The Outlook: Jan. 31, 2020

Gloom for the global economy, maybe; less than the market fears, certainly.

600 points was a cliff-diving end, today, to a gloomy week. A late-afternoon Bloomberg headline captured the general mood: "***U.S. Manufacturing Titans Portend Gloom for Global Economy!"*** Beneath came a story about US Steel, which "Reports Worst Quarterly Loss in Almost 3 Years!", and Caterpillar, which "Predicts 2020 Profit that Trails Analyst Estimates!"

Hmm. US Steel lost money last quarter, which it's done for a great many quarters scattered through the past several years, none of which "portended gloom" for the global economy until this one. Caterpillar predicted 2020 earnings around $9 per share, compared to $10+ in 2019 and 2018 . . . but which would still be the 3rd-highest profit figure in company history: 2, 3 or 4 times higher than most of its earnings numbers since the turn of the century, none of which "portended gloom" for the global economy, either. And at first glance we might also feel those are two entirely different shades of "Gloom!" at the very least, from US Steel and Caterpillar . . . but no matter. The media *must* print a headline explaining the market's behavior most days—and certainly on extreme days—and must fill the space underneath with a story which at least seems to support the headline, if we don't look too hard or think much.

But let's do a little looking and thinking before calling it quits for the week.

The most tempting feeling we have, on those days when the market screams toward a cloud of dust at the bottom of the cliff, is that "they" must know or understand something which we don't. There is no cure for this feeling except years of experience; years of watching the market's vast speculating crowd behave, in response to the prevailing headlines, as if the end of the world has been sighted around the corner . . . only to grudgingly reverse itself, eventually, when the sun keeps rising morning after morning. That's simply the nature of the market and its speculators, as Outlook has noted a few times. It's how that amazingly big speculating crowd tries to make a living, heaven help them—and no amount of experience with never-ending sunrises will change that behavior.

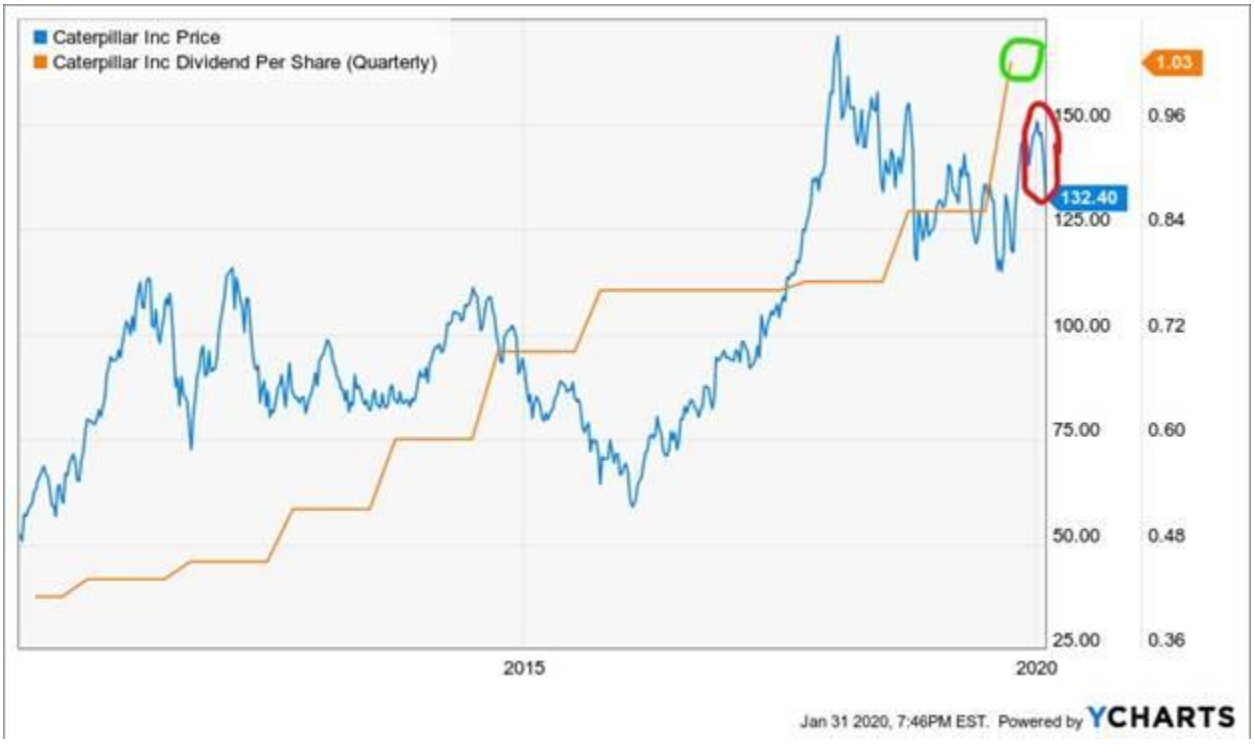
But we investors don't make our livings that way. Facts and experience matter a great deal more to us than feelings and impressions. Making the best judgments we can make, concerning those "prevailing headlines," matters most of all.

The market's 2020 Nightmare, as we remarked a few days ago, is "Wuhan Virus Sinks World Economy!" It's shoved aside 2019's Nightmare, "Trade War Sinks World Economy!" so hard and fast we've practically forgotten about it already . . . and the media certainly has. It is yesterday's news, in spades. What shall we make of this year's Nightmare?

