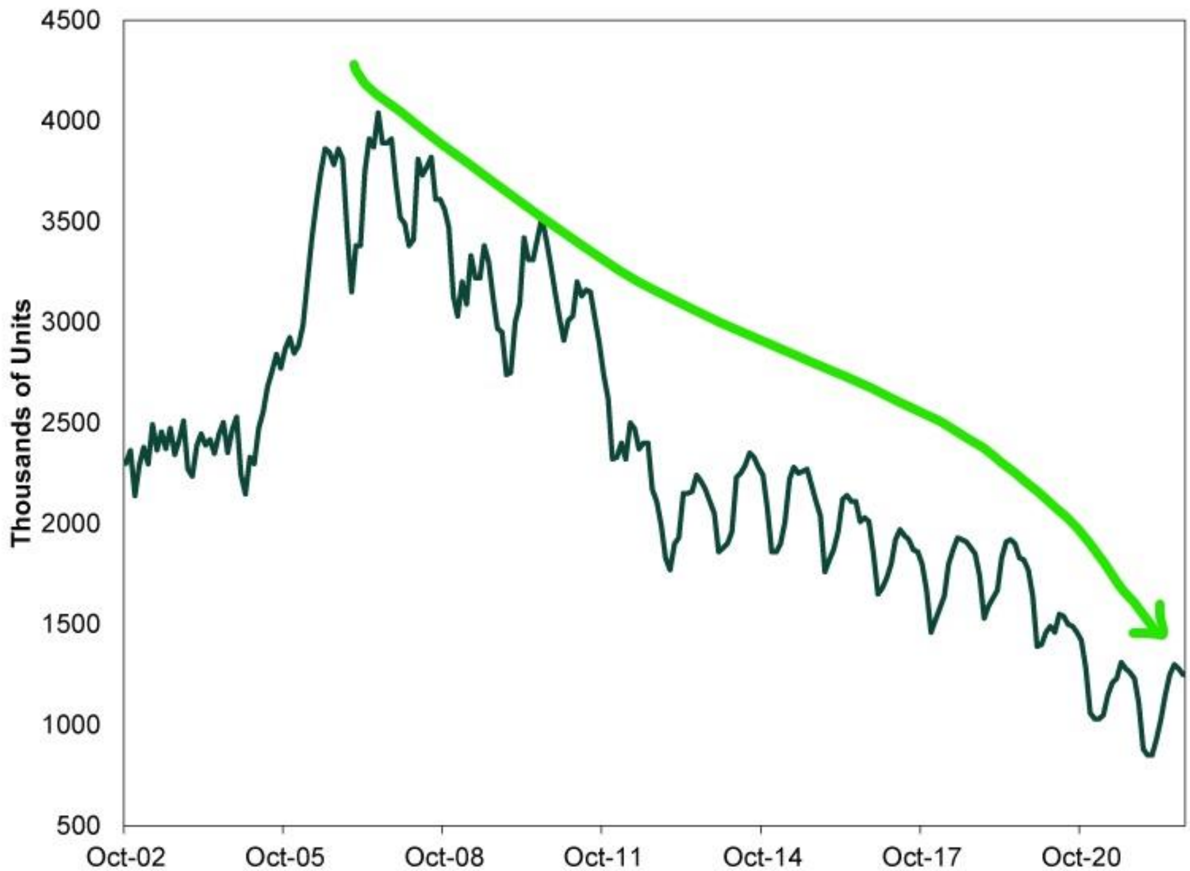
<u>The Outlook: Nov. 1, 2022</u>

The Big Picture: big problems <u>and</u> big strengths.

The best way to sum up "Quarterly Reality Season" (Earnings Season) so far, might be to say the Main Street has "big problems <u>and</u> big strengths" right now. Theresa's "Inside" report on Texas Instruments today was a pretty good example: great earnings and cash flows, looking backward over the past year; weakening results in the past 3 months; worried remarks about the immediate future by the company's leaders. Yet the "worried remarks" weren't very worried at all. They were a shrug—"We have to cycle down sometimes, that's life"—right next to emphatic plans to keep spending on Texas Instruments' future. TI is spending a lot of money on several new factories at the same time. They'll go into production from one to five years from now. When we think about what that kind of commitment means for a factory operator like TI, we only have one possible conclusion: <u>Texas Instruments is certain about long-term global growth, and intends to keep the "low-cost producer" position it's won for itself over the last 10 years or so</u>.

We're seeing these "big problems and big strengths" all over Main Street, as Earnings Season unfolds; and we're also seeing this combination in the economy as a whole. For pessimists, as always, the "big problems" matter more than anything. For optimists—and good investors—the "big strengths" are what really count . . . because they're <u>why</u> the big problems always get fixed. Three dramatic pictures of those big strengths showed up over the last couple of days.

