The Outlook: Oct. 14, 2022

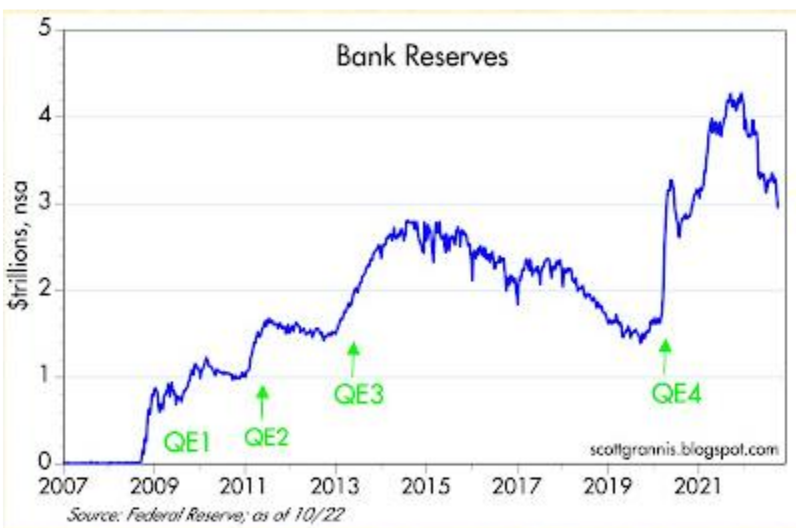
The same question as ever: "Is there strength, or is there weakness?"

It is very, very easy for us investors to *feel* like letting the market's behavior do our thinking for us . . . just as we feel like letting the headlines do our thinking for us on a great many non-investment issues. This week's market went all out in its endless game of "Don't think, we'll be your brain!" We had a Sea of Red on Wednesday, a Sea of Green Thursday, and a Sea of Red Friday. Today's Red Sea pretty much canceled out the flash of good feeling created by yesterday's Green Sea, leaving investors who respect the market too much feeling like throwing up their hands and quitting, on the grounds that the market's crazy behavior surely reflects the real world's craziness, which makes it no safe place to invest.

But letting the market or the headlines do our thinking for us is always a bad mistake; always something we look back on and ask, "Why didn't we stop and think for ourselves?" Here's how we'd do that, these days.

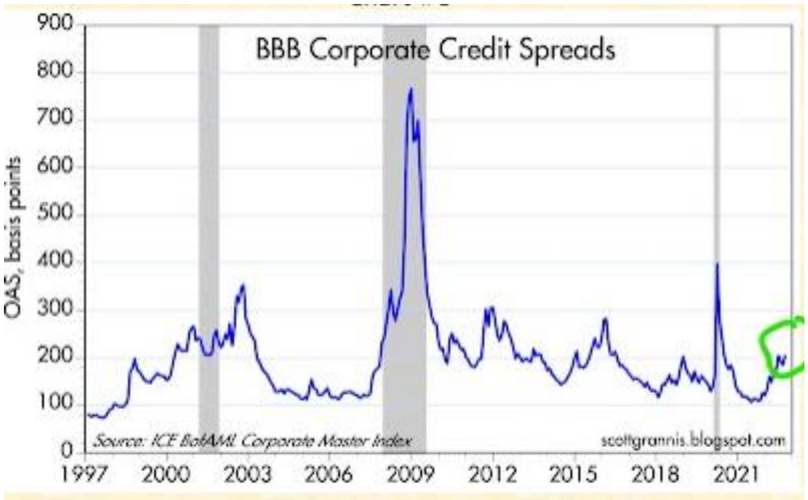
- When the market behaves as if the world's in Big Trouble, our first question is always the same: **"Is there strength, or is there weakness?"** It's a simple question. There is nothing more important. If there is strength on Main Street (in the real world of working companies and people, that is) the market's behavior will look silly eventually. If there is weakness on Main Street, the market will also look silly eventually because it'll act as if "weakness" means "death" . . . but it will take longer to admit it.

Economist Scott Grannis had that basic idea in mind this week, with these pictures:



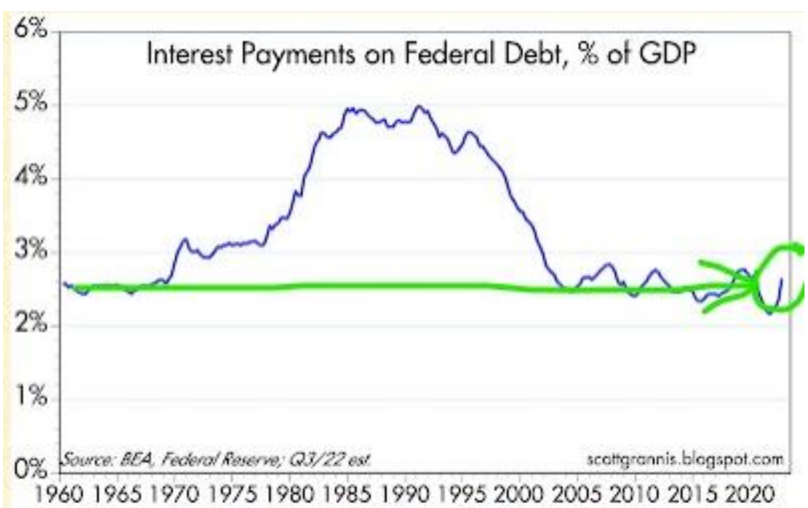
Liquidity in the U.S. banking system began rocketing to the moon after the Great Financial Crisis of 2008 – 2009 . . . and it's never come back to earth. When it comes to the "Strong or Weak?" question, that picture answers "Strong!" the way Michael Jordan dunked a basketball. The banking sector is at the Hercules end of the "Strong or Weak" spectrum compared to its entire history, especially including that 2008 – 2009 period. It is a galaxy away from its state of moderate weakness, back then.

It is hard for any Big Trouble to actually hurt Main Street much when Main Street's banking sector is so strong. Here's another picture, which touches on the rest of Main Street's strength.



Most big U.S. companies are rated "BBB." When Main Street is perceived as weak and Big Trouble seems to be staring it in the face, companies must pay a lot to borrow: 4 to 8 whole percentage points above government bond rates. When the market accepts that the Street is strong, borrowing costs are more like 1 or 2 percentage points above government rates. That's where that green circle stands today, despite the headline-grabbing list of Big Troubles we see so often.

Main Street is strong. Banks are strong. How about the U.S. Government?



This picture is surprising, isn't it? The federal government's debt burden is still near a 60-year low . . . despite some of the most reckless spending in history over the last few years. We got lucky: all that spending and borrowing exploded during the long years of "near-zero interest rates" after 2010. Just like homeowners' refinancing, the government got to issue new debt and replace old debt <u>very</u> cheaply.

These pictures tell an unmistakable story: Main Street is exceptionally strong, and so is the U.S. government. The market has been acting as if instead of strength, there is weakness. It's wrong, as it almost always is. That tells investors one major thing: hold on, and buy more if you can. This market's behavior will eventually look silly, as usual.

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

The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.