The Outlook: August 12, 2021

Inflation: another cold, hard fact floats by.

Speculators make bets on the fleeting <u>impressions</u> created by the endless river of news items flowing past their gaze. They do this constantly, and there are so many of them—the stars in the sky, pretty much—that they absolutely dominate the daily behavior of the market. And <u>that</u> is "the nature of the market," which we talked about just yesterday and—as Outlook clients know—which we mention almost as constantly as the speculators make bets. That's the nature of the market, all right; but, thank goodness, it's not quite the *whole* nature of the thing. That endless river brings countless gallons of truly silly news items flowing by—misleading, misunderstood, outright lies, you name it—but it also brings reality: cold, hard facts. And our giant speculating mob has no choice at all: it must also make its bets on those "real things," as they show up . . . and because the "cold, hard facts" usually say something crucial about cold, hard cash, the betting crowd dances to their tune, in the long run, rather than to the silly news.

That's the nature of the market: the whole nature.

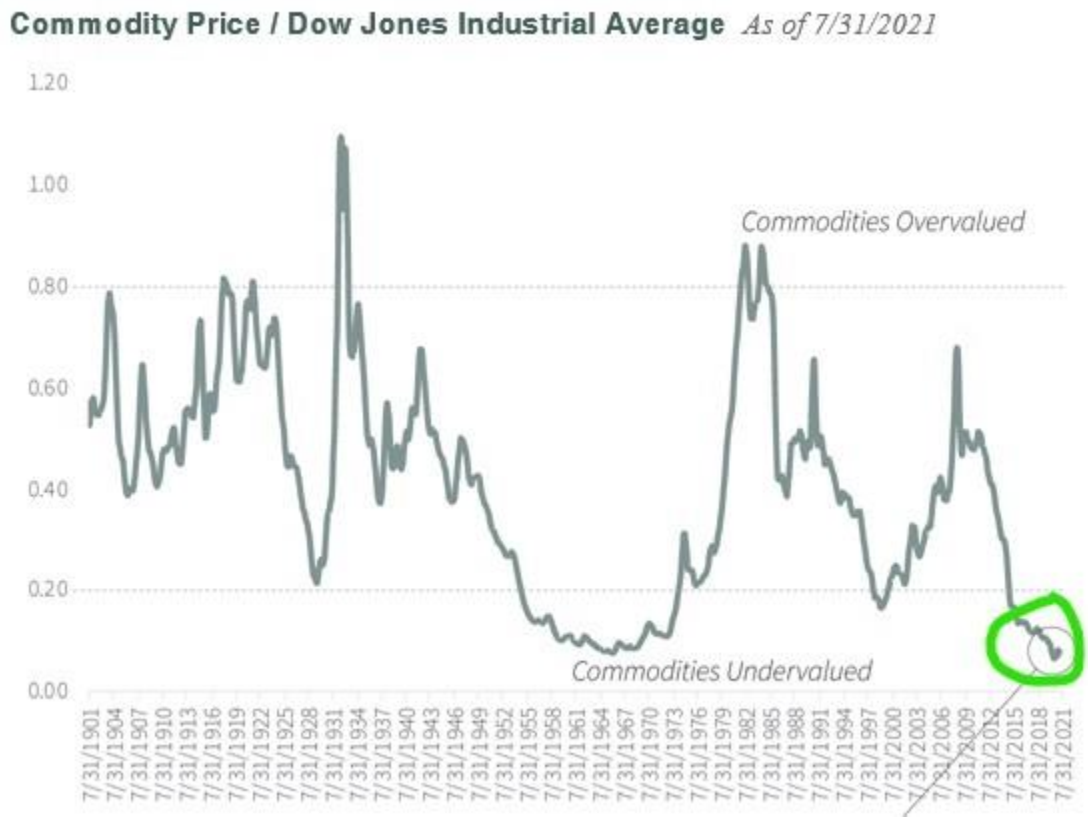
One of those "cold, hard facts" showed up today:

Producer Price Inflation Runs at 7.8%

One year ago—even 6 months ago—in the category of "what everyone else seems to believe," the idea that inflation might be a serious problem in the near future was getting no votes from the speculating crowd. Those days are now a distant memory. Today, "Watch out for inflation!" would win the popular vote in a landslide, if it were running for President. Today the only crowd which <u>says</u> that it's not worried about inflation is a very tiny but very dignified crowd: the governors of the Federal Reserve. At Outlook we don't spend the cash in our wallet on the lottery or any kind of gambling . . . but we'd plunk down every dime on the bet that those Fed scientists don't believe a word of what they're saying. They're as sure as "everyone else" that inflation has already arrived, and its headaches are going to get worse sooner, not later. But politics are involved, so they're looking for ways to climb off that overhanging branch slowly, bringing a few shreds of dignity along with them.

As we see in that red circle, producer price inflation isn't just "rising," but "accelerating." The Federal Reserve has printed the remarkable volume of money needed to support the remarkable volume of government spending since early 2020, and even earlier. "Cold, hard" goods and services created by the U.S. economy plunged back then, and have been accelerating back toward normal themselves . . . but we have a river of printed money for every bucket of hard goods and services, since last year. So we will have inflation.

Here's our last picture, today. It's a kind of "cold, hard fact" itself—with a direct link to "cold, hard cash" for us investors.



We might label this chart: "The Market's Hate for Commodities Hits 120-Year Record!" Like most headlines, that would be somewhat misleading. This chart tries to compare the total value the market gives commodity-based companies to the total value of the market as a whole. 100 years ago commodities were a big part of the economy. "Tech" was around too (RCA!) but as remarkable as radio was, it didn't transform everything as profoundly as computer technology.

So we can take that "extreme commodity undervaluation" in the green circle with a grain of salt. Not too big a grain, though. The chart isn't misleading at all when it reminds us that all markets (and most of their parts) move in cycles. Those cycles, at bottom, are creatures of supply and demand—the universal truths about economic behavior which never change and never mislead, in the long run. Commodities (and commodity-based companies like Freeport, Conoco, Caterpillar, Cummins and Exxon) have endured a long, hard cyclical plunge—with those companies managing to thrive despite the commodity plunge—and it's getting near time to go the other way. And one of the "cold facts" which is setting up a tailwind for "the other way" is the inflation news up at the top. The great majority of the time, inflation likes commodities and vice versa.

That 120-year chart does stretch our personal investing time horizons past the breaking point, doesn't it? When we look closely at the time scale up there, we see all kinds of 10, 20 and 30-year time scales, for the commodity valuation cycle which interests us. That's pretty long, too! But if we're near a real, rare turning point—and at Outlook we're willing to bet on it—we're likely to earn the rewards of sticking with the great values in our companies for long enough to make it worthwhile, no matter how long our personal time horizons might be.

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