

The Outlook: March 2, 2022

Oil's roller coaster points up.

We investors must always think dispassionately about the markets . . . even when, sometimes, the events shaking the world stage deserve plenty of “passion.” On that “Passion” score, let’s follow up last week’s “Day One” look at the Ukraine War. On Day One, Ukraine answered the Big Question this way: “Yes, it would fight.” On Day Seven, it’s still writing that answer in flaming letters for the world to see. And the Big Question for the West’s political leaders was, “Will they stand up?” On Day One, the answer was “Maybe.” On Day Seven, the answer has become “Yes indeed.” Those answers, from Ukraine and the West, mean plenty of trouble and pain today . . . but hope for something better tomorrow. If the Answers had been different, that “hope” would be hiding somewhere offstage.

On the “Dispassionate Thinking” score, let’s glance at the price of oil.

Brent Crude, 5 Years



There’s the vertical spike at the far right—accompanied, naturally, by similar spikes in Outlook core companies like Conoco and Exxon, with Freeport along for the same ride. Brent crude oil is at \$115. Three months ago it was at \$70. A year ago it was \$20.

Now we’ll glance at the big green circles around the last 3 cliff-dives for oil: 2018, 2020, 2021. Those cliff-dives were the market behaving in character, as always: “Bad news isn’t just bad, it’s surely the end of the world, more or less.” It isn’t the end of the world, usually—but the market’s betting crowd never cares about being proven wrong in the long run, because it lives or dies, financially, in the short run.

Now let's look at the same picture, but with 2 added lines: red, for the 2018 – 2020 bear market in oil; green, for the 2020 – today (and beyond) bull market in oil. Also, we'll stop being interested in the betting crowd's antics and ask ourselves, "Are there down-to-earth, "Main Street" reasons for those 2 arrows?"



Of course there were: supply and demand, as always. During oil's 3-year plunge, exaggerated to the ridiculous by the betting crowd though it was, global demand stuttered and even fell (which is mighty rare), while global supply boomed pretty strongly, still led by America's "shale cowboys." And during oil's 18-month rise—interrupted once or twice as always by the betting crowd's roller coaster—global supply finally began paying the price for giving up on costly exploration everywhere except in Texas, and global demand rebounded as strongly as everything else from the "Virus and Lockdown Calamity."

That far-right price spike to today's \$115/barrel is the betting crowd at work, of course. The other side of "If it's bad news, the world must be ending!" is "If it's good news (especially *really* good news), then the sun, moon and stars must be within our grasp." The speculators' roller coaster never stops rolling up and down. But the broad arrows—red or green—which are the creation of real-world facts on the ground are the things driving the roller coaster basically down or basically up, over years at a time. For oil (and Outlook's companies) we think that broad green arrow will be doing the driving for a good while.

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