

## The Outlook: July 12, 2024

### *Confusing us with the facts.*

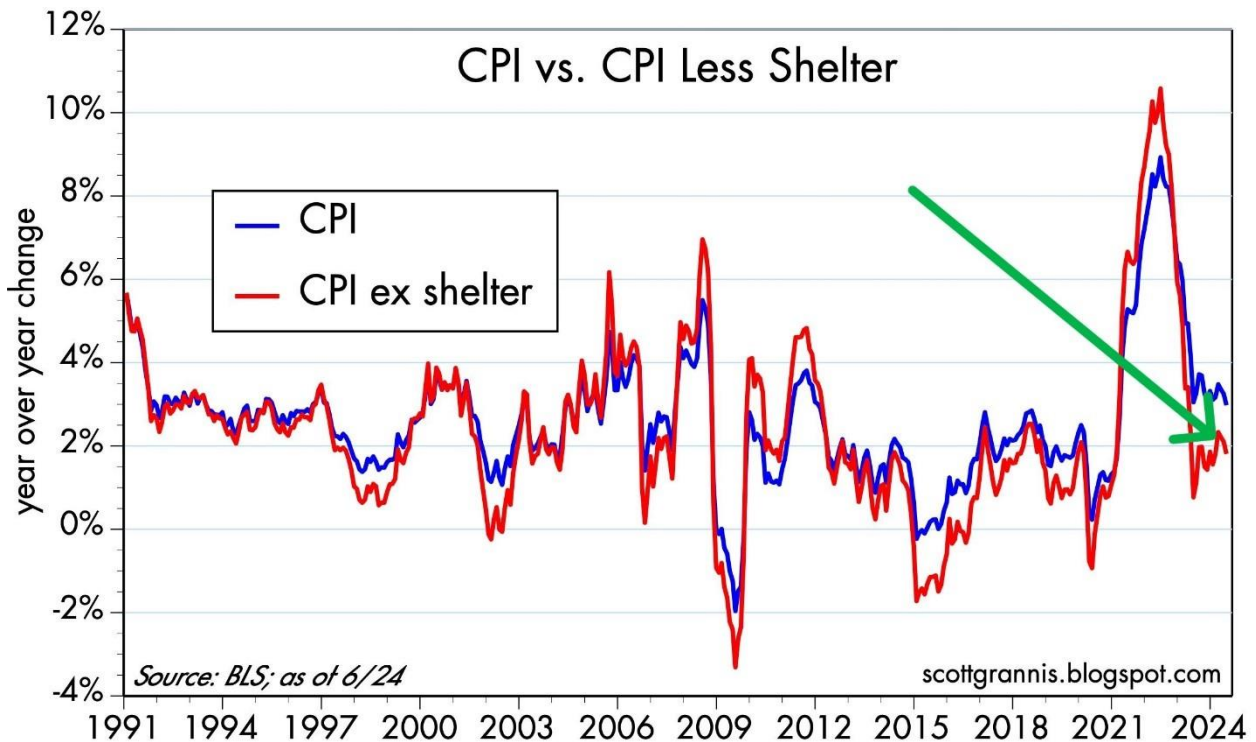
For the market's betting crowd, the "Big Story" by far, this week, was the Inflation Report: down one-tenth of a percent for the CPI. That was yesterday, and today the betting crowd is trying to give us a 400-point jump in the Dow . . . so far. Like all true-blue gamblers, the betting crowd is glad to bet on anything and everything. Among those "everything's" was the futures market's odds on a September rate cut by the Federal Reserve, which rocketed up to 60% or so from . . . something a lot lower.

Yes . . . "The Fed knows all, sees all, tells all . . . and decides when the market will be allowed to go up or down by jiggering interest rates down or up. All hail the Fed!"

A very long time ago the president of a small bank grinned at a young analyst making some kind of report, and said, "You're not going to start confusing us with the facts, are you? I'd hate to have to change my mind!" Decades later, that analyst knows exactly what his boss meant; but back then, being young, he was confused. "Doesn't everyone want to consider all the facts before making up their minds?" he wondered to himself. Now he knows the answer perfectly well: "Nah! Most of the time, we'd rather not." That's the market betting crowd for you (and a great part of the whole investment world) on the idea of the all-powerful Federal Reserve. So we had a cheerful end to the week.

At Outlook we kind of doubt the market crowd will have to change its mind this year, or even next year, because what Main Street USA is actually doing is supporting the market's good cheer far more than anything the Federal Reserve has done, or might do. Main Street, as usual, is building its road to future growth in sales, profits and cash flow; while strengthening itself almost constantly. Rising interest rates haven't made the slightest dent in those Main Street actions; and falling rates aren't needed to keep them going. But the vast betting crowd will be more generally inclined to bet on "up" than "down", come September and those Fed rate cuts, because "All hail the Fed!" is in its mind, and it has no intention of changing it.

Here's a picture from economist Scott Grannis, who has been showing us facts about Inflation for a solid year now, at least. That green arrow points to the overwhelming fact: that inflation has been greatly overstated by a made-up number called "Owners' Equivalent Rent" (OER) which sort of means how much money we could get if we all rented out our private homes. Yes . . . not just made up, but kind of strange. OER is one-third of the CPI, which is silly, but which will never change—like some other silly things.



That red line is the CPI with OER tossed out. As Mr. Grannis has been trying to tell us for a year or two, tossing out OER give us an inflation report which is a lot closer to Main Street reality. For almost a year now, “CPI minus OER” has been at or under 2% . . . which of course is the bulls-eye the Federal Reserve has been aiming at all this time. This week’s CPI-minus-OER report was 1.8%.

Hence the market’s “Party!” mood as the week ended. With the usual rollercoaster thrill ride every day, at Outlook we think the “party” is pretty likely to keep going for a good while.

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