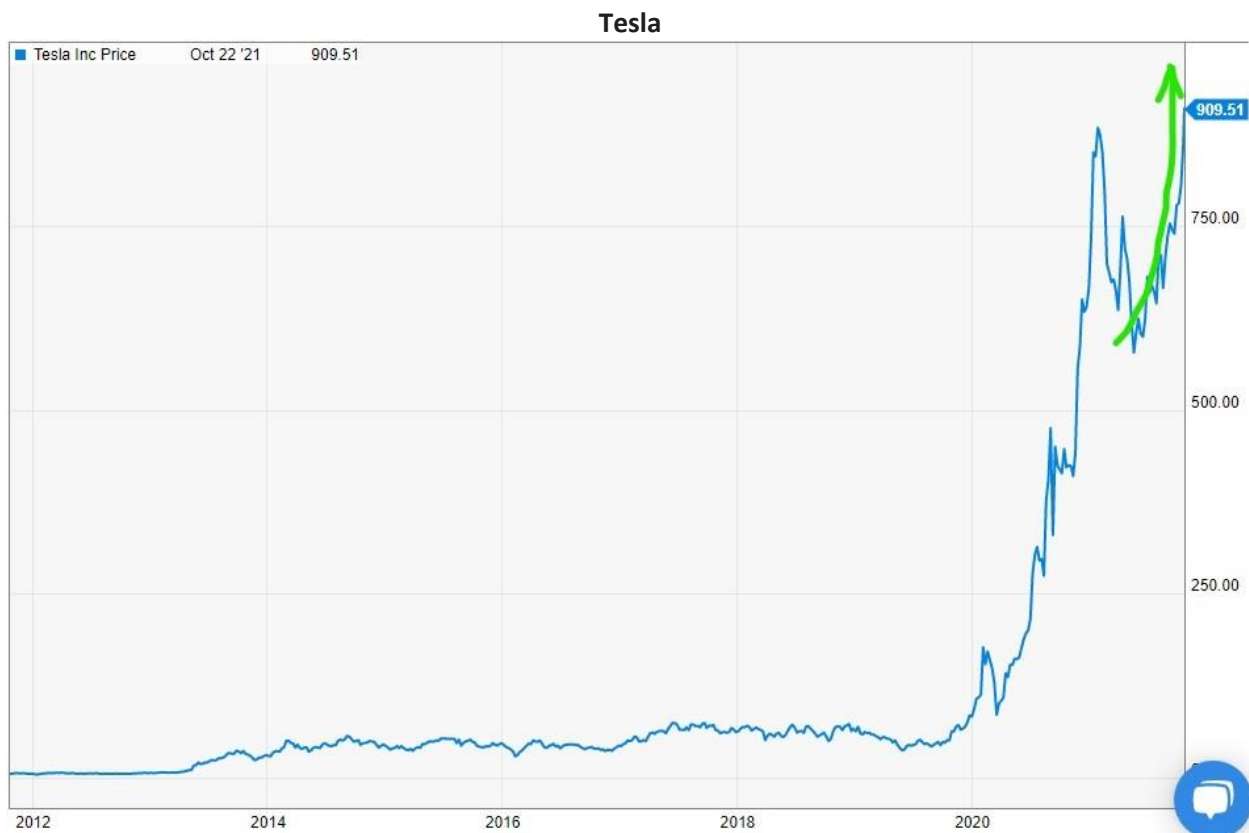


The Outlook: Oct. 22, 2021

Caterpillar: Not Tech . . . but “Megacycle!” all the same.

It was a minor headline a week ago, buried in the stock-market corner of the media: “Wall Street Analyst Says “Buy Caterpillar” Ahead of First Megacycle in 14 Years.” There’s nothing like the word “megacycle” to make an investor perk up his ears, of course. But the fairly unusual thing about this headline and story wasn’t “Megacycle!” but “Caterpillar!”

We’re very used to hearing about “Megacycles!” in the investment world, from the media and Wall Street’s analysts. But most of the time they’re talking about Celebrity Tech companies whose charts look like this:



There’s Tesla, shrugging off the worst hammering in its history earlier this year . . . then immediately firing up its hyperdrive boosters. Wall Street’s professional analysts have always found it tempting to apply words like “Megacycle!” to any stock with a picture like that. The astonishing performance in that picture seems to demand a sweeping, dramatic explanation. If the stock is up that far, that fast . . . there must be something great going on, right?

Outlook’s clients and friends know Outlook’s opinion about that, so no need to dwell on it. The rare thing, though, is when one of those professionals makes such a bold forecast when the picture looks like this:

Caterpillar



There is Outlook's own Caterpillar, peaking around \$247 a few months ago, then taking a hammering down to \$200 . . . and no particular signs of a Tesla-like hyperdrive reversal anytime soon. It took some nerve for that analyst (Cowen's Matt Elkott) to make that call and use that "Megacycle!" word. He walked out on a limb, carrying his reputation with him. If he's wrong, he made it impossible to be "quietly wrong," which is the kind of wrong which preserves analysts' careers. If he's right, he'll deserve all the fame and fortune he might get.

The heart of Mr. Elkott's argument came down to:

- CAT is immensely strong and will make tremendous profits in a long-lasting sales upturn.
- CAT has placed itself in the sweet spot for worldwide spending on heavy equipment, with technical leadership in low-emissions engines and robotic heavy vehicles—and a world which will be very anxious to buy both, in the next few years.

Of course at Outlook we think Mr. Elkott has it right . . . and we tip our hat to him for daring to say what he thinks, no matter the sour-looking red circle above. That will change. CAT's engines will show they have a touch of "hyperdrive" themselves.

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 Outlook Capital Management, LLC
 125 S. Wilke Road, Suite 200E
 Arlington Heights, IL 60005
 847-797-0600

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