

The Outlook: June 2, 2021

The Big Questions . . . and the Answers.

Let's try answering today's Three Big Questions with pictures. (Courtesy of outstanding economists Brian Wesbury and Scott Grannis, as usual.)

1. Is Today's Big Growth Real, or Some Kind of Bubble?

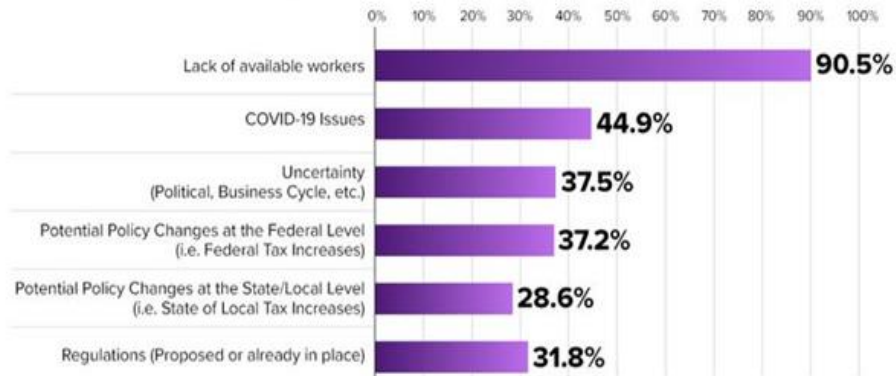
It's real. Look. The nation is hiring, not firing; and at a pace approaching the historically-astounding levels of 2019.



Here's confirmation from Main Street: a survey of America's Chambers of Commerce:

More than 90% of state and local chambers of commerce say worker shortages are holding back their economies.

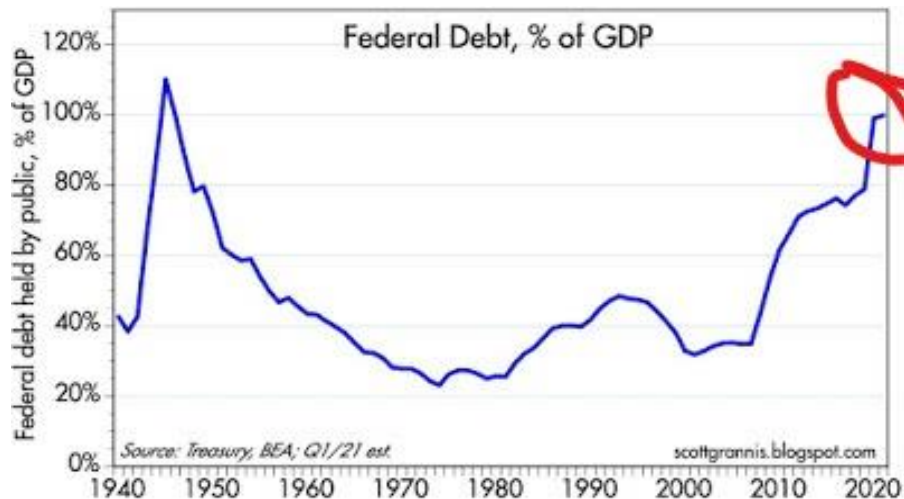
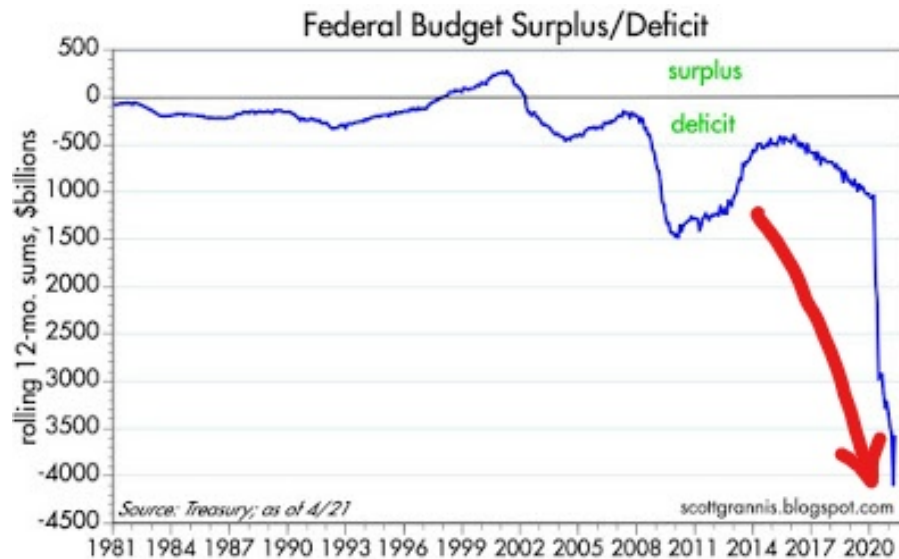
Which of the following factors are slowing the economy in your area?



2. What's the Trouble Coming Around the Bend?

Inflation. These 3 pictures may be overkill, but here's why.





Three explosions, up there: giant government spending, creating a giant government deficit and giant growth in government debt. Such explosions haven't been seen since World War II, if then. The Federal Reserve aims to buy that growth in debt, which it does by printing volumes of money almost infinitely beyond the volume of goods and services produced on Main Street. Too much money is chasing too few goods.

3. When will the Trouble arrive?

It's already begun—but it will show up in fits and starts. It'll probably take somewhere between 18 and 36 months for inflation to get alarming enough to qualify as "Trouble" for the economy and market. Meanwhile Main Street will keep marching ahead, hiring everybody it can; and it will keep creating fairly wonderful earnings and cash flows . . . which it will share with investors.

Why the delayed arrival, for "Trouble?" Many reasons, which boil down to: "The U.S. economy is a strong, resilient thing—a living thing, almost. It adapts to "Trouble" all day long, all year long. It takes quite a bit of Trouble to give Main Street a flat tire, much less make the wheels fall off."

And there is just plain luck. Here's a picture of luck—in that green circle—which has blessed the government with little cost, for a while, as a consequence of the money-printing and debt explosions.



A decade of near-zero interest rates has been a giant stroke of luck for the federal government: ie, the debt explosion hasn't cost much, yet. It will. Interest rates and luck both change. They have only one way to go: worse.

Sounds pretty grim, doesn't it? But the biggest picture of all shows us an economy and business sector which have performed miracles of adaptation to Big Trouble—which the Virus and Lockdown Calamity were in spades. They've earned their growth, and so have we . . . by understanding our companies and sticking with them while they pulled off these miracles. They'll keep earning their growth for a good while.

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