The Outlook: Aug. 26, 2022

Chairman Powell: "Rising Rates Forever!" Main Street: "Here's More Cash."

It does feel like we're watching a tennis match, doesn't it? Our heads whip left today, right yesterday, left the day before and on and on, as we watch this market's betting crowd try to figure out, every day, whether the sky is actually going to fall or the sun will come out. Let's glance at a picture of how the year has looked so far:

The Dow: 2022 So Far

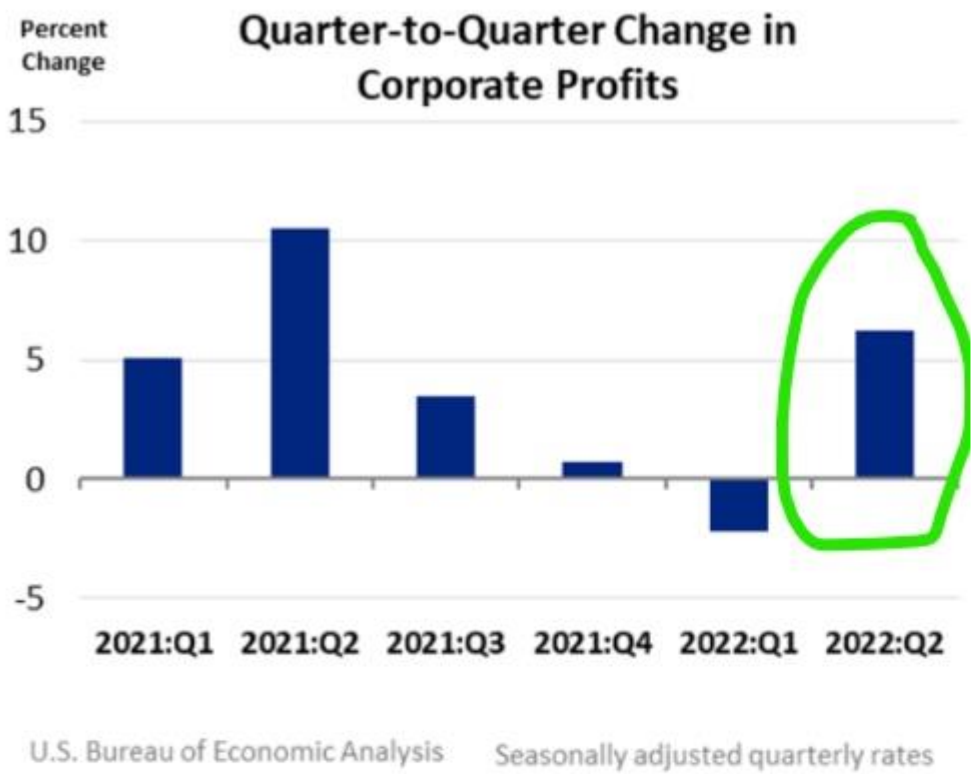
There we were, bouncing down the basement steps from New Year's Day to early Summer. The betting crowd's most popular impression by far, as we ratcheted down and down, was: "Inflation! The Fed is Hiking Interest Rates! Recession!"

But what about that green rocket from mid-June to mid-August? It recovered 14% of the gut-wrenching 28% "lost" in the first half of the year. Here's the $64,000 Question: "Was there any change in the betting mob's favorite impression? Did "Inflation! Interest Rates! Recession!" suddenly look like a nightmare, fading fast with morning?"

Nope. The inflation news and the interest-rate news got worse, if anything. The "headline" economic news got worse, too, with a second straight quarter of falling GDP. That brings us to the last week or so, over at the far right, with that red arrow plunging again. Why? Has there been any real change in the news feeding the crowd's "Inflation! Interest Rates! Recession!" impression?

No, again. Well, actually "yes" but in the wrong direction for the betting crowd's pessimists. The "Interest Rates!" and "Inflation!" parts of the nightmare haven't faded away, because the numbers stay bad, so far, and Fed Chairman Powell is now saying exactly the opposite of what he said for all those years of “What, us worry?” remarks about inflation. That is, now his line is “Rising interest rates beyond the horizon, folks . . . sorry!” rather than “Zero interest rates forever!” (He made the “Sorry!” remark yesterday, hence today’s 600-point plunge . . . at the moment.)

But the actual news on the economy—those “Main Street facts” we keep talking about—just won’t cave into the “Recession!” part of the nightmare impression. Here’s one example:



Here’s another:

> ***Second-quarter dividend payouts rose 11.3% globally to $545 billion, <u>an all-time high</u>, according to the latest version of the Janus Henderson Global Dividend Index. The asset manager’s quarterly index tracks dividends paid by 1,200 companies around the world.***

And here’s a third, courtesy of Fisher Investments’ economist:

> ***The second quarter’s 15.5% corporate profit ratio is the highest since 1950. Let us repeat: The biggest non-financial corporate profit margins in over 70 years happened as consumer price inflation hit a 40-year high. They also happened as producer prices, which represent companies’ input costs, rose at a much faster rate than consumer prices, which represent their revenues. If there is a better sign of businesses’ ability to overcome today’s economic pressures, we are hard pressed to think of it.***

When the market feeds on terrible "impressions", which it does as a way of life, the meal always comes to an end. It always shows itself to have been mostly "nightmare" instead of mostly "facts" even when there are some genuinely bad facts at the heart of it—which is usually true. It ends because Main Street is in the "adapting to problems and fixing them" business. The market's betting crowd endlessly ignores that profound truth . . . until it can't ignore it any longer, because Main Street's cash (created as it fixes problems) makes it impossible and unprofitable to ignore. The profits, profit margins and dividend facts above are just the kind of "Main Street facts" which always end the nightmarish impressions so popular in the market. We never know just <u>when</u> they'll end them—because impressions and their nightmares are stubborn—but we know they will. And we also know we'll make a great deal of money if we keep investing as if we're sure they will.

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