

The Outlook: Aug. 16, 2022

Nightmares on Wall Street, facts on Main Street . . . as usual.

The market's mob of daily bettors regularly gambles on fear to see if it might catch hold this time and, best of all, might eventually be backed up by gloomy facts on Main Street. That's what a Bear Market is, pretty much: one of the market's regular "false panic" attacks which turns out to look justified by bad news—serious and sustained bad news. The false panic attacks are normal and frequent; the serious bad news is rare—hence the old saying, "The market has predicted 15 of the last 3 recessions."

That's been the story of 2022, so far. It's captured in the picture below: Conoco's 2022 year-to-date stock chart. We see the optimistic green-rocket start; then the terrified red-arrow plunge; then the last few weeks of green rocket again . . . though with plenty of work left to do to match the first green rocket.



The betting crowd's "story" for Conoco has been much the same as for the whole market. Good news on Main Street defused any panic attacks at first, until the certainty of rising inflation and interest rates made it easy to believe a "Recession!" nightmare, which gave the crowd a chance to pound down Conoco and the market 30% or so.

But the betting crowd's nightmares have no legs unless they're eventually backed up by facts on Main Street—that is, in the real world where people and businesses build and fix things, rather than just betting on things. This Second Quarter Earnings Season is nearly over . . . and it has emphatically refused to back up the betting mob's "Recession!" nightmare. Here's a kind of complicated picture from the firm Wisdom Tree.

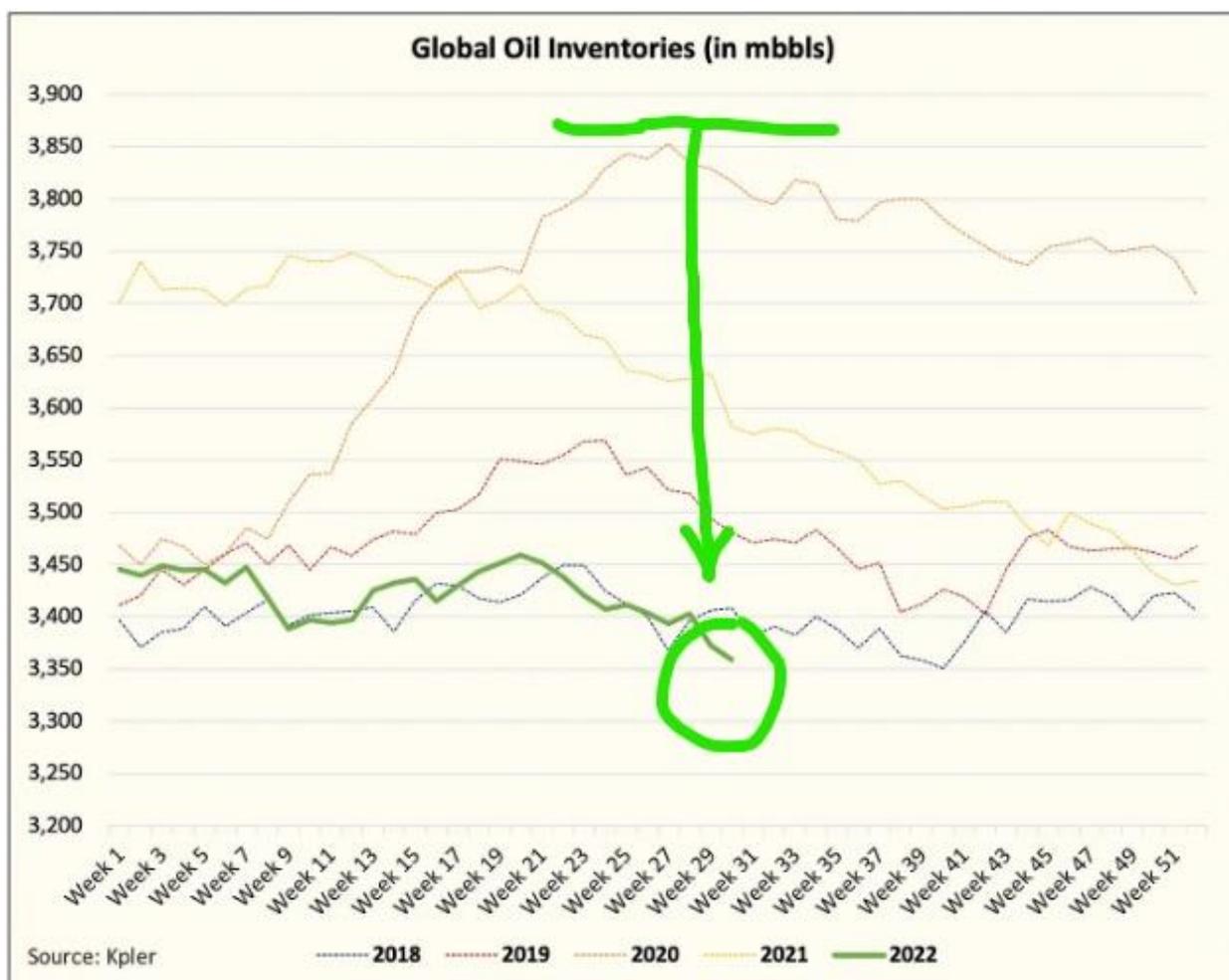
S&P 500 Index Price Level and Fwd. 12m Earnings per Share, as of 7/29/22



Sources: WisdomTree, FactSet, S&P, 11/30/15—7/29/22. You cannot invest directly in an index. Past performance is not indicative of future returns.

Looking at the green square, the dark blue line is Main Street’s facts, basically. The light blue line is the market: the betting mob’s fears, basically. The green square is 2022 so far. Quite a difference between facts and fears, isn’t there? Main Street’s earnings aren’t on fire . . . but they are still solidly “up” through the first half of 2022. But the market is emphatically “down”, heading in the opposite direction from the facts. Through the rest of this year, we’ll either see the facts do a 180, backing up the crowd’s nightmare . . . or we won’t, and the nightmare will fade away as usual (as it does 12 out of 15 times, anyway.)

At Outlook we’re gladly holding onto our assets, and buying more shares, whether 2022 turns out to be one of those “3 out of 15” justified nightmares, or not. We doubt it will: our companies are very strong and their stock values are not to be passed up. Meanwhile here’s one last picture, returning to Conoco. It’s a startling, dramatic look at facts on Main Street.



The green circle points to today's global oil inventory level. The four other lines show where those stocks of oil stood halfway through each of the last 4 years. The plunging green arrow just helps us see the obvious: stocks of oil are at 5-year lows—emphatic lows, mostly. That's a "fact on Main Street" which helps explain why Conoco's green rocket has taken off again. We have an immensely strong company selling something which is scarce at the moment . . . and looks very much like it will stay that way for a good while. When Conoco touched \$120/share earlier this year, before the "Recession!" nightmare showed up, at Outlook we did not think, "This stock is sky high, we'd better get out." We thought, "Global oil demand is pretty sure to stay fairly strong, "Recession!" or not. And Conoco will have a great deal more money left to make, so \$120 is still a decent value." That looked silly, briefly, while the betting mob was doing its thing . . . but it wasn't silly at all, as today's facts are showing." There will be more of those facts coming along through the next 6 months.

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