# The Outlook: Aug. 28, 2020

***The Fed's new inflation policy: "What, me worry?" doesn't seem quite right.***

"That doesn't seem quite right . . . but I don't know enough to argue the point." That particular thought goes through our minds pretty often, doesn't it? Our auto mechanic might be explaining why $1,000 of repairs is vital, right now; or a politician might be explaining why his opponent is a devious numbskull; or the Chairman of the Federal Reserve Bank might be explaining why he's not worried about inflation forever, pretty much. There are dozens of examples in everyday life, all triggering that "Hmm, doesn't sound right to me" feeling, along with "But I can't quote facts and figures, so never mind."

At Outlook we talk about "Golden Rules" of investing pretty often. They're all lessons we've learned the hard way (which is also the only way, usually), being personally burned by ignoring them. Here's a Golden Rule for those "Doesn't seem quite right" moments: When something doesn't feel right, it probably isn't. We'd best *act* on how we feel, regardless of whether we can debate the point or not.

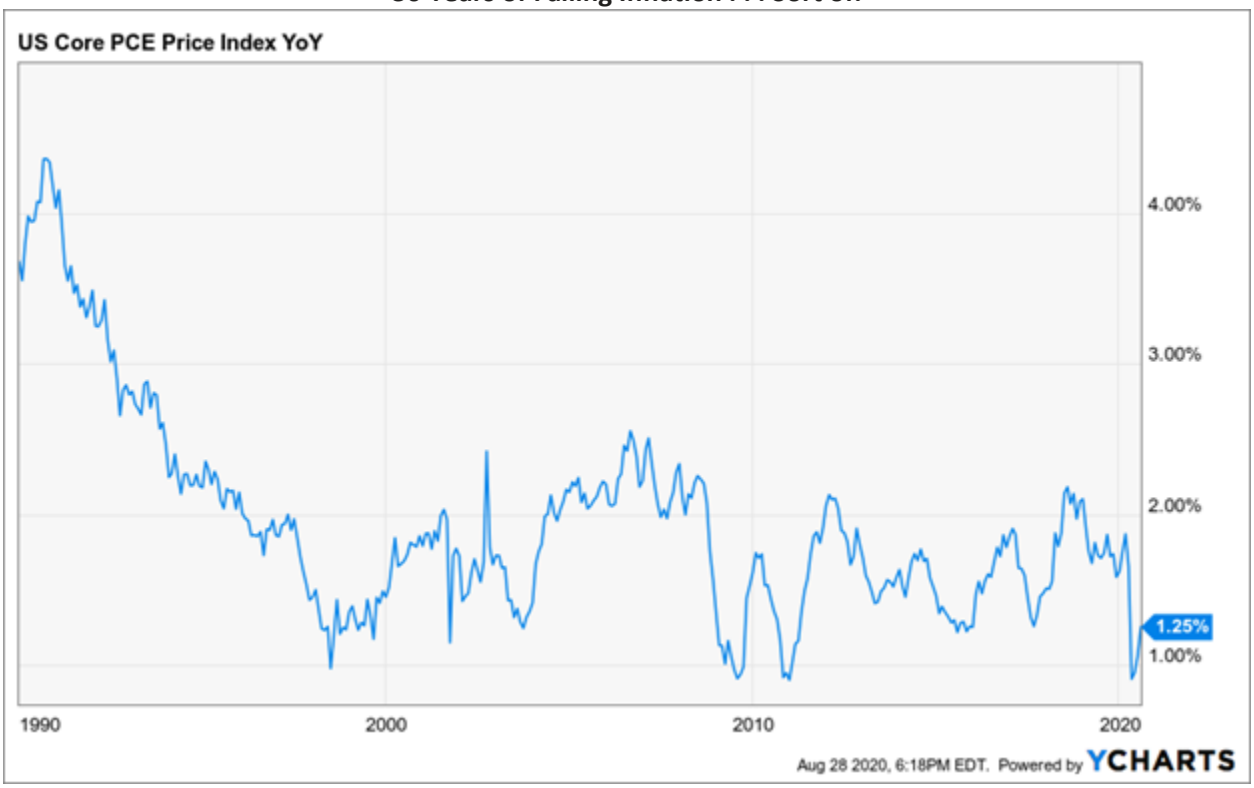
"Fed Eases Inflation Target in Landmark Decision" was the headline this morning, and if our eyeballs began glazing even before reaching the end of it, we're normal. The subject was central banking, which has a monopoly on the dullest, most incomprehensible news stories in the English language. (German, Chinese and Swahili too, probably.) The essence of the news, though, was the Fed's announcement of a "major change" in how it'll handle interest rates and inflation in the future. Instead of hiking interest rates when it begins to sniff inflation in the air, to prevent it from bursting into flame, it will wait a while, possibly for years, to avoid any chance of damaging the economy's growth and job-creating prospects.

The Fed's staff economists—and it has a lot of them—having worked for a couple of years on this project, backed up the "major change" with a blizzard of white papers, showing that the new "What, me worry?" inflation attitude is fully supported by sophisticated econometric models based upon decades of statistics. But "Hmm, doesn't sound right to me" was still the thought flashing through our minds at Outlook. Why? Let's glance at a picture or two.

