

The Outlook: April 23, 2020

The Big Picture

A good many weeks ago, as everything was spiraling downward in a terrifying way, at Outlook we named one of the rare “absolute certainties” in the investment world. It went something like this: “We will see, when we look back at this after a while, that very many of the terrifying “facts” lighting up the daily headlines will turn out to have been so grossly and obviously distorted—or downright false—that we’ll stand speechless that such things were allowed to drive so many major decisions and awful events. But life being what it is, most of us will be too busy to take that look back, and reflect.”

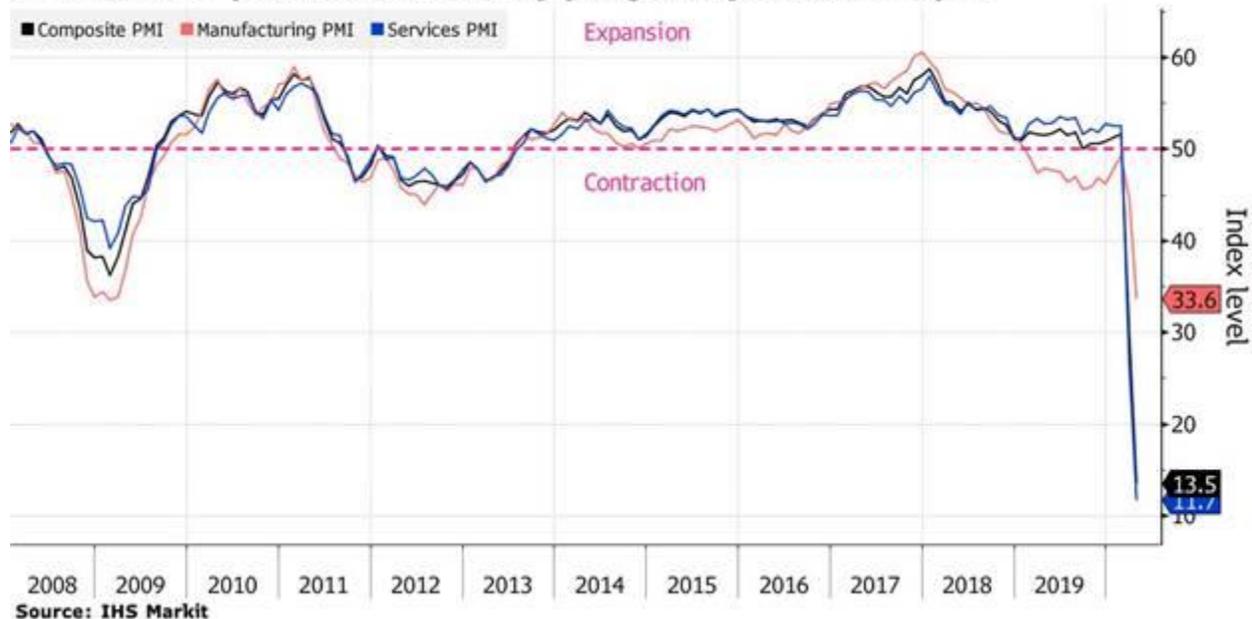
But “truth will out” is actually true. It’s just too bad it so often takes so long to get “out.” That led us, 6 or 7 weeks ago, to make a prediction: “This calamity is about choosing between lives and economic destruction. Very few people—from political leaders on—are willing to face that grim tradeoff at this moment . . . but they will all have to face it eventually, because terrible facts about the destruction will become overwhelming, and force them to face it. The ripple effects from shutting down the entire economy are tidal waves of destruction, not ripples.” Finally, we observed: “Everyone understands getting sick. Very few really understand how an economy works . . . but we will all be finding out.”

Pardon the repetition. But perhaps it was worth it, because the Big Picture at this moment—for the market, the economy and our fortunes—centers on exactly those points. The global economy is in the act of collapsing, and the continuing stream of facts which spotlight that collapse are gradually forcing political leaders everywhere to face the grim tradeoff. The Big Question going along with that Big Picture is: “How fast are they doing that? And will it be soon enough to let the global economy recover in a reasonable period of time?”

Let’s glance at a couple of pictures.

