<u>**The Outlook: June 14, 2022**</u>

Nightmare without legs.

This market has been doing its level best to "frighten us out of good positions," and we have to give it an "A" for effort. The headlines have been spectacular, in the Nightmare category: "Inflation at 40-Year High!", "Bear Market Arrives!", "Fed Considers Largest Rate Hike since 1990!", and so on. The market's and the media's Nightmares, of course, are always about <u>impressions</u>, not facts and logic. Like most impressions about anything whatsoever, they're wrong 9 times out of 10—or maybe even 19 out of 20. But like a broken clock which is right twice a day, the market's Nightmares turn out to be right every now and then. Even when we know that "every now and then" is only 1 out of 10 or 20, that fact adds to our anxiety—and makes it harder to think clearly—whenever the market has found a Nightmare with legs enough to run for a while. And today's Nightmare ("Inflation = Rocketing Interest Rates = Recession!") obviously has some legs, as it's shown for 6 weeks or so.

The fact that the broken clock is right now and then also makes it dangerous for investment managers to make predictions about the Nightmare of the moment. We can be pretty sure a Nightmare is going to be wrong, but we can't be completely sure. But at Outlook we'll gather up our confidence and make a prediction anyway: <u>this Nightmare looks dead wrong to us</u>.

Here's the bullet-point list:

- <u>**Debt is too low. Household and business financial strength is too high**</u>. It is very high. It's mighty hard for a recession to get rolling when Main Street is strong enough to shrug it off.

- <u>**Inventories are low**</u>. In almost any direction we look—from manufacturing firms to commodities in general—we see the same thing: rock-bottom inventories. "Supply Chain Chaos" is behind the low stocks of finished goods, as we've been hearing for a year or more. And for commodities from oil to copper to aluminum, years of low exploration-and-production spending—that is, low supply—have done what they always do: "curing low prices."

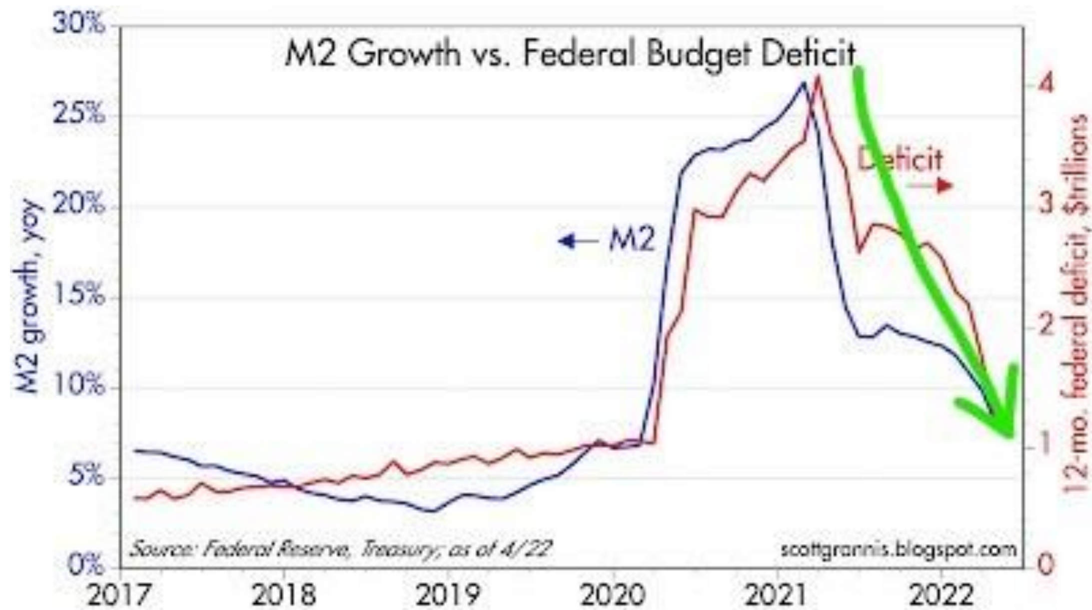
  That's important because recessions make and feed upon "ripple effects." Something happens which is sharp and shocking enough to make Main Street pause; businesses up and down the Street suddenly feel they have too much inventory and too little demand; they slam their checkbooks shut, postponing and often canceling orders to their suppliers; and there's the "ripple effect," spreading weakness throughout Main Street like some virus. <u>But it's kind of hard to get that effect when inventories are already low.</u> A few days ago there was a story about aluminum prices plunging to 6-month lows. It seemed pretty shocking . . . until the same story mentioned, a couple of paragraphs later, that London warehouse stocks of aluminum are at <u>21-year lows</u>. Very much the same thing is going on in the worlds of copper, oil and gas, and many other "Main Street" commodities.

- <u>**Consumer spending is 2/3 of the economy. Up to this moment, there's been no sign that consumers have been frightened into slamming shut their checkbooks.**</u> Now, Nightmare Headlines and Nightmare Market Plunges are always scary; and history certainly tells us that fear alone can be paralyzing to Main Street's consumers and businesses. We're all human, and we don't like fear. But facts don't go away even when we are focusing on our fears. Eventually we

notice the facts again. Those facts about debt and financial strength won't go away. Neither will the facts about sky-high employment rates, and sky-high unfilled job openings.

Fear <u>always</u> gets weaker the longer it hangs around.

- After the unbelievable explosion in printed money from 2020 through 2021, something is happening which almost nobody has noted (in Outlook's readings)—until economist Scott Grannis, this week. It's time to liven things up with a chart:



Yup, **<u>the money supply and the government deficit have both hit the brakes hard</u>**. How and why? Because Washington DC, as a whole, gave the red light to this year's attempts to keep the spending and money-printing rocket rising. So they slowed down sharply, and the government was blessed with the usual rocket-rise in incoming tax revenues which happens when the economy grows steadily.

The important thing about that is history. When we've had Big Inflation in the past, we've set it up with <u>many years</u> of reckless spending and money-printing. The recklessness of 2020 and 2021 was astounding—rockets toward the moon instead of merely jets climbing to the clouds—but from the perspective of inflation history, they didn't last long. So it will be easier to control today's inflation than the 1970-80 version. We will see that over time, as Supply Chain Chaos is slowly fixed, so it's temporary "gasoline on the inflation fire" effect is tamped down.

"The only thing to fear is fear itself" is one of Franklin Roosevelt's best remarks. To Outlook, that's how "Fear of Inflation and Recession" looks today. We certainly have the fear . . . but we don't have the facts to support the fear. We're pretty sure Main Street won't let itself be so paralyzed by fear that it ignores the facts. That means this Nightmare's legs will be giving out reasonably soon, rather than sprinting on toward year-end.

© Dave Raub
Outlook Capital Management, LLC

125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.