

The Outlook: Oct. 7, 2021

A Snarling Mob of Nightmares, as Usual. Not the Whole Picture, as Usual.

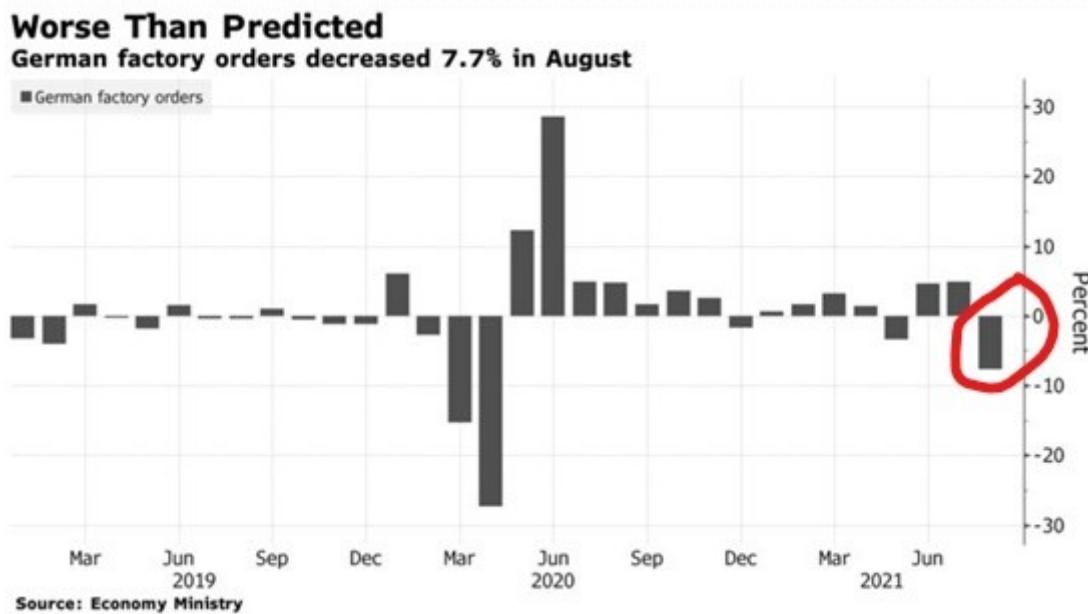
There is absolutely a snarling mob of Nightmares to worry about these days. Here's a sample:

- **U.S. Politics.** Unthinkable floods of government spending and money printing (plus some token tax hikes) are teetering on the brink between “yes” and “no” every day—and the “Government Defaults!” nightmare is popping up again, along with the debt-ceiling argument.
- **U.S. Inflation.** The “green shoots” of returning inflation we began spotting in January have become, here in October, an Amazon jungle of beanstalks heading toward the sky. Unlike January, nobody in America—from plumbers to economists to senators—is thinking “What, me worry?” about inflation . . . except Mr. Jerome Powell, Chairman of the Federal Reserve Bank. In fact, he’s also sharply worried; but he’s trying hard to reverse his many “What, me worry?” remarks gradually, without looking too foolish.
- **European Energy Prices, and Inflation.** In politics the word “Crisis!” is exactly like the word “Wolf!”, from the little boy in the story. When everything is a “Crisis！”, nothing is a crisis, as people tune out the shouting. The trouble is, of course, that there really are such things as wolves and crises. The real things are just pretty rare—but they do show up at our doorsteps, and we don’t like it a bit when they do. In Europe the cost of power has genuinely skyrocketed—in the 50% to 100% range, sometimes more like 400% to 500%—and nobody is calm about it over there, as winter approaches.

