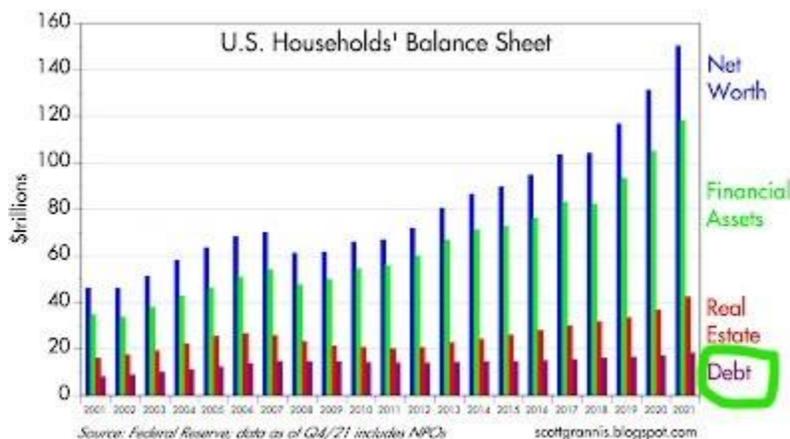


The Outlook: March 18, 2022

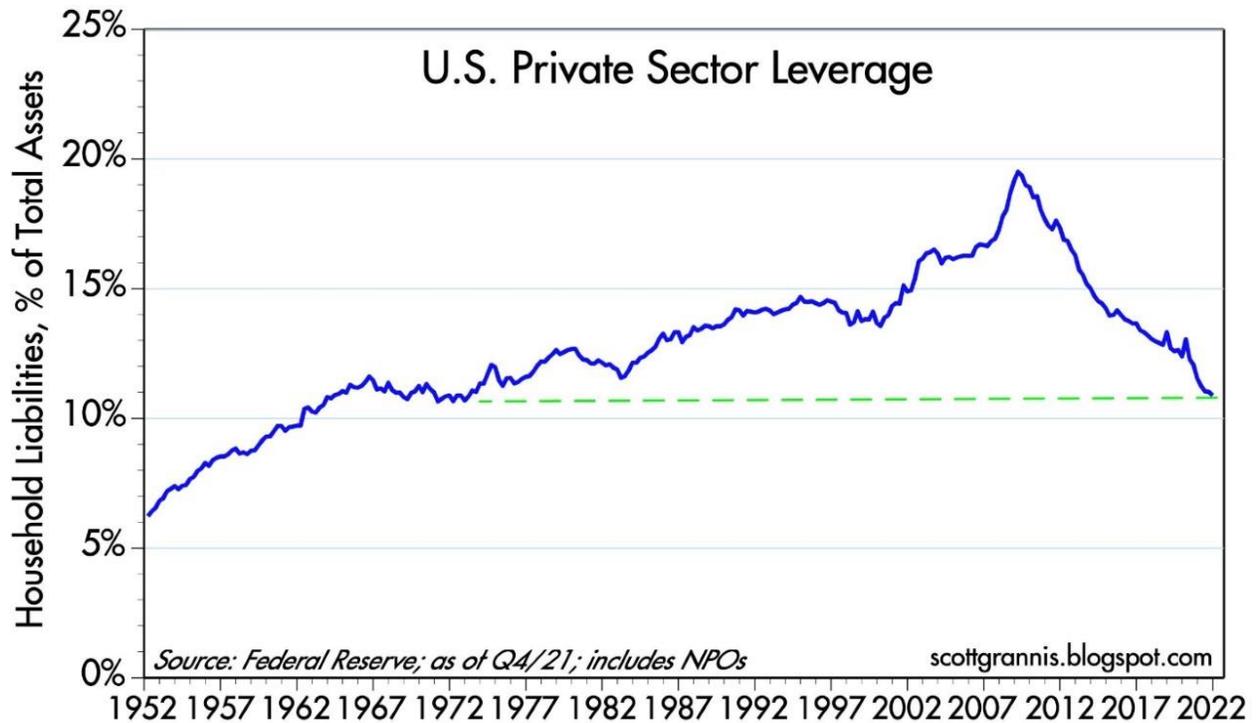
Strength on Main Street, today. Weakness in Moscow, eventually.

The world and the market have been going through shocking events for 3 weeks. Of course those “events”—Putin’s Nazi-like war on Ukraine—have been “shocking” in different ways to different people. To some, it has been a “shock” to find that people of evil are always around, some of them as dictators of powerful countries who can turn millions of people’s lives upside down at whim, and shake up the lives of billions more. It is only human for most of us to look back on history, especially terrible history, and carry the feeling that “the world has moved beyond all that, thank goodness.” It never does, of course. To others, the “shock” wasn’t discovering there are still very bad, powerful people around; it was simply the timing of what they’ve done. It’s also only human to have the sense to see real dangers and really bad people . . . but even so, to not expect them to do something terrible *right now*.

