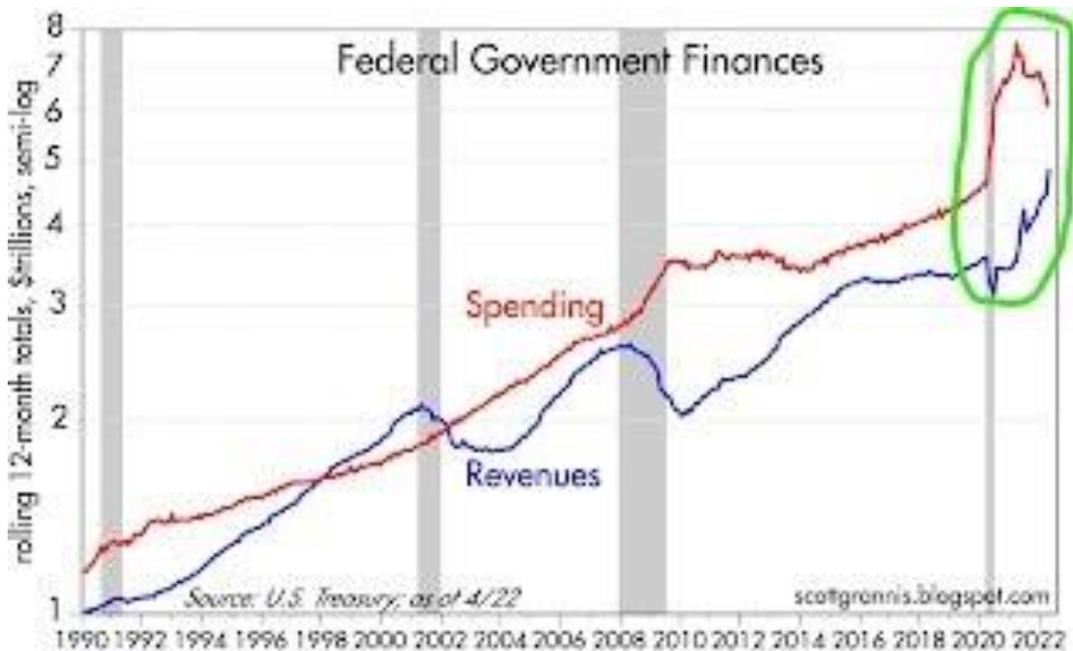


The Outlook: May 27, 2022

Breaking Murphy's Law.

The older we get, the more we feel like believing in Murphy's Law: "Whatever can go wrong, will go wrong." But that's only because we've experienced the Law personally a few times, and any lesson we receive up close and personal, gets a place in the top drawer of our memory filing cabinets. At Outlook we have a hunch that Murphy's Law is only true every now and then in the private sector; but we suspect it's almost a law of nature in the government sector.

But even there we're falling for the temptation to believe the worst. Here's a mighty interesting chart (from economist Scott Grannis) which reminds us that while the headlines always suggest we should believe the worst, the headlines are almost always wrong, even about acts of government.



Inside the green circle, that red rocket ride in 2020 – 2021 was government spending (and money printing) blasting off for the moon, causing last year's federal deficit to come in around 4 trillion dollars. If the rest of the world's government financial health weren't even shakier than America's, we might have feared that "run on the dollar" predicted by doomsayers for the past 50 years or so. But it is shakier, so no problem for the U.S., yet.

But then look what happened. Instead of Murphy's Law, which would suggest a quick climb to 6 or 8 trillion in deficits, and maybe even a mild collapse in the dollar . . . there's the red spending line plunging over the past year or so. It plunged simply because the spending explosions passed into law in Washington in 2020 and 2021 were not renewed. The President's "Build Back Better" plan lost the vote, saving a few more trillion dollars in deficits. And at exactly the same time, the blue line for incoming tax revenues accelerated skyward even faster: not because of tax increases, which didn't happen; but simply because the economy grew pretty strongly and tax revenues always respond strongly when that happens.

So we're suddenly facing deficits "only" in the \$1 to \$2 trillion range. Those are shocking numbers . . . they're just not quite as heart-stopping as the earlier ones. And that blue tax revenue line is pretty likely to keep rising faster than spending. That is not Murphy's Law. It's the opposite.

There are a couple of things we investors might repeat to ourselves when we get up in the morning, each market day, and when we go to bed at night:

- Never let the market frighten us out of good positions.
- Both the market and the headlines will never stop trying to do that.

But as today's picture shows, what's happening in the real world is almost always a good deal cheerier than the headlines' impressions. That has been true all of this 2022 "Year of Big Worries," and it's been true all of this month's "The Sky is Falling! Run for the Hills!" behavior by the market. So we suspect we'll be seeing more Seas of Green ahead.

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