**30 Years of Falling Interest Rates**

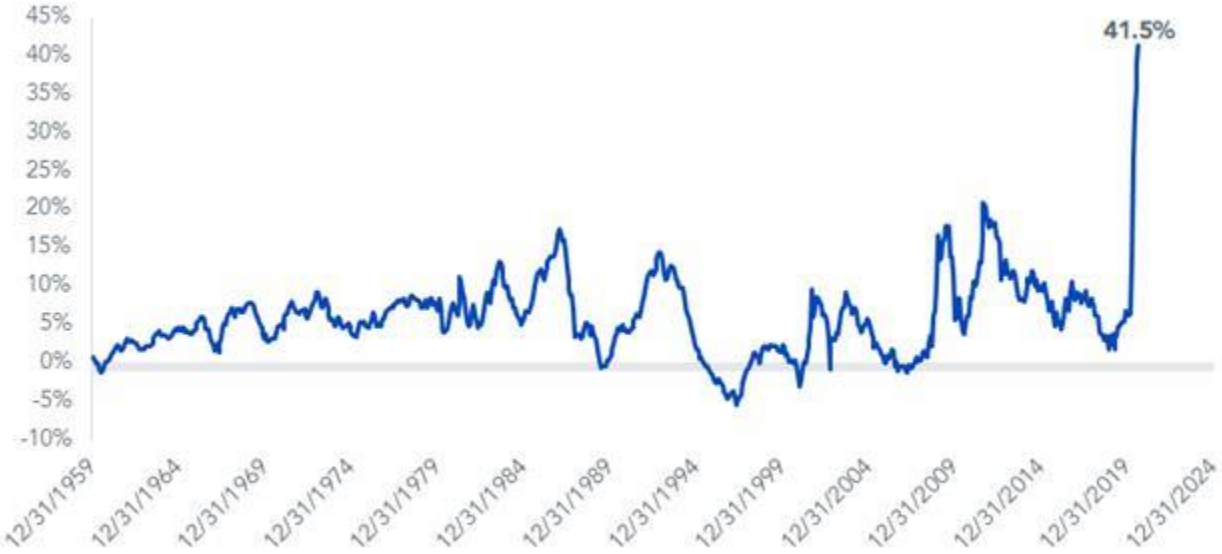

That's quite a story, up there. In 1990 the 10-year Treasury rate was around 9.0%. Today it's 0.74% . . . an all-time low. How about inflation?

**30 Years of Falling Inflation . . . Sort of.**



In 1990 inflation hung around 4%. Today it's around 1% . . . but really it's been bouncing between 1% and 2.5% for more than 20 years. Those are low numbers . . . but they're not "zombie" numbers, are they? It's not so very easy to look at that chart and think, "Inflation is dead as a doornail. It's going nowhere in a hurry." One more picture.

**U.S. Money Supply: Annual Growth Since 1959**




Sources: Federal Reserve, through 8/3/20. Past performance is not indicative of future results.

That 41.5% rocket in the money supply, this year, hasn't fazed Fed Chairman Powell or his regiment of staff economists, but in Outlook's opinion it's enough to wake up the living dead. It makes the 15% to 20% rocket of 2009 – 2012 look like small change (when the Fed printed a trillion dollars or so for the first time, after the Financial Panic of 2008—2009.) If we wonder why "Hmm, that doesn't sound quite right" flashed through our minds in response the Fed's new "What, us worry?" stance toward inflation . . . there's the answer. 2020's explosion in money-printing is completely off the historical charts. Inflation is "too much money chasing too few goods." That's too much money. Production of goods fell at a 32% annual rate last quarter, thanks to Lockdown Mania. It's growing again . . . but it will take a good while to get back to normal, and it won't match that 41% money growth before the year 2525, if man is still alive. The only thing standing in the way of an inflation rocket to match the money-printing rocket is the "chasing" part. From 2009 to 2019, caution ruled business, banking and consumer behavior—so all that money didn't chase anything with any speed. We're all cautious again . . . but are we 41% more cautious than our frightened 2009 selves, and will we stay that way?

No . . . doesn't sound quite right to us. Here's the last picture of the week: one of those happy "seas of green" which we investment managers dream about, but seldom get, heading into a weekend.

**Outlook Core Stocks: Inflation Tailwind Companies Circled in Green.**

**OCM Core Stock List** EQUITY — Updated 16:01 EDT — Options

Overview | Data | Events | Alerts | News

| Symbol | Name | Price | Change | % Chg | Y-Rating |
|---|---|---|---|---|---|
| CAT | Caterpillar Inc | 143.69 | +0.32 | +0.22% | Neutral |
| CME | CME Group Inc | 177.07 | +0.62 | +0.35% | Neutral |
| CMI | Cummins Inc | 208.86 | +1.19 | +0.57% | Neutral |
| COP | ConocoPhillips | 38.39 | +0.24 | +0.63% | Neutral |
| FCX | Freeport-McMoRan Inc | 15.65 | +0.75 | +5.03% | Avoid |
| LMT | Lockheed Martin Corp | 395.59 | +0.57 | +0.14% | Neutral |
| MSFT | Microsoft Corp | 228.93 | +2.35 | +1.04% | Neutral |
| MU | Micron Technology Inc | 45.68 | +1.06 | +2.38% | Neutral |
| TXN | Texas Instruments Inc | 143.47 | +1.98 | +1.40% | Neutral |
| XOM | Exxon Mobil Corp | 40.69 | +0.95 | +2.39% | Attractive |

We don't need inflation to prosper with those 6 companies circled up there . . . but it will be another tailwind for them, whenever it chooses to show up. They all know how to make money throughout the commodity price cycles which heavily affect their businesses: up or down. Those cycles have been generally more "down" than "up" for a good while, which is why they've been nearly invisible to the market's speculating crowd, whose eyes are riveted to Celebrity Tech stocks at valuations which could buy the sun, moon and stars. "Buy high, and keep buying" seems to be that crowd's Golden Rule at the moment. It's not a good rule. "Buy low, sell high" works better. At Outlook we bought low, and we strongly suspect inflation will be another tailwind helping to guide our companies a great deal higher, over the next few years.


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

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