The Outlook: April 27, 2022

Four Big Worries . . . and the Rest of the Picture.

"We have a lot to worry about," has been the Big Picture for some time now—but not the whole picture. The rest of it is: "And, thank goodness, we have a historically remarkable degree of financial strength to help us bear the worries." The market has been ignoring the second part lately, and wallowing in the "worry" part. Let's sum up the worries.

1. **War in Ukraine.**

   A dangerous dictator with nuclear weapons is trying to crush a neighbor and threaten the world while he does it. "Truth is stranger than fiction," indeed. Mr. Putin's attitude and actions echo 1939. They've surprised even the most hard-headed analysts of world affairs with their combination of sheer aggression and lack of long-term sense. We can't know how this will turn out; but the most surprising positive has been the pretty respectable backbone shown by the West, so far.

1. **China's Economy.**

   "Lack of sense" captures the heart of what China's dictator is doing to his own people, with yet another "Lockdown Calamity." Early in the pandemic, President Trump said, "We must make sure the cure isn't worse than the disease." He meant the devastating, long-lasting economic and other damage done by "Lockdown." In 2020 it was off limits, for many, to even try thinking clearly about that statement. Two hard years later, it's not very off limits, now. But Mr. Xi seems to be stuck in 2020 . . . and China's people are paying for that in a big way. The ripple effects of "China Lockdown, Version 3 (or 4, or 5)" are certainly hitting, hurting and slowing the world economy. The Big Question is: "How much, and for how long?"

1. **Recession.**

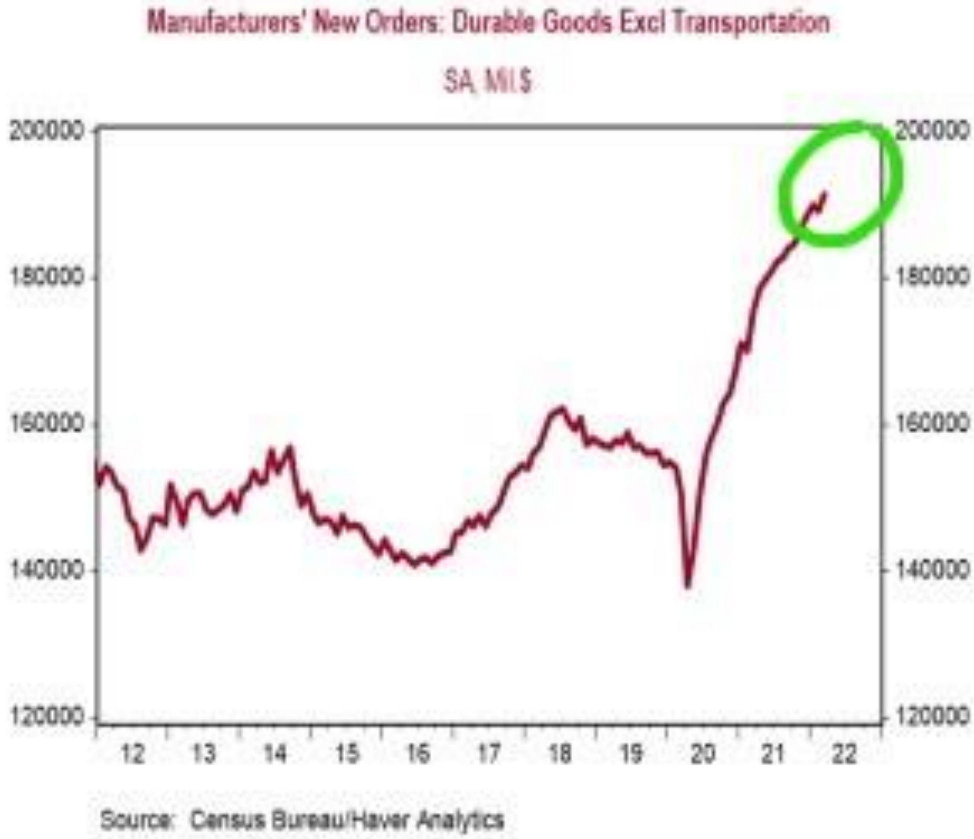
   That's the risk from "How much, and for how long?" Can the rest of the world cope well enough with "China Lockdown 5" to keep the economic train chugging ahead, even if more slowly?

1. **Inflation.**

   Big problem, which arrived faster and stronger than expected. The root cause is "Too much printed money chasing too few goods" as always. The gasoline flaring that fire from a "smolder" to a forest fire, though, is temporary to some degree. Worries One and Two above have ignited that smolder with a "whoosh," thanks to Supply Line Chaos.

How will it all turn out? The best clues to that answer are: Time and Strength.

Financial strength we've talked about. It's helping a great deal. But "Time" deserves a look. It simply means that businesses, consumers and free markets always adapt to problems . . . and they get more effective the more time they have to work on the problems. China's Ripple Effects; Supply Line Chaos; Recession Risk; and Inflation passed the "Surprise" stage a long time ago. Here a picture from last week, which is just one demonstration of that "adaptation."



Durable good orders in March were up strongly once again. That is the U.S. business sector (Main Street) putting cash on the table for the future, having had plenty of time to look hard at Worries One through Four, above. It doesn't mean the Worries haven't damaged and slowed Main Street. It does mean they haven't paralyzed it—very far from it.

When "we have a lot to worry about," we're always tempted to stare fixedly at the blackest part of the Big Picture. It's always a mistake. There is always more to the picture, and it's usually a lot brighter. It still is, today.

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