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Nightmares which fade fast.

"The market never stops trying to frighten us out of good positions" is an Outlook favorite saying, as clients and friends know very well. It never stops trying . . . but its efforts ebb and flow, thank goodness. It tries very hard for a few days, weeks or even months, then gets tired of "when in panic and in doubt, run in circles, scream and shout" and backs off for a while. When that happens the market usually rises strongly until the next Nightmare gets a tryout.

It usually gets tired of its "sky is falling" behavior because a stream of real facts about Main Street keeps passing by; and those facts make the Nightmare look silly, eventually. That's just what's been going on lately. Main Street's earnings reports were the polar opposite of "sky is falling" reports; and the economic data which tries to describe conditions on Main Street (never as clearly as Earnings Reports, but useful anyway) has also kept refusing to support the "sky is falling" notion. Jobs growth, retail spending, business capital spending, and many more items have been sounding the same tune: a forward march, maybe not quite a Sousa march, full of good cheer, but clearly strong and energetic.

American consumer spending is about 2/3 of the whole economy. It has been for a long time. So it gets the closest scrutiny from the economy-and-market-watching crowd. Economist Brian Wesbury, today, passed on one of the most powerful items of information about us consumers: our financial strength is still off the charts, historically speaking. Here's the off-the-charts number:

14.0% = Financial Obligations Ratio

That ratio is the share of our take-home pay needed to make all debt payments and such "necessary payments" as property taxes and homeowners' insurance. The higher the ratio gets, the less breathing room we have for emergencies: for everything from sudden job losses to medical emergencies. Here is perspective: the Financial Obligations Ratio has been tracked for 42 years, since 1980. Until now, the lowest figure in that history was 14.7%. Now it's 14.0%. Consumer financial strength is at a 42-year high . . . or more, because we didn't keep track of this item before that.

It's hard to whip up an economic Nightmare, and keep it looking terrifying, when consumers and businesses are financially strong. Nightmares thrive on "too much debt," which makes consumers and businesses feel they're standing at the edge of a cliff when things go wrong. But Nightmares fade faster when instead of "too much debt" they face "off the charts financial strength." In a nutshell, that's been the market's problem this spring. It's gone all out in one of its endless attempts to frighten us out of good positions: but we're not standing anywhere near the edge of that cliff, so instead of making Main Street run in circles, scream and shout, Main Street has mostly shrugged and gone back to work. At Outlook we're pretty sure that's going to be the story of 2022.

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