The Outlook: May 25, 2022

The Year of Big Worries.

"The Year of Big Worries" is the essence of the Year 2022, so far. When we finally arrive at New Year's Eve, in only seven more torturous months, we're pretty sure "The Year of Big Worries" will still fit the bill. If we're going to make it through those seven months with our minds and our sacred fortunes intact, we'll need to carry with us a clear idea, as simple as possible, of The Big Picture: of what is really going on under all our Big Worries. Here it is.

- **Hot Inflation**.

  U.S. and global inflation is kind of like one of those California wildfires, which can look contained and controllable in their early stages . . . until suddenly they don't look the slightest bit contained and controllable, and rural homeowners are jumping in their cars and gunning them down the mountain. The Hot Inflation Worry is not quite that bad, when we fly overhead and take a closer look at it; but it's creating one heck of a bad impression, right now—and impressions are always the market's bread and butter.

  Milton Friedman said, "Inflation is always and everywhere a monetary phenomenon," which is professor-speak for "Too much money's been printed. Not enough goods have been produced." The U.S. money supply exploded by 42% in 18 months or so. That's not an impression; it's a fact, and it's a shocking fact. That's "too much money" and the Virus and Lockdown Calamity produced "not enough goods." So we will have significantly more inflation than the near-zero of the last 15 years. That piper will be paid. American and European politicians didn't think it would have to be paid, because 15 years of near-zero inflation felt permanent. 15 years of anything always feels permanent, and discourages us from believing drastic change will happen. It always does, though.

  But there are also some gale-force winds blowing the inflation fire down the mountain, at the moment. They are temporary, mostly growing out of Supply Chain Chaos, caused by the lockdowns, which means we can't make enough goods to meet demand . . . so their prices are rising. Chairman Xi, over in China, is showing off an infinite capacity for national self-destruction with his "Zero Covid Lockdown" policy on top of his "Blame Business for Everything, and Make It Fear My Next Policy Whims, Whatever They Might Be." Uncertainty about the rules can stop Main Street cold, if a politician so chooses; and there isn't much to stop dictators like Mr. Xi from creating as much uncertainty as they please. The Supply Chain Chaos he has thus created is the strongest of the temporary winds fanning the Inflation flames.

  But Main Street USA—and even Main Street World, by and large—is very good at finding ways to make more goods when customers want them. That's going to block the Supply Chain Gale, eventually, and slow down the Hot Inflation fire to something less frightening than today's 8% - 10% headlines. It will slow it down to something Main Street can live and work with for a good while.

- **Recession Fear**.

"Recession Fear," not "Recession." This one is simple. The sand in Main Street's engine created by Hot Inflation and Supply Chain Chaos is slowing that engine down. But the only thing that could make the engine cough, sputter and stop is "Fear." Fear can trigger a recession, when some frightening and surprising event rounds the corner. The Virus and Lockdown Calamity was Exhibit One. But Fear needs to grab onto something deep and lasting, to make a recession "deep and lasting." In 2007 – 2008 it was too much debt, which is always a favorite, for Fear. But in 2020 there was nothing deep and lasting: certainly not debt. Household and business financial strength was off the charts, historically. It still is. It will be tough for Fear to grab hold of anything which will cancel out Main Street's awareness of its own strength.

So if we have a recession, it will have a hard time going deep and long. At Outlook we doubt it will even get out of the blocks, for another year or two, or more.

- **<u>Commodity Rocket Ride</u>**.

  Energy and metals are on a rocket ride toward the moon. They haven't even cleared Earth's atmosphere yet, so they have a long ride ahead. This is also a very simple story. Fossil fuels and industrial metals are tough businesses, with vicious price downcycles which kill off suppliers every time. That happened from 2014 to 2021 or so. But the cure for low prices is low prices. It takes staggering volumes of money and effort to produce more of those commodities; and there was no such money and effort for many years. Western governments helped out with a great many commodity-discouraging laws based on their impression that "We don't need those things—particularly fossil fuels—because we're going Green as fast as we can."

  That impression is now showing itself to be as wrong as can be. It's going to show itself wrong even more plainly, year by year ahead. The commodity rocket ride's flag, at this moment, is natural gas prices. They've risen from 100% to 1000%, in various Main Street locations around the world. Like all price cycles, the Commodity Rocket Ride won't be continuous, but sharply interrupted over the months and years ahead. But at Outlook we see no way the ride won't keep pointing up, on balance, for some years to come. We think we'll be holding companies like Conoco, Freeport and Exxon for a <u>long</u> time.

It is indeed "The Year of Big Worries." But it's also a year of big opportunities, if we investors insist on understanding the Big Picture, and not letting the market "frighten us out of good positions." At Outlook we won't let that happen.

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