

## The Outlook: Feb. 16, 2023

*Britain says "So what?" . . . and gets it right.*

"Recession Watch" and its cousin, "Inflation Watch" are still dominating the minds and morale of the market's vast betting crowd. They dominated all last year; and it sure looks like those "Recession!" and "Inflation!" nightmares will keep top billing this year too.

Sometimes the market's Nightmares are at least 50% imaginary. (The same is true of its fits of giddy optimism, the latest being "ChatGPT will rule the world and change everything!") But pretty often there's a kernel of dark truth behind the Nightmares, and that certainly describes "Recession!" and "Inflation!" Each week's passing economic data does indeed describe a degree of shakiness on Main Street. It's not a big degree, because Main Street very seldom gets particularly shaky; but it's enough to show it's possible that inflation could stick too high, at 5 – 6%; so the Fed could hike interest rates too high, at 6% or more; so Main Street might stop walking ahead and come to a dead stop for a while . . . yup, "Recession!"

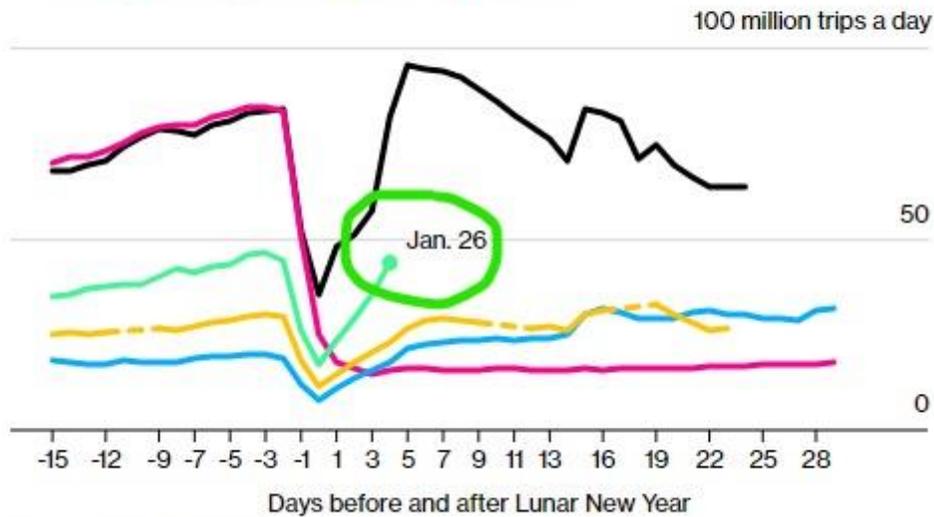
But as Outlook mentioned a few months ago, the Right Question in response to that Nightmare is still, "So what?" That's the right question for the same reason it always is: Main Street USA's financial position is emphatically, historically strong: both companies and consumers. It's so strong because 15 years of problems and frights, beginning with the 2008-2009 Great Financial Calamity, told Main Street to keep its guard up, and it has. "So what?" is also the right question because there has been no slowdown at all, these 15 years, in the human ingenuity (including ChatGPT, maybe) that has indeed "remade the world" over the decades. Finally it's the right question because despite the market's endless swings between "frightened" and "giddy", many big companies (especially Outlook's cores) are still valued reasonably, or cautiously, or downright pessimistically by the market. (Of all the bad things that can happen to us investors, "giddy valuations" are the deadliest by far: much more than nightmares like "Recession!" and "Inflation!" Ask Cisco's investors back in 2001, who haven't recovered 40% of their money despite owning a very good company which grew tremendously over the next 20 years.)

Even so, we're all going to keep our eyes on "Recession Watch" and "Inflation Watch" this year. We always keep our eyes on the Nightmares of the Moment, because it's prudent. Like loose dogs, their bark is almost always much worse than their bite . . . but there are such things as Dobermans and Rottweilers, not to mention Pit Bulls. Here are a couple of interesting pictures.

## Travel in China Recovering

But Lunar New Year travel not back to pre-pandemic levels

2019 2020 2021 2022 2023



Source: China's Ministry of Transport, Bloomberg

The green circle in the middle stands for “the people of China, finally heading back toward normal life after 3 years of Lockdown Mania, thanks to the Dictator.” (The 3 years of misery are the yellow, blue and red lines.)

The investment world is endlessly puzzled, these days, by a “big question” on China: “Can it possibly grow again, with all its burdens, and how much will that help the rest of Main Street World?” At Outlook we think the most useful answer to that question—and the most certain—is, “It’s going to grow more than it has lately, and help Main Street more.” 1.3 billion people are cautiously deciding they can live and spend normally again, after 3 years of political lunacy. That can only help.

Here’s a second picture, courtesy of the keen-eyed economists at Fisher:

Exhibit 1: UK Stocks Appear to Be Moving Ahead of Data



That's the British stock market, roaring ahead since last October. It's a very interesting picture when we know what the economic and political climate's been like, since then: raining cats and dogs, with daily thunder and lightning. If over here we've had endless fixation with "Recession and Inflation Watch," across the Atlantic it's been more like "Depression and Hyper-Inflation Catastrophe!" The inflation numbers have been terrible; politics have been especially chaotic; and the headlines have pounded the "Britain is Doomed!" drum so hard and often it's a wonder the drums aren't broken. Yet during the very months of the worst thunder, most falling dogs and cats, and wildest headlines . . . the market has been acting like it's arrived Somewhere Over the Rainbow and found those blue birds flying all over the place.

The market's betting crowd is odd. Quite often it is just plain silly: even completely and totally silly. Not always, though. It is quite capable of ignoring Nightmares and screaming headlines—especially when they've been hanging around and screaming like banshees for a good while—and behaving as if it actually grasps the strengths of Main Street. That picture, up there, is Britain's market crowd saying "So what?" in response to all the hollering. The crowd's been "getting it right" lately.

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