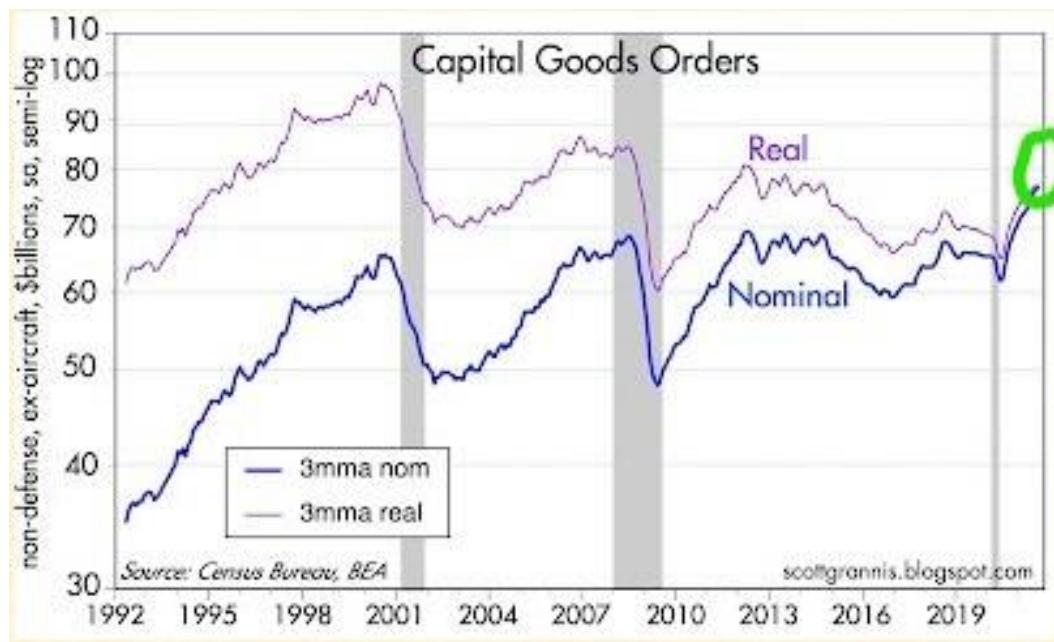
As always, a good chunk of the 50% to 500% price hikes have been driven by the markets—meaning speculators jumping on a bandwagon and overdoing it. That chunk will be reversed; but the real “crisis” is that Europe has tried much too hard to turn its back on “bad” energy for decades. It looks very much like the day of reckoning is here, for that kind of political policy. There is no more telling example of this problem than the currently in-process shutdown of Europe’s largest natural-gas producing field, operated by Shell, on the grounds that an earthquake could trigger a holocaust of fire and storm. That’s a pretty good Nightmare, and like all Nightmares it canceled out the kind of clear, calm thinking which was needed.

- **Economic Stagnation or Collapse in China.** Outlook’s readers have heard about this a lot, so we’ll summarize. China’s economy is riddled with bad debt; and China’s dictator seems to have chosen this moment to attack the private sector in a host of ways. That is not good for Chinese economic growth—nor world growth. But the “Stagnation or Collapse” nightmare distorts and exaggerates the picture, as always. Just like Japan 35 years ago, China will keep telling its banks to basically forgive the bad debt, without saying so out loud; and China’s private sector economy is very broad and deep indeed, for all its weaknesses. That kind of thing does not “collapse” very easily.
- **Worldwide “Supply Chain Headaches.”** They’re more like migraine headaches, actually; not fixable with a Tylenol or two. They’re indeed slowing everything down, all over the world. But they are slowing growth down, not killing it. That kind of slowdown looks to Outlook as if its silver lining will be longer-lasting growth than might have happened otherwise, as people and companies are finding it very tough to go to “excesses” of spending.

And here are 2 pictures to sum things up:



There is the German factory sector, stubbing its toe sharply in August. Why? That “Supply Chain Headache,” mostly. That won’t be fixed for a while. German factories will bounce back long before it’s fixed . . . but they’ll be trudging along and stumbling sometimes, not running. That’s the dark corner of the big picture. Here’s a brighter corner.



The green circle shows spending on capital goods by U.S. companies, which has hit all-time records since the Virus and Lockdown Calamity. Capital spending creates future productivity and growth. When companies buy factories and equipment, they think the future will be worth it . . . and they have the

financial strength to get to that future and earn the payback from those investments, even if there are bumps along the way.

It's a mixed picture, isn't it? It usually is. The Nightmares of the Day are the darkest parts, but they're never the whole picture. The whole picture shows a U.S. and global economy which is trudging ahead, climbing over obstacles all the way. As usual we think it's going to keep that up, regardless of the Nightmares.

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