

## The Outlook: May 26, 2020

***Good news: the business byword will be “caution” once again.***

Let’s circle back—again—to the “Two Big Questions” which are all that really matter, these days, to us investors.

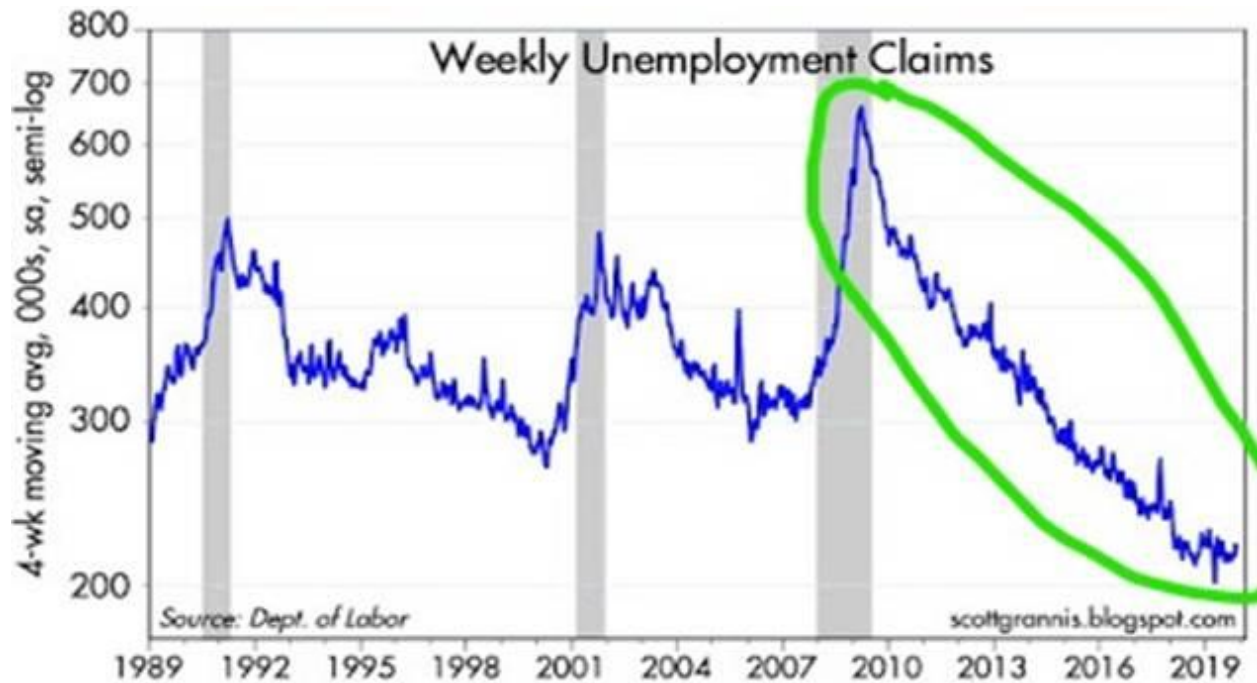
1. How fast and how fully will the U.S. and global economy recover from the Virus Shutdowns?
2. How will the Virus Shutdowns change the economy and business world, after some kind of recovery has happened?

We’ve looked pretty hard at Question One . . . and arrived at a statement of certainty about it, just recently: “There will be a recovery!” That gets more obvious every day, because the source of the economic calamity—the Shutdowns—is being weakened practically every day. We can’t say anything with certainty, yet, about just “how fast” and “how fully” the economy will recover . . . but we can say this: “It’s also looking a little bit faster, each day.” It does have a long way to go, though.

Let us take a first crack at Question Two, this afternoon: “How will the economic and business world change, long term?”

There will be some profound changes. There are a great many experts telling us that “The New Normal” will make such vast changes that we’ll live in an upside down world from now to the horizon. They always say that, after something terrible has happened . . . and they’re always mostly wrong. “Normal,” it turns out, is a very stubborn thing: being built on human nature among other unchanging aspects of life. So let’s be more modest in our forecast, and begin with a modest question: “What is the most common-sense conclusion we can make about how the future economic world will be affected by what has happened?”

It’s a one-word answer. It’s a powerful word, though. Almost all by itself, the one word produced these two astonishing long-term results, after the Calamity of 2008 – 2009:



The first astonishing result was 10 solid years of rising employment, and falling unemployment—reaching levels, by 2019, considered downright impossible by any expert we care to name. That jobs curve, of course, went right along with an endlessly-rising economic growth curve, and the same thing in the market itself, below:



Why? More than one reason, naturally, but the biggest reason of all was our one word: **“Caution!”**

The Calamity of 2008 – 2009 scared the living daylights out of everyone. Besides being scared, however, consumers and business leaders acted. They acted exactly like normal human beings act, when they've lived through a mortal threat: with caution, for a long time. Consumers built their financial reserves to historic highs, and the vast majority of businesses did the same thing. They promised themselves never to be pushed to the wall again, by an unexpected Calamity, so they built liquidity and operating cash flows, cut debt, and spent 10 years investing cash for their futures . . . but carefully, almost never splurging.

As in everything else, if we try to understand underlying facts by relying on headlines . . . we won't get to first base. During the decade, we've been treated to endless headline stories of the exceptions to this "cautious" behavior. We just saw one today, with the bankruptcy of Hertz Corporation, whose behavior wasn't "cautious" at all. Neither was WeWork's behavior, nor Tesla's, nor almost the whole of the "Shale Patch Companies." But though such stories made a lot of headlines, they did not tell the real story; they did not show us the whole picture. Headlines never do. Most U.S. companies spent 10 years making determined and sometimes aggressive decisions . . . but making them with great care. They were never foolhardy.

So we had that astonishing 10 years of economic and market growth, with plenty of passing frights and interruptions, which were always temporary precisely because the operating by-word for almost everyone was "Caution." We see the similarity, don't we? We've just had the almighty fright of a few centuries—undreamt of until it happened—and most of the business world will start all over again with "Caution" as the foundation for rebuilding. There is no foundation more likely to build a long recovery. It might be slow at times, even halting at times; but it won't run into a brick wall from foolish risk-taking—just as the past 10 years never hit that brick wall. It will be worth investing in.

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