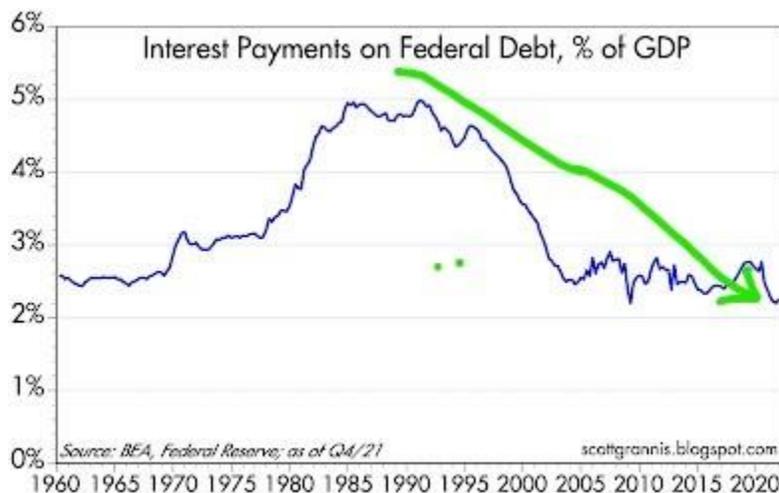
So the “shocking events,” when they round the corner and jump on us, are always a surprise to nearly everyone. But when we’ve adjusted to the shock, at least a little, the only question that matters is: “How strong are we?” If we’re not too strong the shock might put us in the hospital. If we’re pretty strong, we’ll gradually find ways to handle it. Economist Scott Grannis gave us a whole series of pictures recently, which answer the question: “How much strength do we have?”



That green circle at bottom right tells the story: American household debt has gone nowhere for about 18 years. That is remarkable; but it’s also entirely human and understandable. The 2008 – 2009 Financial Calamity scared the daylight out of most people (and companies) and everyone said to themselves, “We will not let that flatten us again. We’ll get stronger.” As we can see, they sure did.



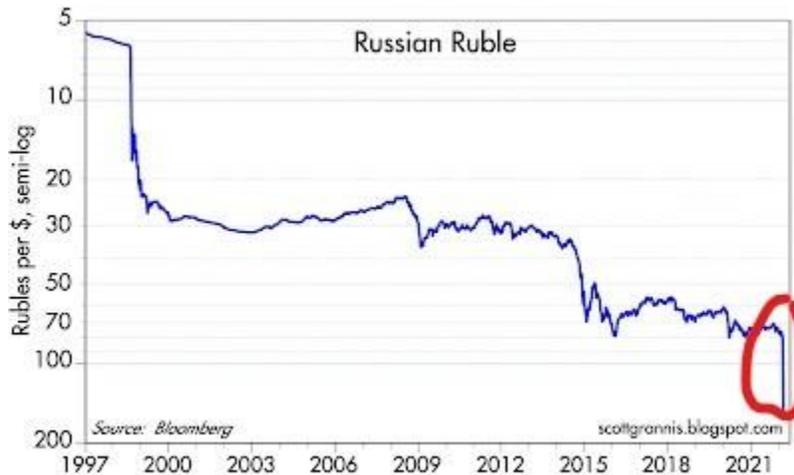
Here's another way of looking at much the same story. Debt as a percent of assets, for American households, is at a 50-year low. "We will not let that flatten us again. We'll get stronger."



This one is shocking indeed . . . though in a good way. The American economy's ability to pay interest on the truly shocking levels of government debt . . . is the strongest in 60 years. The story here isn't about human nature, though. It's mainly about luck. As government debt just plain exploded over the last decade or more, the general level of interest rates has been near zero. Not one single "expert" thought a decade of near-zero interest rates was remotely possible, until it happened. That decade gave Government the gift of rolling over old debt, and issuing that avalanche of new debt, at interest costs which define the word "trivial."

Lucky or not, though, it's another corner of the U.S. economic picture of "strength."

That brings us to our last selection from Mr. Grannis' big collection. What's going on in Russia, on the subject of "strength?"



No one picture tells the whole story . . . but this one might capture the deepest part of it. That 25-year picture of a falling currency—and the last month's picture (in red) of a collapsing currency—would be very bad news for any country on earth, anytime in history. It gets at the heart of the Russian economic story: a lot of oil and gas money stockpiled in the basement, but an eventual tidal wave of trouble for most of that economy. On the "good news" front, the "shocking" story this month has been the free world's decisiveness and near-unanimity in fighting Russia with economic weapons which can actually hurt, over time. The world is a more "connected" thing, in the Year 2022, than at any time in history. When a very big part of the world decides to treat one nation as an outcast—and acts as if it means it, rather than just talking about it—the outcast will be hurt, and the pain will accelerate over time. No matter the pile of oil-and-gas rubles in the cellar . . . the Russian economy is not "strong" and it will have a harder and harder time enduring all these "shocking events."

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