Euro-Area Anguish

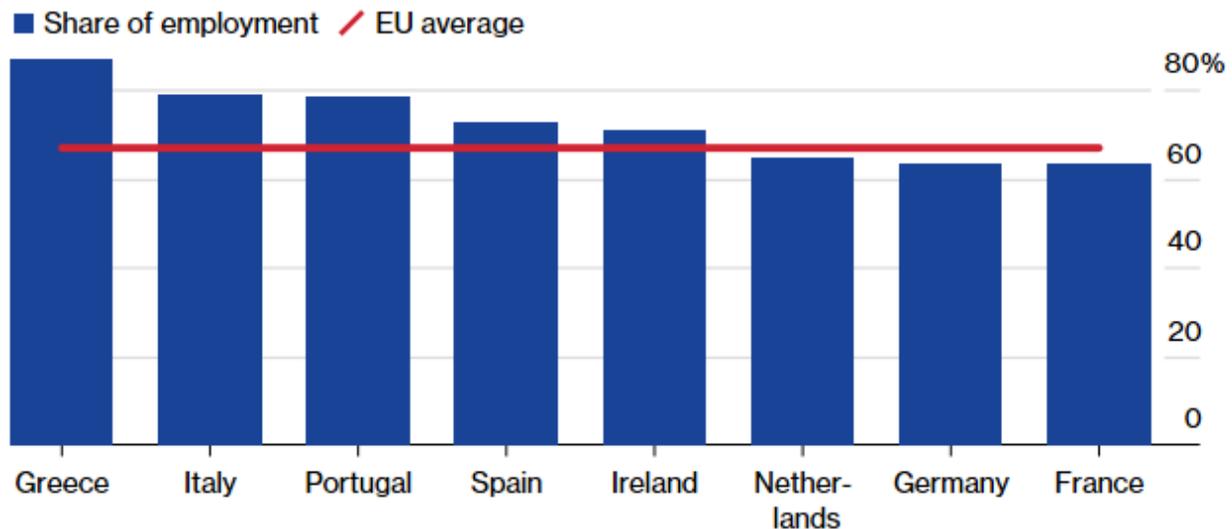
An estimate of private-sector activity plunged to just 13.5 in April



That's the European business sector, falling apart. Here's another picture, and a headline from this afternoon:

Hard Work

Small businesses account for a huge proportion of European jobs



Source: European Commission

Note: SMEs' percentage of employment in non-financial business sectors

“Europe Confronts Reality that Many Companies Won’t Survive Virus Shutdowns”

The chart is impressive. For Europe’s 8 major economies, it shows the percentage of Europe’s total jobs in small businesses. 65% is the minimum, with most of Europe’s big nations depending on small businesses for 70% to 80% of total jobs. If we can stand it, here are the last few ghastly facts and remarks from the story under that headline.

Often with low margins and few reserves, small businesses are more vulnerable than bigger groups. A European small-business association showed in a recent [survey](#) that about 90% report being hit by the pandemic, with an EU-wide average 50% loss in sales.

Country-level data is similarly grim: France’s small business federation CPME says 55% of small firms are concerned about bankruptcy, and a group representing Irish SMEs [says](#) close to 30% won’t survive if the situation doesn’t improve within the next two months.

Secretary General Veronique Willems is hopeful that many companies will show resilience, and is [calling on governments](#) to do their utmost to contain the pandemic. ***“We are now discussing recovery strategies already, but if the emergency strategies don’t work out, we won’t need recovery strategies for SMEs (small businesses) anymore because there won’t be any left,” she said. “It would be an economic massacre.”***

Early in our cliff plunge, a couple of months ago, Outlook made a wrong forecast. “The U.S. will probably lead in lifting the Shutdown,” we said, “and Europe and others will follow.” It’s looking like the other way ‘round, at the moment. We might think that’s bad news, but it’s not. When that “flow of grim facts” has been terrible enough to force even Europe’s political leaders to react, with their long histories of not-much-regard for the private sector, it is a signal that the U.S. will not be too far behind, even with the polar differences which exist between different governors’ statements and attitudes, so far. Those grim facts won’t go away . . . instead they’ll get worse and worse. That will have its effect on statements and attitudes. We’ve been seeing exactly that effect in Europe, with Austria, Switzerland and now Germany (and startling Sweden) moving faster than most anyone would have predicted, a few weeks ago, to let their business sectors get back to work. Of course, “faster” doesn’t actually mean “fast,” but it has been a clear shift in direction nevertheless.

We’ll see the same thawing of the ice dam, so to speak, in the U.S. economy. We’ve seen a few “green shoots” already, with Boeing’s re-open of its Seattle airplane plant (with 27,000 workers) being one of the earliest of them, and most unexpected, considering where it’s located. And as the dam thaws, we will see more and more signs of the “engine of all engines” for the economy: the sheer drive and inventiveness of American companies and leaders, large and small, to fix a big problem and gradually put it behind them. They have a truly giant wall to climb . . . but they will climb it.

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