

The Outlook: May 17, 2022

Sand in the gears . . . and Main Street.

OCM Core Stock List SECURITY		Updated 13:25 I			
Overview	Data	Events	Alerts	News	
Symbol	Name	Price	Change	% Chg	
CAT	Caterpillar Inc	212.39	+5.20	+2.51%	0
CME	CME Group Inc	196.08	-0.09	-0.05%	0
CMI	Cummins Inc	207.38	+4.69	+2.31%	0
COP	ConocoPhillips	107.52	+2.02	+1.91%	0
FCX	Freeport-McMoRan Inc	37.30	+2.15	+6.10%	0
LMT	Lockheed Martin Corp	441.54	+3.99	+0.91%	0
MSFT	Microsoft Corp	264.90	+3.40	+1.30%	0
MU	Micron Technology Inc	73.78	+3.31	+4.69%	0
TXN	Texas Instruments Inc	174.02	+5.52	+3.28%	0
XOM	Exxon Mobil Corp	91.81	+0.86	+0.95%	0

This mid-afternoon Sea of Green means no more than any daily Sea of Green or Red; but we can use it to focus on the Big Question for the market at the moment: “Recession, or Not?” The market’s Seas of Red—and there’ve been plenty of them—have all grown out of moments when the betting mob swings toward “Yup, recession!” And the Seas of Green have come from the other side: “Hmm. Maybe not,” . . . always combined with one cold fact which stands out clearly amidst either Red or Green: “Main Street is solid, and most stocks are cautiously valued.”

The “Recession!” feeling has gotten its power from 2 factors:

- Rising interest rates.
- Sand dumped into the economic gears by “Supply Line Chaos.”

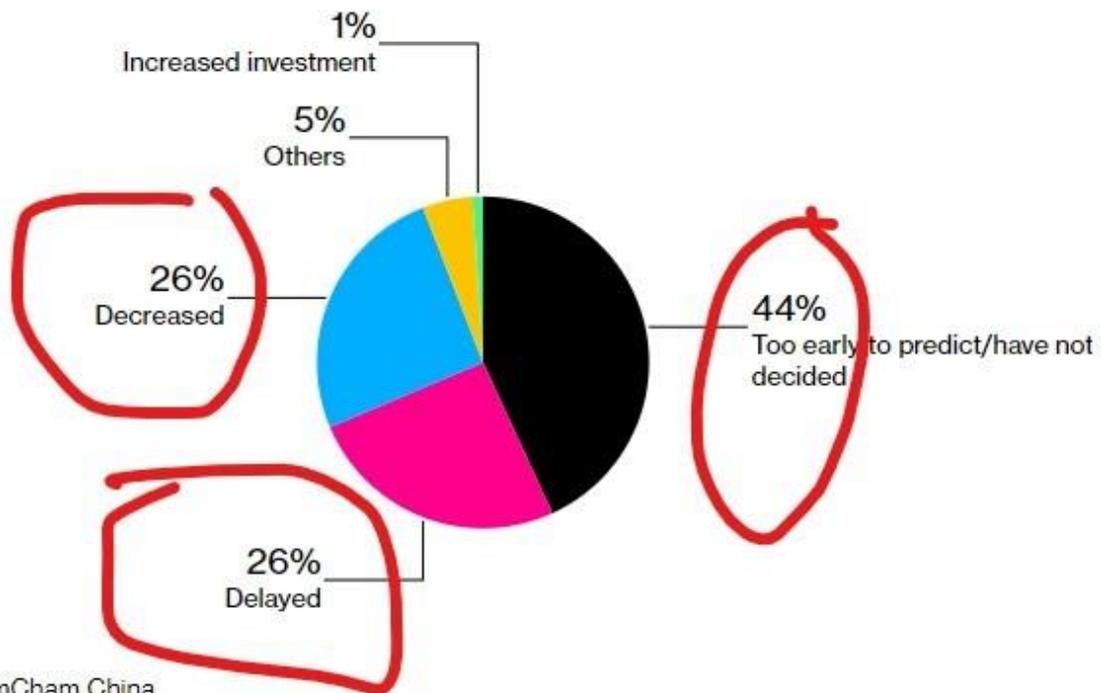
On the first item, the Street’s betting crowd has always loved a certain story line: “Easy money makes all bull markets, and tight money kills them.” It’s a view of the world in which government (via the Federal Reserve) essentially runs the whole economic machine, with Main Street dancing to its tune. Low interest rates and galactic-scale money-printing create “bubbles” just waiting to be pricked; and higher rates prick the bubbles and lay waste to Main Street until the Fed decides we’ve had enough punishment and lets up on its chokehold.

At Outlook we’ve seen the everlasting persistence of this story line for the past 45 years. Like other deeply-entrenched beliefs about “how the world works”, people who like this story almost never change their minds about it. At Outlook we think the whole idea is, politely, “disconnected from reality” but we stopped trying to persuade the believers a long time ago.

