do not believe the sky is falling, no matter how many times we hear it and no matter how prestigious the person saying it.”

This picture points to one of the recent sky-is-falling uproars. It came during the second half of 2022, as inflation and interest rates rocketed up around the world just when an awesome list of Other Miseries showed up to horrify us. (War, Supply Chain Chaos, Crippling Energy Prices in Europe, etc.)

U.S. Treasury Yields and Federal-Funds Rate



Source: Federal Reserve Bank of St. Louis, Morningstar. Data as of February 1, 2023.

The blue line with the red circle is the Fed Funds rate, looking like the stairs up the Empire State Building last year. “The sky is falling” was the thing to say back then. There are a great many people roaming the investment world, in positions of prestige, whose idea of how things work on Main Street is, basically, “Nothing works unless Government and the Federal Reserve Bank guide and direct things.” For them, the Fed’s “zero interest rate policy” of 2020 – 2022 (and for many of the 10 years before that) had saved Main Street’s bacon (and the market’s, too), so now Main Street was doomed because the Fed had turned against it.

They were especially sure they were right when it came to Europe, where all those Other Miseries were really running amuck, while the European Central Bank hiked its own interest rates.

That green circle and question mark at the top left (above) means, “Huh? Where’s the sky? It should have crushed us by now.” But it hasn’t. It’s still up there, blue or cloudy day by day. The picture below captures the “Huh? Why are we all still standing?” puzzle for the many doomsayers in the investment world.



This green circle is today’s employment report, whose strength blew every forecast out of the water. The US economy added 517,000 jobs last month—588,000 counting upward revisions to previous months. Nobody expected anything close to that . . . and nobody can explain it, so far. Main Street is supposed to be covering in the basement, waiting for “Recession!” to finally hammer home. Instead Main Street is ignoring Silicon Valley’s hundred thousand layoffs, or so; and it’s putting many new people on the payrolls across many of its stodgier industries.

What’s going on?

It looks to Outlook as if Main Street is just doing what it does most of its 24 hours a day, 7 days a week: marching ahead, no matter the recent bumps and bruises or even a sprained ankle. The bumps, bruises and sprains are a real thing: this First Quarter Earnings Season has given us plenty of clear-eyed reports that business is generally weaker than it was 3 to 6 months ago. But that fact has not terrified Main Street. It's just made businesses (and consumers) somewhat more cautious . . . but not the least bit inclined to run for the basement and cower down there. Remarkably enough, Main Street Europe seems to be acting and feeling nearly the same as Main Street USA when it comes to "cautious, but no intention of giving up."

As we've noted pretty often, Main Street can take that kind of attitude because it's got serious financial strength. Financial strength lets people and businesses "worry but keep marching" rather than "run for the basement and cower." At Outlook we're pretty sure they're going to keep marching this year no matter how often the market crowd hollers "Recession!"

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