Just like the Trade War, Wuhan Virus is a real problem for the global economy; but it's poor judgment on anybody's part to think it's an "end of the world" problem or even a "broken leg" problem for the economy. It will hurt China emphatically; but its ripple effects will weaken emphatically, as they spread to the rest of the global economy. And it will fade away in China and everywhere else. Since nobody can say whether the "fade away" will happen in 6 weeks or 6 months, it's a perfect Nightmare for the short-selling speculators who are driving prices down. It will gradually become less perfect, for them, as we march through those weeks and months. In that behavior it will be just like its predecessor, the "Trade War Nightmare."

Caterpillar gave Bloomberg half its headline-supporting story, today; so let's look just a little deeper.

Caterpillar Plunges 12% on Virus Nightmare. Caterpillar Trades at 13 Times Earnings, Pays 3% Dividend



Our caption captures it, pretty much. After CAT's latest 20% dividend hike, it's paying us 3% in annual cash yield to grit our teeth and wait for the "fading away" to happen, in 6 weeks or 6 months. It trades around 13 times earnings: a pretty solid bargain in most market environments in history, and certainly in today's market. "No matter," say the sellers, "there is a lot of unknown space between 6 weeks and 6 months, and we're not in the waiting business."

But of course, we are in that business. Here is one last picture, this Friday evening, to make it a little easier to wait:

S&P 500 Corrections of >5% since March 2009 Low				
Correction Period	S&P High	S&P Low	% Decline	"Stocks Fall On..."
2018: Sep 21 - Oct 24	2941	2652	-9.8%	Inflation Fears, Rising Rates, China Slowdown, Trade War/Tariffs, Housing
2018: Jan 26 - Feb 9	2873	2533	-11.8%	Inflation Fears, Rising Rates
2016: Aug 15 - Nov 4	2194	2084	-5.0%	Election Fears/Concerns/Jitters
2016: Jun 8 - Jun 27	2121	1992	-6.1%	Brexit Concerns, Pound Crashing, European Banks
2015/16: Nov 3 - Feb 11	2116	1810	-14.5%	China, EM Currencies, Falling Oil, Middle East, North Korea Nukes
2015: May 20 - Aug 24	2135	1867	-12.5%	Greece Default Concerns, China Stock Crash, EM Currency Turmoil
2014/15: Dec 29 - Feb 2	2094	1981	-5.4%	Falling Oil, Strong Dollar, Weak Earnings
2014: Dec 5 - Dec 16	2079	1973	-5.1%	Falling Oil, Strong Dollar
2014: Sep 19 - Oct 15	2019	1821	-9.8%	Ebola, Global Growth Fears, Falling Oil
2014: Jan 15 - Feb 5	1851	1738	-6.1%	Fed Taper, European Deflation Fears, EM Currency Turmoil
2013: May 22 - Jun 24	1687	1560	-7.5%	Fed Taper Fears
2012: Sep 14 - Nov 16	1475	1343	-8.9%	Fiscal Cliff Concerns, Obama's Re-Election
2012: Apr 2 - Jun 4	1422	1267	-10.9%	Europe's Debt Crisis
2011: Oct 27 - Nov 25	1293	1159	-10.4%	Europe's Debt Crisis
2011: May 2 - Oct 4	1371	1075	-21.6%	Europe's Debt Crisis, Double-Dip Recession Fears, US Debt Downgrade
2011: Feb 18 - Mar 16	1344	1249	-7.1%	Libyan Civil War, Japan Earthquake/Nuclear Disaster
2010: Aug 9 - 27	1129	1040	-7.9%	Global Growth Concerns
2010: Apr 26 - Jul 1	1220	1011	-17.1%	Europe's Debt Crisis, Flash Crash, Growth Concerns
2010: Jan 19 - Feb 5	1150	1045	-9.2%	China's Lending Curbs, Obama Bank Regulation Plan
2009: Oct 21 - Nov 2	1101	1029	-6.5%	Worries About The Recovery
2009: Sep 23 - Oct 2	1080	1020	-5.6%	Worries About The Recovery
2009: Jun 11 - Jul 7	956	869	-9.1%	World Bank Neg Growth Forecast; Fears Market Is Ahead Of Recovery
2009: May 8 - 15	930	879	-5.5%	Worries That Market Has Gotten Ahead Of Itself
Average			-9.3%	
Pension Partners				@CharlieBilello

This collection, courtesy of Mr. Charlie Billelo of Pension Partners, hasn't been updated since October, 2018—or it would have a good two or three more entries. But it has enough, doesn't it? Each of those dates and lines was a Nightmare at the time. Each was the "prevailing headlines" which gave the speculating crowd something to chew on . . . for a while. And, yes indeed, each "faded away," in the face of real facts from the global economy's Main Street. Main Street is always where real economic progress happens, of course—not Wall Street.

In each of those episodes, there were some people in the speculating crowd who made killings; and there were *more* people in that crowd who, well, were killed, to stick with the analogy. That's the speculating business. It's not our business, and the Nightmares on which the speculators act are so exaggerated, so often, that it is never good judgment to suppose that "they" know something we don't. Our business calls for really understanding exceptionally strong companies, and insisting upon owning them through the Nightmares, including today's "Wuhan Virus" episode.

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

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