The way the world really works is by the everlasting power of human determination, ingenuity and responsibility—usually despite plenty of “sand in the gears” courtesy of government mistakes. That is exactly how it’s working right now. Let’s glance at a few pictures.

Pessimism Dominates

U.S. firms in China on their investment plans after recent Covid outbreaks



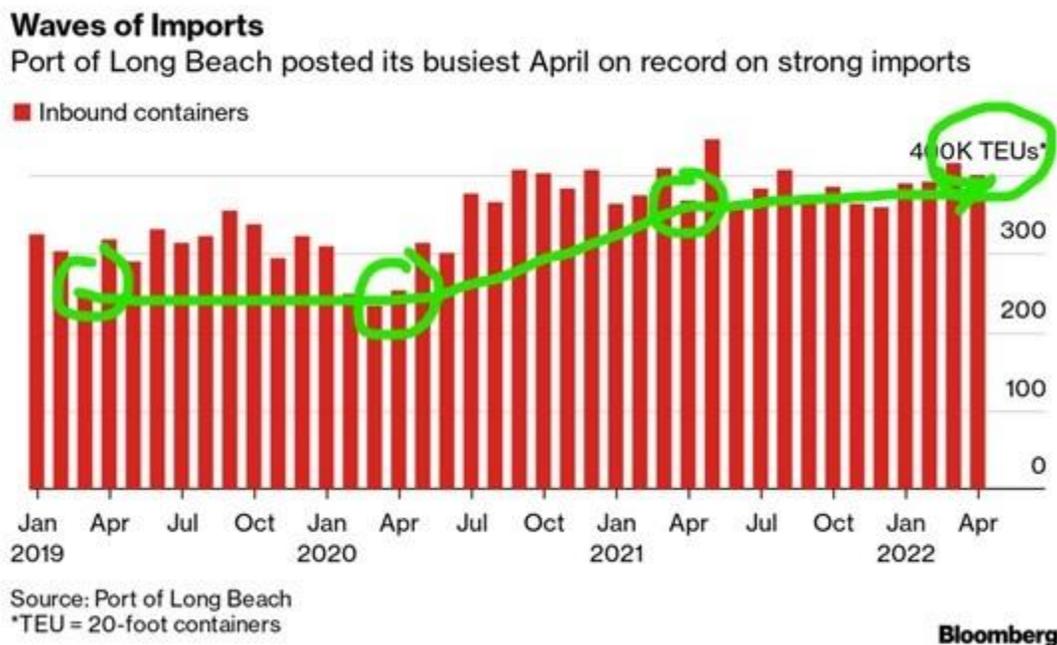
Source: AmCham China

Note: survey conducted on 121 companies between April 29 and May 5

If the world were awarding medals for “Sand in the Gears” these days, China would be sweeping gold, silver and bronze. China’s dictator, Mr. Xi, has spent the past few years sending signals to the world that his personal power stands first, second and third on his list of priorities; and the economic welfare of China stands somewhere far below. That describes most dictators. It also explains why such men make so many shocking mistakes. Fear of losing power—like fear of anything—clouds clear thinking. Mr. Xi’s “China Lockdown, Version 4 (or so)” is the kind of shocking blunder only a dictator could get away with. The picture above is one of a hundred with the same message: the rest of the world has permanently changed its impressions about China. From “We’ve got to be there!” it has become “Watch out! How do we cut back or get out?” It has taken about 4 years of Mr. Xi’s hostile actions to soak into most business leader’s minds. The results are the picture above, showing the backing-away from China investment; and the effect which will follow: slower growth in China . . . or even decline.

The market’s betting crowd get this, all right—hence the many recent Seas of Red triggered by news from China: more Lockdown insanity, slowing trade and growth numbers, etc. It’s been as easy as usual to gain the impression that China’s massive “Sand in the Gears” efforts must surely be causing Main Street USA and Main Street World to grind to a halt somewhere out in the Sahara, with nothing to do but abandon the vehicle and hike for safety through the sandstorm. That impression has been helped along every day by countless media stories about Supply Chain Chaos: from baby food to tractors to computer chips. The

stories are true, colorful and grim . . . but they're not the Whole Story. They never are, are they? Here's just one corner of the Whole Story.



For a good two years we've seen those stunning pictures of tankers and freighters anchored offshore California, by the dozens and dozens. Supply Chain Chaos meant bottlenecks at the busiest ports in the U.S. The bottlenecks and parked ships were real; but Main Street USA's reaction was not to wring its hands, saying "Woe is us." This picture shows that: an inbound shipping traffic record through the Port of Long Beach, for the month of April—far surpassing the "normal" year of April 2019.

Sand in the gears is absolutely real . . . but it has not meant "Abandon ship, the engine's dead!" Main Street learned a very long time ago to run its engines with sand in the gears. As always, the more months pass after a bucket of sand is dumped, the faster and cleaner Main Street gets the engine to run again. That fact has been made even more cold and clear, this week, by the monthly reports of industrial production and retail sales, which show Main Street marching ahead. Hence today's Sea of Green . . . and more to come, in Outlook's opinion.

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