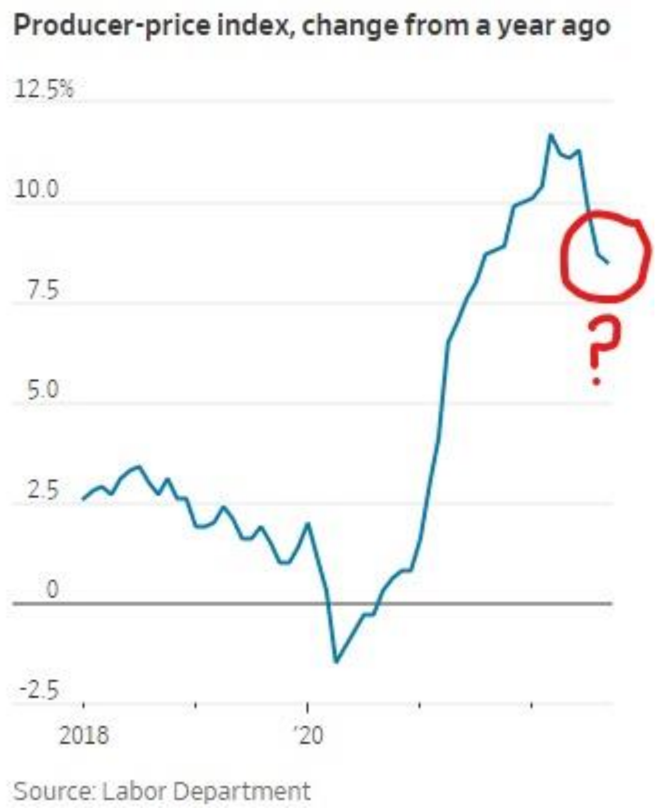
The Outlook: October 12, 2022

One chart to rule them all.



"One chart to rule them all" fits this picture very well these days. And the rest of that rhyme is pretty good, too: "and in the darkness bind them." This inflation chart—and several cousins—have commanded the horrified gaze of the whole investment world, pretty much, for the past six months. That "whole world" includes everyone from Mr. Powell at the Fed, to the fair-sized blocks on Main Street dedicated to the housing market, to the market's daily betting mob, of course. The Nightmare which has given that mob six months of bad headlines (and, surely, plenty of short-term winning bets against the market) goes like this: "Until that sky-high blue line plunges back down, Mr. Powell and his Fed will keep hiking interest rates, hence tearing up the tracks under Main Street's economic growth engine."

Main Street itself does have something to say about its own growth engine and the tracks underneath it, of course. Month after month, through this 6-month Nightmare, Main Street has refused to act as if the engine is derailed. That includes a lot of "Main Street World," besides Main Street USA. But the betting crowd never thinks Main Street writes its own story. It always thinks the Fed "rules them all, and in the darkness binds them" with its interest rate actions. As Outlook has noted before, like just about everything the Wall Street crowd takes for granted as an obvious truth, it almost never turns out to be anything close to "an obvious truth" . . . usually the opposite. But Main Street has to prove that all over again, every single cycle.

We're just about to watch Main Street try to do that again, with Third Quarter Earnings Season around the corner. At Outlook we're pretty sure this Season will show us Main Street's engine chugging along more slowly, but moving forward—not standing still or backward. That will leave the betting crowd in the same position: gazing with bated breath at each month's change in the inflation line, up there; and assuming the line will not plunge downward until the Fed's rate hikes have "kneecapped the economy", as one analyst put it.

Only a bold forecaster would predict just when such a downward inflation plunge will show up. At Outlook we think "sometime between 2 and 6 months from now." But the big difference between us and the betting crowd—or us and Mr. Powell—is that we're pretty certain such a plunge will happen because of the several powerful but temporary factors behind this year's spike in inflation . . . not because a "kneecapped economy" finally cured it. Supply Chain Chaos has been a big contributor to inflation, by choking off a good chunk of production (of goods and services) while Main Street has been more than strong enough to buy those goods and services. But Supply Chain Chaos will be fixed. That will happen because Main Street is in charge of fixing it . . . not Wall Street, and not the Fed. Main Street always fixes problems, even if slowed by hurdles set up by the Fed, or lockdown policies embraced by China, and much more.

When those temporary factors run out of steam, we are pretty likely to see 4% inflation, roughly, instead of 10%. That won't derail Main Street . . . and it will make Mr. Powell hesitate, when it comes to the big, fast rate hikes which have so discouraged the market crowd this year . . . though not Main Street.

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