The Outlook: September 13, 2022

Vivid impressions, seas of red . . . and facts, as always.

"Hot Inflation Data! Dow Plunges 1,000!" That's the mid-afternoon headline, which can certainly brag about creating today's Sea of Red:

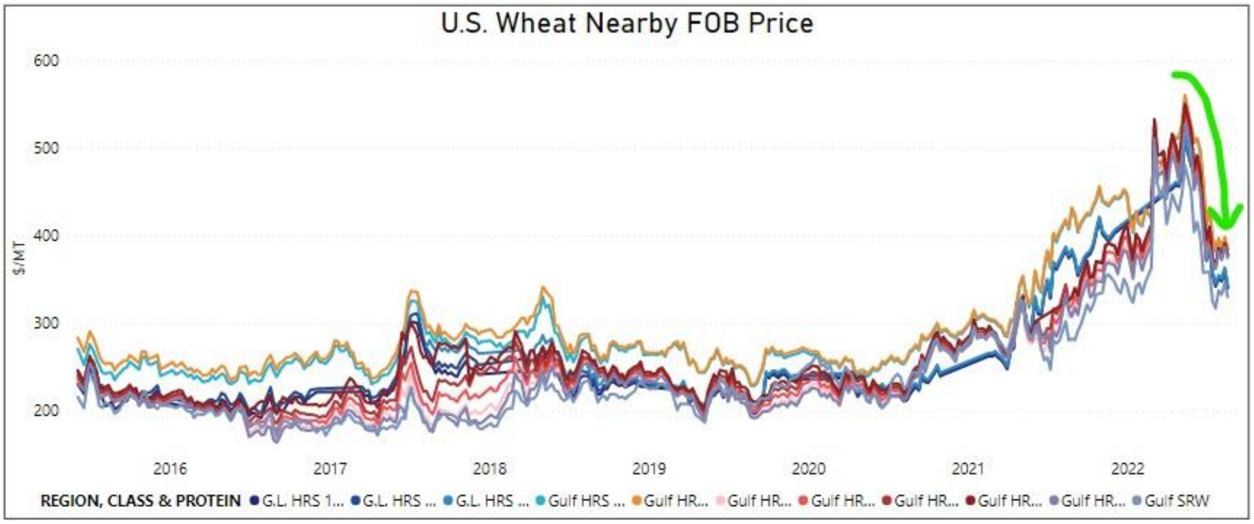
Symbol	Name	Price	Change	% Chg	As of (ET)
CAT	Caterpillar Inc	186.13	-6.27	-3.26%	09/13 14:48
CME	CME Group Inc	196.24	-3.97	-1.98%	09/13 14:48
CMI	Cummins Inc	213.51	-6.10	-2.78%	09/13 14:48
COP	ConocoPhillips	113.03	-1.36	-1.19%	09/13 14:48
FCX	Freeport-McMoRan Inc	31.29	-0.88	-2.74%	09/13 14:48
LMT	Lockheed Martin Corp	411.64	-7.00	-1.67%	09/13 14:48
MSFT	Microsoft Corp	254.77	-11.88	-4.46%	09/13 14:48
MU	Micron Technology Inc	53.99	-3.95	-6.82%	09/13 14:48
TXN	Texas Instruments Inc	163.83	-6.75	-3.96%	09/13 14:48
XOM	Exxon Mobil Corp	95.90	-1.71	-1.75%	09/13 14:48

That tidal wave of blood in the street, up there, is the market acting upon an especially vivid impression: that "Inflation!" is red-hot and getting white-hot; and that the only way for the Federal Reserve to wrestle it back into its cage will be with interest-rate hikes so steep and long-lasting that Main Street USA and Main Street World are doomed to collapse into a fearful recession—and who knows how long it will last?

Hmm. As always, the thing to do with nightmarish impressions is just to snap out of the nightmare long enough to gather a fact or two. Here are a couple of random ones . . . which have a little deeper meaning than "random," of course.

Used Car Prices

Wheat Prices



So, there are two prices which don't quite fit the "white hot inflation" impression, do they? Wheat peaked 4 months ago, and has fallen 33%. Used-car prices peaked 9 months ago, and have fallen 11%. These 2 items are symbols for a startling list of things, such as the items below (thanks again to the Debunking Squad at Fisher Investments):

Oil	Down 34% since March
Gasoline	Down 46% since June
Corn	Down 14% since May
Hogs	Down 16% since May
Eggs	Down 36% since April
Milk	Down 20% since April

And the "ISM" surveys, which among other things ask manufacturing companies if they're seeing rising prices, now get 53% at "Yes." It was almost 90% at "Yes" a few months ago. Finally, home prices began cooling off a few months ago, but haven't actually fallen yet. But when builders are asked whether they're thinking about cutting prices in the future, they answer "Yup." Too much unsold inventory will do that.

What's the deep meaning of all this?

- Every free market, from eggs to common stocks, is driven in the short term by the betting crowd. When any "vivid impression" comes along, that crowd sees its chance and makes one-way bets . . . until enough contrary facts show up to water down (and eventually blow away) the "vivid impression." Then the crowd piles into the opposite one-way bet. So we endure a roller coaster, as investors; and as producers and consumers of all kinds of commodities and goods.

- The only sure thing about this is that the roller coaster <u>will be overdone, every single time, in both directions</u>. It was overdone on the upside—earlier this year—for a tremendous list of items, including those above. That added to the CPI's frightening headline numbers. The downside reactions listed above—since April, May and June—have hardly made themselves felt in the CPI (and other) price indexes yet . . . but they will.

- Enduring inflation is always a matter of "too much money chasing too few goods." No doubt about it: too much money was printed in 2020 and 2021 (way too much), and Supply Chain Chaos made sure that "too few goods" were made in 2021 and 2022. But the money-printing has been like a mouse eaten by a snake, sort of: a giant lump, followed by nothing. The money supply exploded, and then settled down like a dust cloud falling to earth. In the Johnson Administration's spending-and-money-printing splurge of the 1960's, by comparison, the "way too much" money-printing went on year after year . . . and inflation trended up and up, year after year until 1981 or so. It's been obvious that a good chunk of Washington DC would like to copy the Johnson Administration's example . . . but by and large, the rest of Washington DC hasn't let that happen. Not yet, anyway.

It means this: today's "vivid nightmare" inflation numbers won't have legs. They will falter and die, or at least calm down a good deal. The betting crowd may or may not understand that at this moment (thoughtful analysis being out of its character), but it will see more facts like those in the list and charts above—and it will bet the other way. Then we'll see Seas of Green instead of Red . . . because Main Street is not about to roll over and give up, no matter how vivid the headlines and impressions are today. It never does.

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