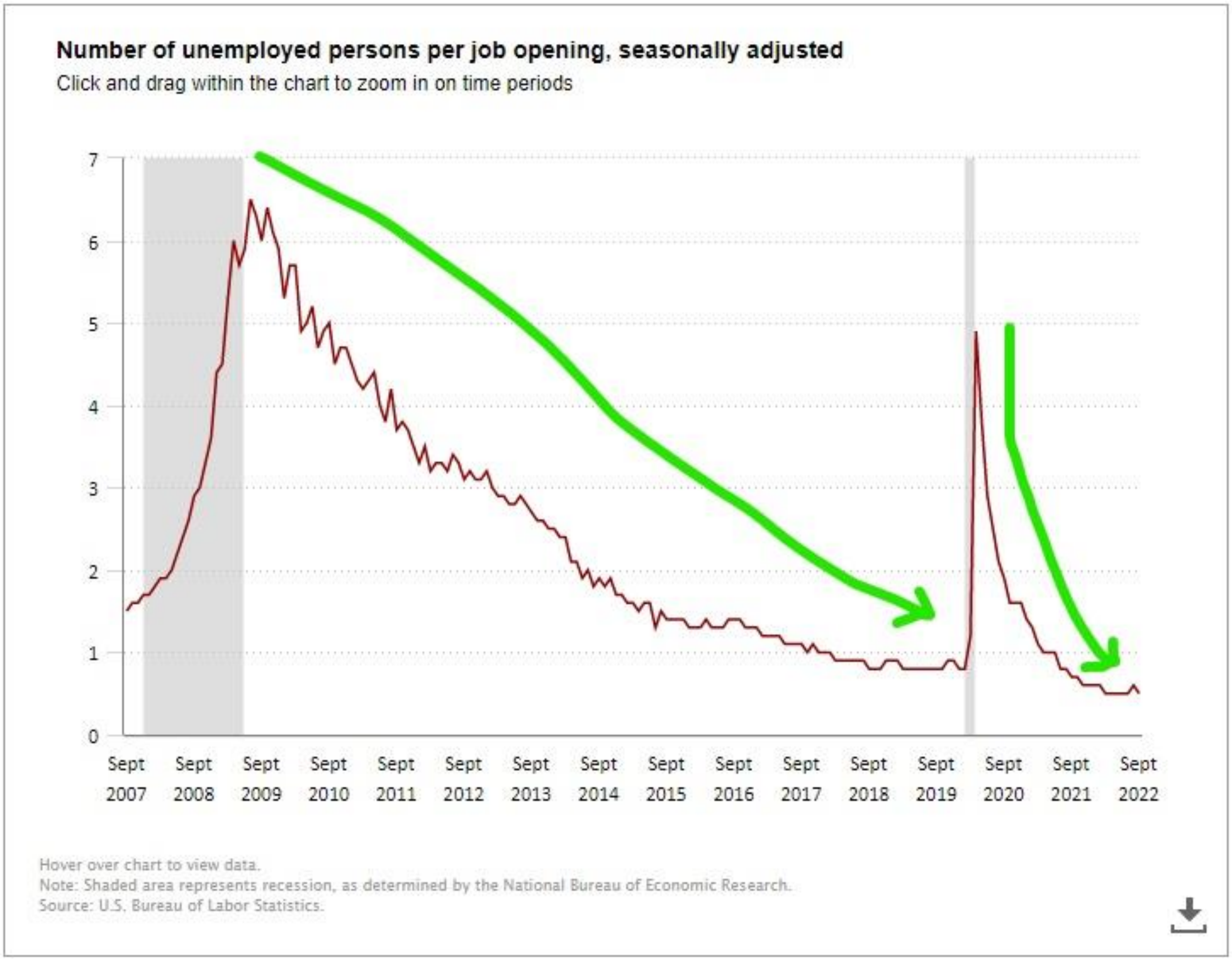
Exhibit 4: A Look at Existing Homes Inventory



That's the inventory of existing homes for sale, over 20 years. It tells quite a story. There's the peak—we can go ahead and call it "the crazy peak"—just before the Great Mortgage Meltdown and Financial Crisis of 2008 – 2009. 4 million homes waiting to sell when it suddenly became clear the possible buyers were a fraction of that number. So home prices fell and the construction industry slammed on the brakes for a few years. But that triggered our downward-plunging green arrow, up there, with "for sale" signs plummeting to under 1 million last year . . . and showing no interest whatsoever in returning to anything like the glory days of 4 million for-sale signs.

The "big problems" crowd worries a lot about "the housing crash around the corner." Mortgage rates and monthly payments have doubled, pretty much; buyers have put their wallets away; and sellers can only dream of the Covid days of cash sales at 30% over listing price, an hour after the for-sale sign went up. That's a weak housing market, all right, and it's hard to see it getting strong again for a good while. But a housing industry with 4 million houses of excess inventory is a galaxy away from an industry with 1.3 million excess inventory. The first one is indeed a "big problem." The second one is not a big problem—it's a "moderate problem," the kind Main Street handles and puts behind it, without acting like the sky is falling. When we get right down to it, if we squint our eyes a little we can even call today's low housing inventories a "strength" much more than a "big problem." It means the housing cycle's current downturn will be normal, not phenomenal as in 2009. It means a moderate fall in home prices is pretty likely to make the "low prices which cure low prices", as usual.

Here's the next "big strength" in the Main Street economy.



This picture is even more striking. It takes us back again to the Calamity of 2008 – 2009, when there were 6 unemployed workers for every 1 job opening. *That* is a real recession. Then came the long, plunging green arrow as Main Street rebuilt itself much stronger than before . . . reaching less than 1 job-seeker for every single open job, just before the Lockdown Calamity. But the spike in jobless people was over in a flash, and the green arrow took over again . . . ending at today's ratio, which is the same as 2 job openings for every single job seeker. And no matter the endless daily agonizing about all the "big problems" from the worried crowd, that "open jobs per seeker" number has stayed at 2-to-1, roughly, month after month through this worried year.

The Big Picture today is indeed "Big Problems and Big Strengths." What the betting crowd always misses, though, is that Strengths matter more than Problems, in the end. Strengths fix the Problems, eventually. Investing as if we believe that principle is a safe bet, not a risky one.

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