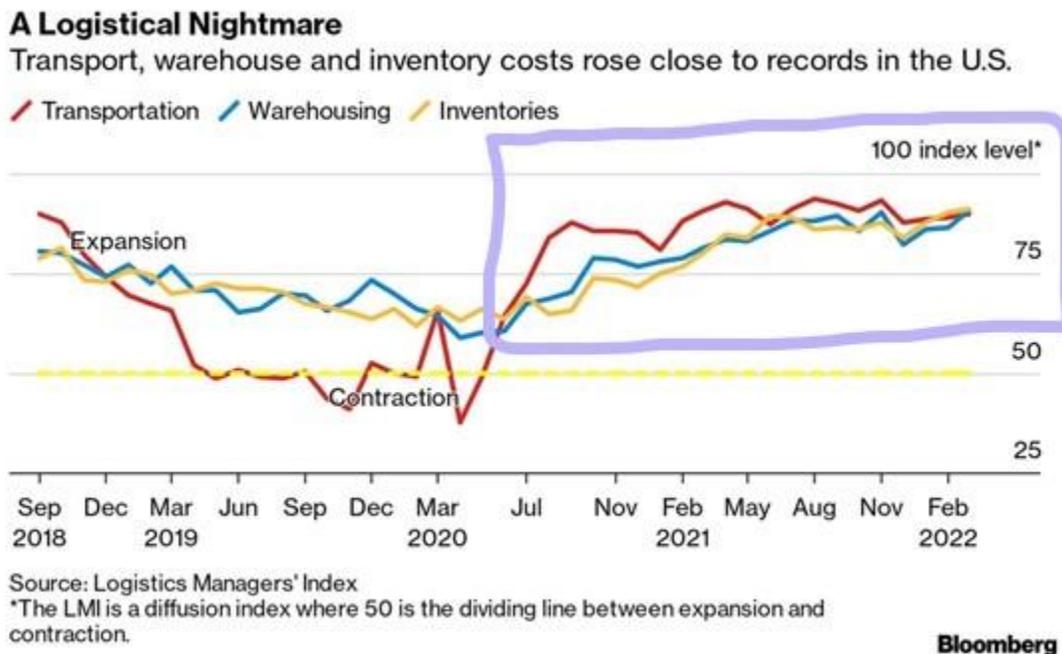


The Outlook: April 5, 2022

Nightmares: inflation and borscht.

The market is always haunted by nightmares. The vast majority of them are reflections of some real problem—but they're distorted and exaggerated reflections. That's why we call them "nightmares." And unlike actual nightmares, the market replays its nightmares day after day—sometimes month after month—until the terror has seeped out of them as their exaggerations get more obvious.

That's how it goes with most market nightmares. Sometimes, though, they reflect a real problem whose outcome just can't be known for a while. That's what is going on now with the two nightmares of the moment: War in Ukraine, and Inflation. Let's glance at the Inflation Nightmare . . . and we'll see something about the Ukraine Nightmare at the same time.



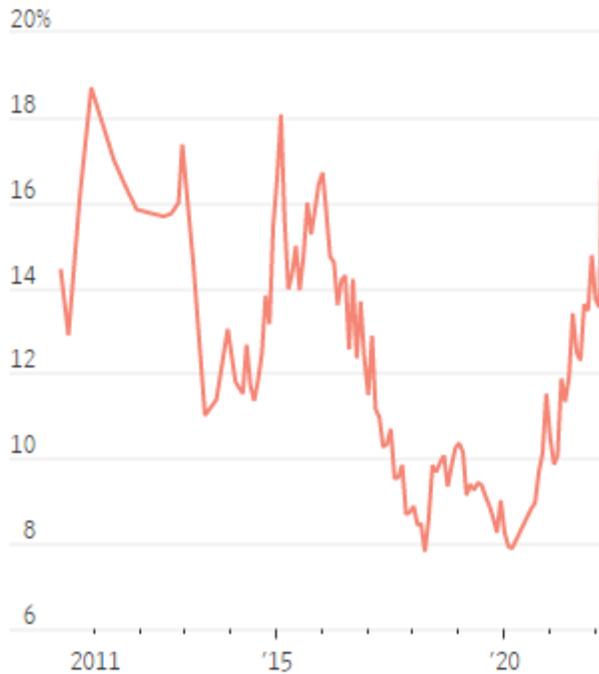
That purple square shows us how fast some key "supply chain costs" have been rising since the Virus and Lockdown Calamity plunge of early 2020. At first it looks as if such costs are merely back to where they were in 2018; but not so. These lines show how strongly each kind of cost has been rising, month after month. It's shocking. Since mid-2020, the lines have mostly lived between 75 and 100. That basically means that America's "logistics managers" have been seeing historically-startling rates of growth in prices for 21 straight months.

