

The Outlook: Feb. 17, 2023

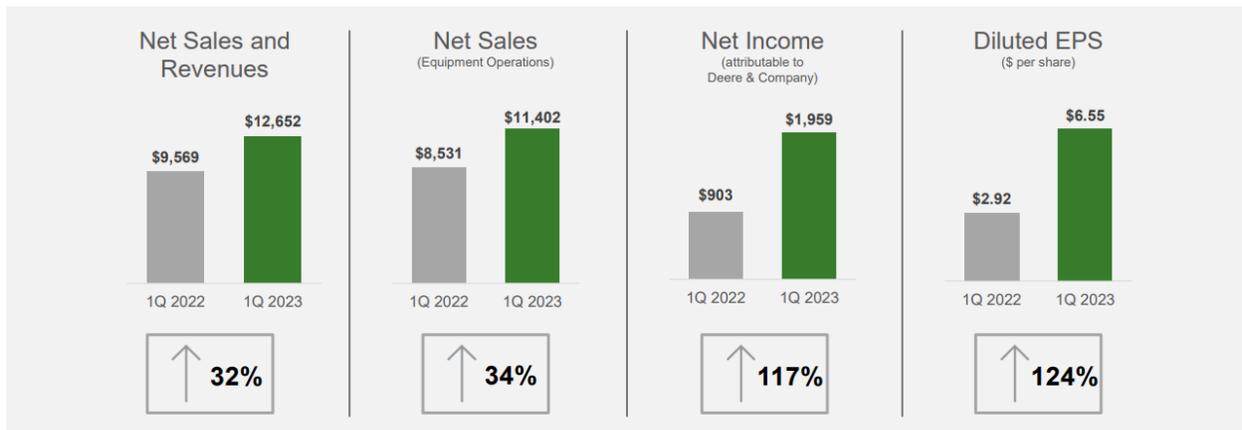
“Recession Watch!” is a game for Wall Street . . . not Main Street.

We’re pretty sure the “Recession Watch” nightmare will keep hanging over the mood of the market’s betting crowd this year. For the last 12 months, “Recession Watch!” has been almost as gripping as the Super Bowl, with the lead changing hands between “Recession’s Here!” and “Nope, Not Yet!” every other week or so. Today came a touchdown pass from the “Nope, Not Yet!” side, in the form of John Deere and Company’s first-quarter earnings report. (Deere has one of those “odd” fiscal calendars, so its first quarter ended January 31. The nice thing about that is that it gave us a look at some hard facts on Main Street as of only a couple of weeks ago.)

Here’s how the last 3 months looked. They weren’t “good.” They were “spectacular.” Farmers and builders all over the world (Main Street) absolutely have not been frozen or frightened by “Recession Watch!”

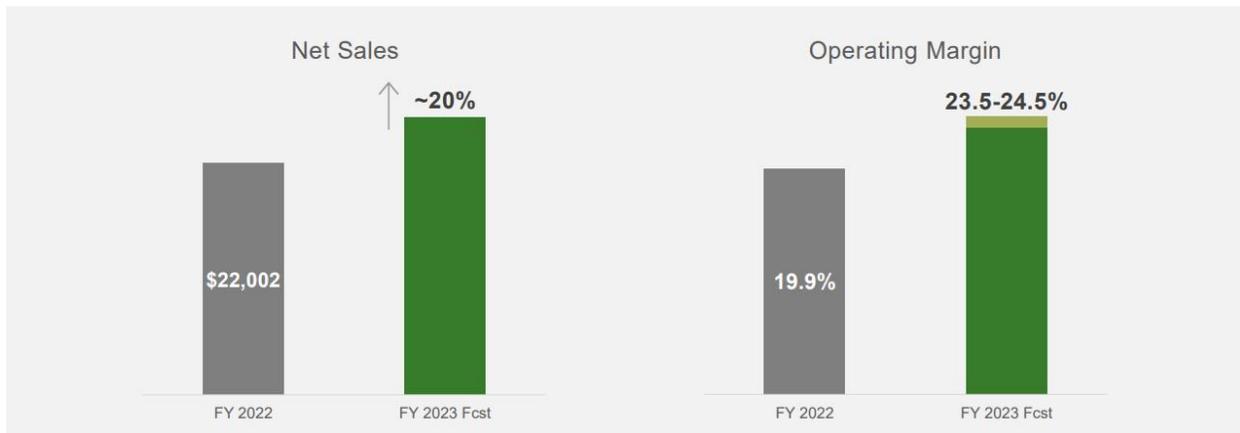
1Q 2023 Results

(\$ millions except where noted)



Looking backward is useful as we look for Main Street reality as revealed by Quarterly Earnings Season. But what the leaders of good companies tell us they’re guessing about the future is mighty interesting too. They are almost always cautious, and lately they’ve mostly been “concerned” about their business strength in the short-term future. Not Deere’s CEO, John May. Here is Deere’s forecast for its main business line.

Production and Precision Ag Business Segment Outlook



Source: Deere & Company forecast as of 17 February 2023

7 John Deere | 1Q 2023 Earnings Call | February 17, 2023

Sales up 20% for 2023 is pretty far from “concerned” or “cautious.” And that profit margin hike of around 4% is, yes, “spectacular” again. Big manufacturing companies are generally very happy with “margin gains” of 1% or 2%.

Now, we already know that everyone isn’t doing as well as Deere—far from it. A lot of companies on Main Street USA are reporting cautious customers, flat sales or even down sharply, and they’re making their own cautious statements about when their customers will again show up at the door in crowds, waving cash. But this report from Deere reminds us again of the best thing about Main Street: it just doesn’t spend its time paralyzed by nightmare headlines. It shrugs and keeps working. The result, for outstanding companies like Deere (and Outlook’s core businesses) is “spectacular” results eventually. The market’s betting crowd dislikes waiting for those results. Good investors don’t mind. They’ve seen, over and over again, that the wait is always worth it.

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

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