

The Outlook: March 7, 2023

The Fed on the Warpath.

Sea of Red: the Federal Reserve on the Warpath

OCM Core Stock List					
Overview	Data	Events	Alerts		
SYMBOL ▲	NAME	LATEST	\$ CHG	% CHG	AS OF (ET)
CAT	Caterpillar Inc	246.12	-7.86	-3.09%	03/07 16:00
CMI	Cummins Inc	256.28	-1.58	-0.61%	03/07 16:00
COP	ConocoPhillips	107.64	-1.92	-1.75%	03/07 16:00
FCX	Freeport-McMoRan Inc	40.15	-2.58	-6.05%	03/07 16:00
LMT	Lockheed Martin Corp	478.73	-1.44	-0.30%	03/07 16:00
MSFT	Microsoft Corp	254.28	-2.59	-1.01%	03/07 16:00
MU	Micron Technology Inc	55.59	-1.24	-2.18%	03/07 16:00
TXN	Texas Instruments Inc	172.11	-0.94	-0.54%	03/07 16:00
XOM	Exxon Mobil Corp	111.62	-2.19	-1.92%	03/07 16:00
^DJI	Dow Jones Industrial Average	32,866.36	-565.08	-1.69%	03/07 15:50
^SPX	S&P 500	3,986.33	-62.09	-1.53%	03/07 15:50

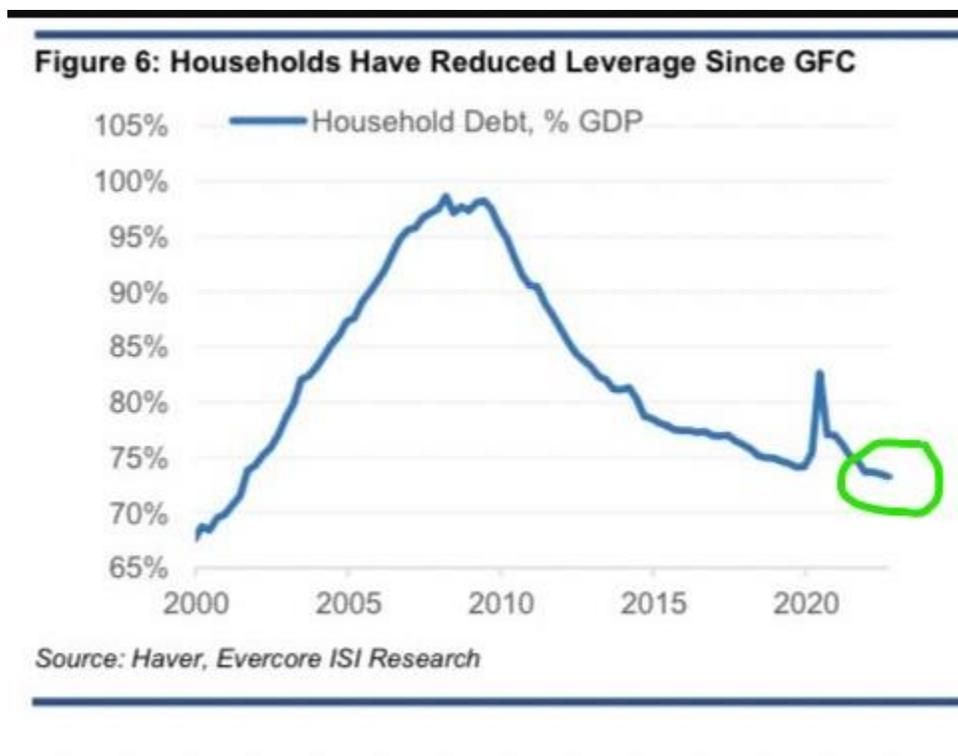
We've seen a lot of those "Seas of Red" over the last 6 months or so. If we take Fed Chairman Powell at his word, we'll be seeing a lot more. Mr. Powell gave a talk today which amounted to standing on a cliff top with a boulder and hollering, "Here it comes! Look out below!" The market (which has seen its share of Wile E. Coyote and Roadrunner cartoons) played its coyote part, flattened down there under today's 565-point boulder.

This is going to go on for a while. Mr. Powell and most of his colleagues on the Fed's Board of Governors (which votes on interest rate hikes and cuts every 6 – 8 weeks) are feeling one overwhelming emotion together: embarrassment over their endless policy of "zero rates forever" while they were printing Grand Canyons full of money to pay for the government's Lockdown handouts. A few analysts (including Outlook) remarked that the "zero rates forever" policy was jaw-dropping nonsense, since "too much money" must create inflation eventually . . . but Mr. Powell and friends weren't about to pay attention until that inflation actually arrived at the grocery store (and the auto dealer, gas station, apartment building, etc.)

It arrived last year at frightening heights. Mr. Powell looked silly; and now he's determined to regain his reputation by crushing inflation, no matter how much pain it takes on Main Street. That frame of mind is not a formula for cool-headedness and patience; for judging the inflation facts as they come along and giving them time to change, before pushing another 500-point boulder off the cliff onto Main Street below.

We aren't showing much respect for an eminent authority here, are we? We aren't doffing our caps and saying, "Ah, well, he's very smart and talks in polysyllables, so we should just trust that he knows what he's doing." The terrible result of a lifetime of history-reading is that it answers that "Surely he knows what he's doing!" notion with the sound of crickets chirping—for countless eminent authorities over countless years of history. No. Mr. Powell was amazingly wrong once, and we'd better count on him being amazingly wrong again . . . about how high rates must go to "fix" inflation.

That's not a cheery thought for us investors . . . but, as always, it's the Milky Way Galaxy removed from the end of the world: Main Street, that is. Here's one picture to stand for them all:



That is truly a jaw-dropping picture, but in a good way. "GFC" stands for "Great Financial Calamity" of 2007 – 2009. Main Street took it on the chin back then. It wasn't a knockout punch—because the boxer may not exist who can deliver that kind of punch to Main Street—but it hurt. Since then, American human beings have acted perfectly normally. They were scared; they didn't want to be scared again; so they vastly strengthened their financial pictures, cutting debt from nearly 100% of GDP to about 73% lately. That is a very big deal. Main Street's operating businesses did the same thing, because they're human too.

That's why Mr. Powell's rate-hiking boulders won't crush Main Street . . . nor will they crush the stock market. They'll dent it, and scare it (the market, that is) but they won't keep them down. Main Street is too strong, because it's been bracing itself for this kind of punch since 2009, and it braced itself even more strongly after the Lockdown Calamity of 2020. The market's betting crowd is well aware of this fact but ignores it. It's not in the business of celebrating deep truths; it's in the business of making a buck today, if it can, by betting for a few minutes on the mood of its own crowd, after such events as Mr. Powell's latest boulder-off-the-cliff. But the facts and deep truths do not go away, and the crowd always comes to

a day when it must bet on those facts rather than on the latest nightmare. That calls for a little patience, as usual.

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