The Virus and Lockdown Calamity created "Supply Chain Chaos," and the U.S. Treasury and Federal Reserve created a 40% explosion in the money supply (also "historically startling" to say the least) because that is how U.S. political leaders chose to respond to the Calamity. Those two events, combined, were something like a "perfect storm" for inflation. We are seeing the hurricane winds of that inflation storm right now. Hurricane winds don't stay constant; they change. At Outlook we're pretty sure they will weaken over the next year or so . . . but will not return to "calm seas and clear sailing." They'll weaken

because “supply chain chaos” will slowly ease as business people do what they always do: fix problems. But the other trigger for the perfect storm was that 40% hike in newly printed money. That will be here for a good while, creating inflation problems.

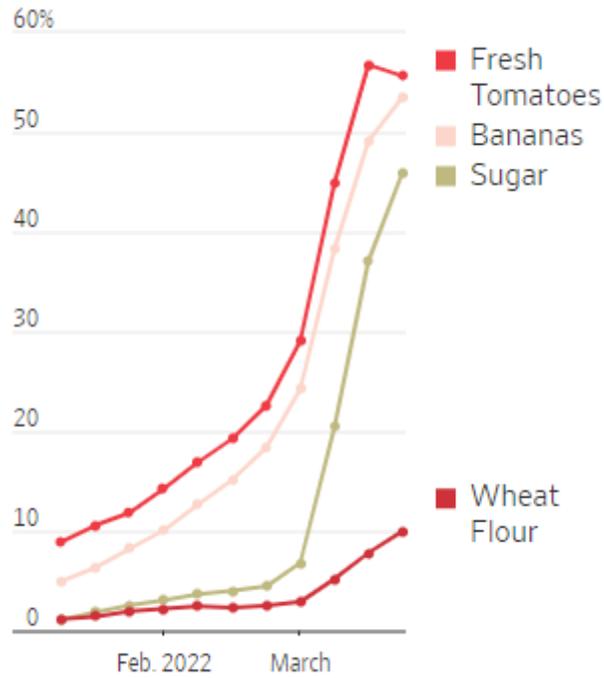
A couple of weeks ago we wrote “Strength on Main Street; Weakness in Moscow . . . Eventually.” The point was simple: Mr. Putin’s act of war and the surprising strength of the Western response would bring pain to Russia eventually; and put more pressure on Putin. The Wall Street Journal just turned out a nice piece of journalism, with some very interesting pictures:

Rate of inflation Russians expect in 12 months’ time



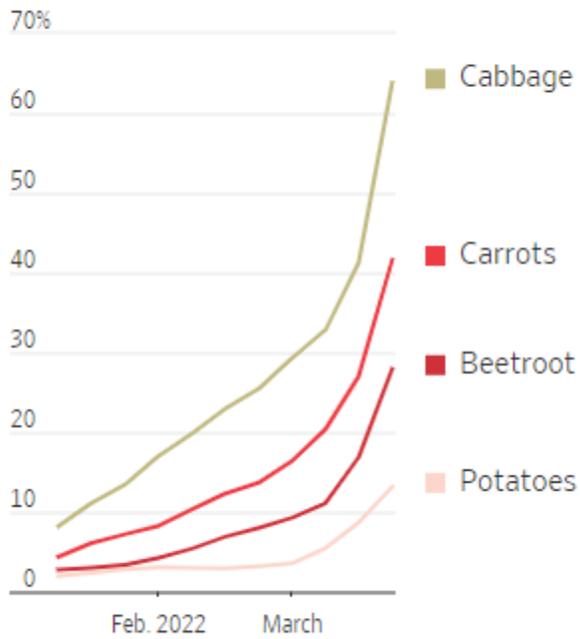
Source: Bank of Russia

Price increase of goods in Russia this year



Source: Russia's Federal State Statistics Service

Price increases for borscht ingredients since start of year



Source: Russia's Federal State Statistics Service

The bottom two charts—on grocery items and borscht ingredients—are colorful details; but the serious chart is at the top. Inflation in Russia stands at 9% today (by *government* report, which tells us to reach for the big-grain salt shaker), but Russians expect it to double within a year.

9% inflation is not good at all. 18% inflation is serious, period. Collapsed economies ruled by dictators, like Venezuela, can totter along with 20% to 100% inflation and allow their dictators to survive. Russia's dictator, using the same methods as Venezuela's, can hang on for a long time too . . . but at Outlook we suspect 20% inflation will cause a lot more pain and pressure in Russia—which was a long way from a collapsed economy—than it could in Venezuela. That second market nightmare—War in Ukraine—is as uncertain as ever when we ponder how it will end; but we suspect rocketing inflation will give Mr. Putin yet another headache; and *might* give the people around him yet another nudge toward action.

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