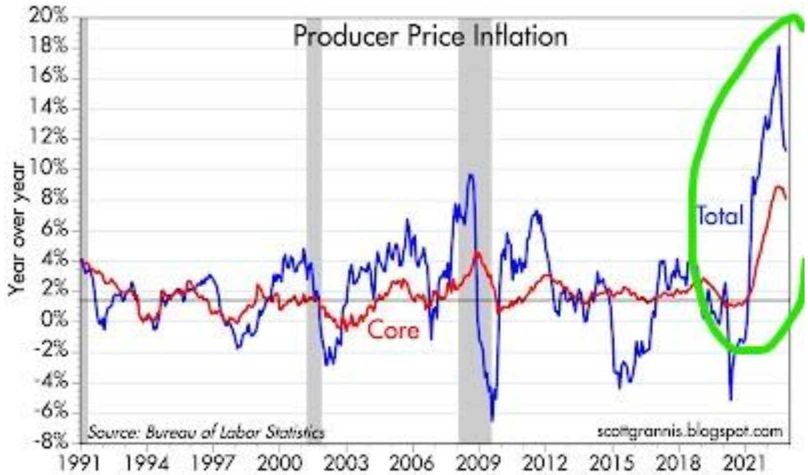
The Outlook: Nov. 16, 2022

Still the Big Question: "Inflation?"

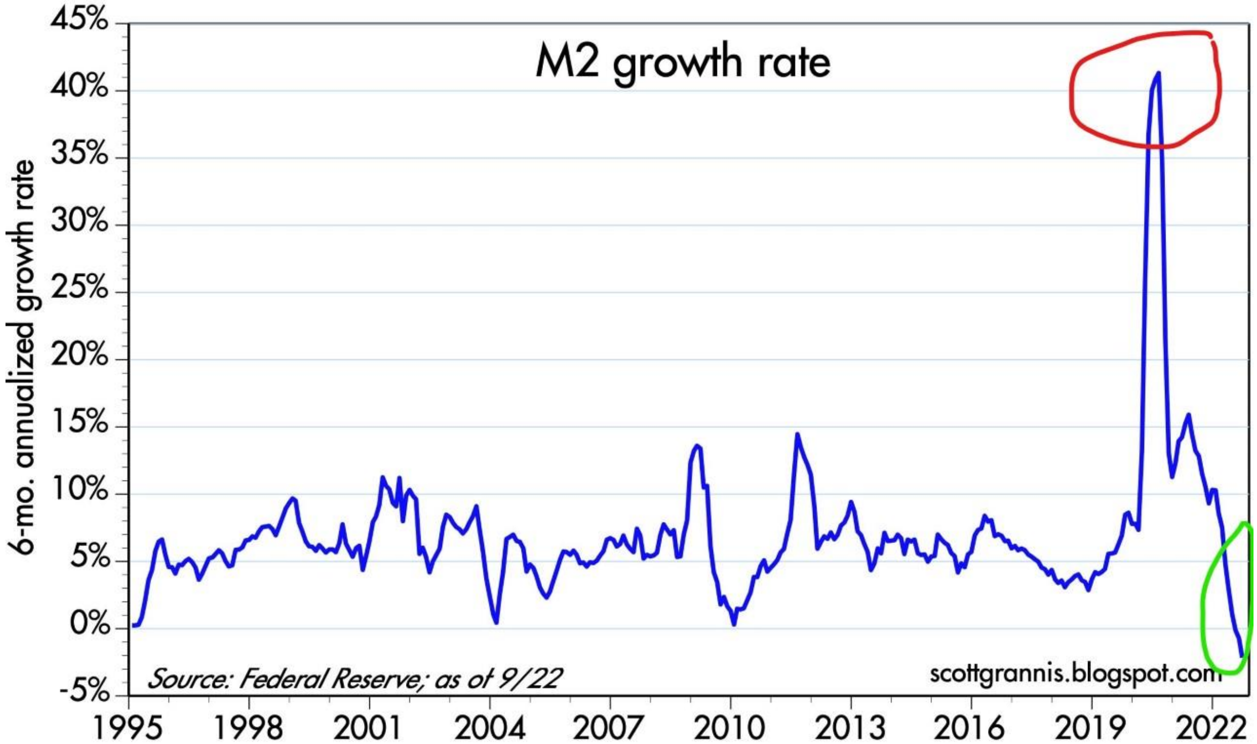
There are always "Big Questions" in the market: whose answers nobody knows, at the moment, but everybody would dearly like to know. The Biggest of today's Big Questions is "Inflation?" It's been getting the investment world's fixed stare all year long—and it's pretty sure to keep that stare well into 2023. This picture, courtesy of economist Scott Grannis, sums up the Big Question:

Inflation: Stuck at Economy-Killing Heights . . . or Falling?



Yesterday's inflation report (the producer price index) dipped down . . . a little. We can see that dip in the red line, which is "core" inflation (not counting energy and food, which rocket up and down all the time, more or less.) But at 8% it's still in "economy-killing" territory if it gets stuck there for the next 6 – 12 months (or at least "economy-sickening.") So the riveted stare of the market's betting crowd (like a mouse before a cobra, sort of) will be staying riveted for a good while.

The answer to the "Inflation: Stuck or Falling?" question will come out of this picture (which we've noted before.) It shows the jaw-dropping explosion in the money supply as the government printed $4 trillion dollars or so during the Lockdown Calamity. That's the red circle. But then came something almost as startling: a cliff dive down to negative growth in the same money supply. This is a 27-year picture. We can see how amazing both events were, compared to history. The simplest way to explain it is: "the government printed and spent a ridiculous volume of money over 18 months or so . . . but then stopped."



What does that pair of actions (jam on the gas pedal, jam on the brakes) mean for the future of inflation? Nobody knows. Nobody knows, from the Federal Reserve Chairman to the humblest investor. At the first end of that spectrum, Mr. Powell at the Fed is guessing and hoping: hoping that inflation will slow down fairly soon before Main Street sickens from his interest-rate hikes, and guessing how much to hike interest rates with each passing month. At the other end, we can dispense with Mr. Powell's army of expert advisors and use common sense. That spike in printed money was certain to produce a spike in inflation, and it did. That plunge to nothing in printed money is certain to tamp down inflation, eventually. We can't know exactly when . . . but we can be pretty sure that "no money growth" <u>will</u> mean "falling inflation." After that we're guessing just like Mr. Powell. At Outlook our guess is: "inflation down to 4% or so, in 6 to 9 months."

It'd be nice to be more sure about that, but it's not the important thing. The important thing is that Main Street can handle 4% inflation quite well (as it's already handling 8% inflation.) Our Street won't get very sick, and its strong companies will keep producing cash flow and steady growth. We're holding and buying, as usual.

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