The Outlook: March 28, 2019

Economic lightning fires, and Wall Street's "firefighters."

Every year in the United States, about 25,000 fires are started by lightning: about half of them in woodland areas out in the country, and about half in towns and cities. The "country" lightning fires burn an average of 400 acres; and the "city" fires do about $16,000 of damage, on average.

Those figures are not happy statistics . . . but they're a very long way from the catastrophic damage done by a tiny number of those lightning fires: the ones which get the headlines and video footage on the evening news. When the nearly-25,000 "normal" fires are detected, rural and urban firefighters put them out pretty quickly. Mostly, they put them out the old-fashioned way: by dousing them with tons of water from firehoses in the city, or crop-dusting airplanes in the country. In the country a big portion of those lightning fires just burn themselves out before spreading very far and before firefighters can even show up.

Yes . . . lightning fires are a normal, constant, never-ending fact of life. They're not good, but the overwhelming majority of them are endured, fixed and shrugged off, by city dwellers and by nature itself, depending on where they happen.

That sets the stage, helping us understand the nature of "lightning fires" in the real-world economy . . . and the galactic difference between how the "firefighters" react to them, depending on whether those firefighters live on Main Street or Wall Street. These past few weeks, in particular, the world's Main Street economies have been enduring slightly more "lightning fires" than normal. Europe's "purchasing managers' index" was weak; Italy might be in an official recession; Germany reported a couple of worrisome numbers; China's trickle of ambiguous but possibly worrisome economic news continued; U.S. housing statistics were down somewhat; and many more. On the other hand, the world's Main Streets didn't exactly hang "Going Out of Business!" signs in the front door, either. There was the usual flowing river of mostly-normal, mostly-positive measurements about everything else on Main Street.

In the middle of this typical mixture of economic news ranging from "strong" to "kind of weak" came . . . "Yield Curve Inversion Signals U.S. Recession!"

When that headline first showed up a few days ago, the market fainted dead away, more or less. It might as well have been "Zombies Take Over Main Street!" And what is "Yield Curve Inversion" anyway?

It means a short-term interest rate became higher than a longer-term interest rate. Terrifying indeed. The financial press (and dozens of eminent experts) agreed that such "inversions" are an infallible forecast of recession on the way—and, yup, a stock market collapse as well. The investment world ("Wall Street," that is) held its breath and wondered, for a day or two, how fast the end of the world would arrive: tomorrow; or in a week or a month, giving investors at least a little time to sell everything and stock up on canned goods. This, obviously, was a lightning strike, and it would clearly be a 4-million acre fire, not the measly 400-acre variety.

But Main Street didn't think so. It glanced at the screaming "Yield Curve Inversion" headlines, shrugged, and kept on working. It didn't bother to wade through the countless analytical studies showing "yield curve inversions mean recessions" flung at its feet by the Wall Street crowd. The problem was, essentially, that "Yield Curve Inversion!" sounds, well, so darned dull on the face of it that most sensible people just couldn't be bothered to pay attention. (That, of course, is exactly why they are "sensible.") Had they been paying attention, they would eventually run across the kind of analytical studies which, though still rare, are cropping up now: "Yield Curve Inversion Signals . . . Nothing Whatsoever!" Those studies are performed by what we might call "Main Street types who merely *work* on Wall Street," and over the 42 years of Outlook's career, we've seen truly countless examples of just this phenomenon: a flash of economic lightning, a deer-in-the-headlights media response, an "end-of-the-world" market response . . . then a fairly quick return to calm, accompanied by thorough debunking of the lighting flash by those Main Street types whose underlying tone is something like "Are you guys *ever* going to stop falling for this stuff?"

The answer is "Nope." Let us return to our stage, and our lightning fires, to explain. Wall Street (the market's gigantic crowd of speculators, that is) is in the business of "fighting" lightning fires in a special way. Lightning strikes, a little fire appears . . . and Wall Street fills a country crop-dusting plane or city firetruck not with water, but with gasoline, and dumps it on the blaze. There aren't 25,000 negative economic or business news items out each year . . . but there are lots of them. They're normal, just like the vastly greater number of positive items every year. <u>But every single one of those economic lightning strikes (the negative items) is a potential golden opportunity for Wall Street's players to fly over and dump a few tons of gasoline on the fire, seeing how far it might spread and, especially, wondering whether it just might terrify Main Street, this time.</u>

"Yield Curve Inversion!" was a perfectly typical example. It didn't work. It scared some people, but not nearly enough . . . and far more importantly, it didn't impress Main Street at all. Very few economic lightning fires do, thank goodness, because if they did the world economy would be run by Wall Street, not Main Street, and that *is* a terrifying thought. So Main Street trudges forward, actually building something every day; and Wall Street waffles anxiously back and forth, wondering about "Yield Curve Inversion" for a couple of days, before wondering where the *next* frightening little fire might show up. Wall Street does that most of the time; but suddenly notices, now and then, the startling volume of cold, hard cash being earned by Main Street's companies and handed back to Main Street's shareholders. Then up it rockets, for a little while, before getting back to its general state of anxious waffling, and making sure those water tanks are always stocked up with gasoline.

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