The Outlook: January 2, 2024

2024: the heart of the matter.

It's a whole new year . . . and here is the heart of what's going on.

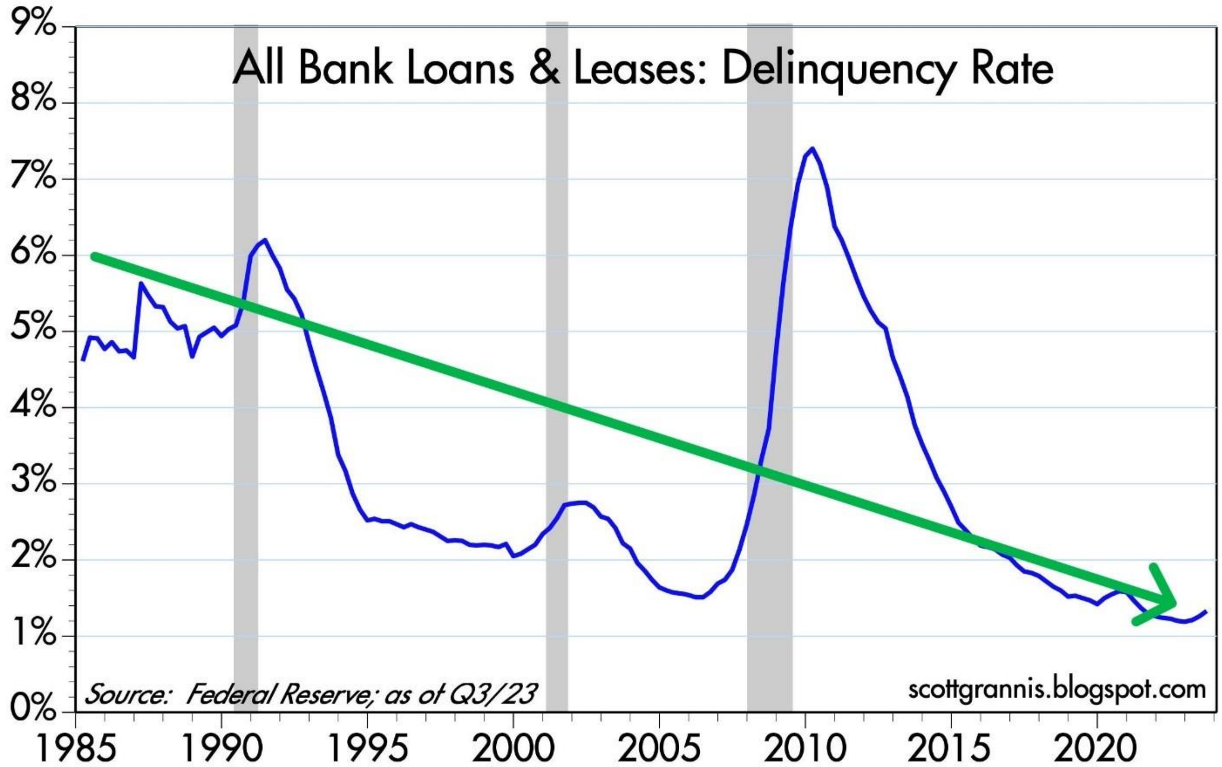
The U.S. economy—Main Street USA—spent 2023 proving the experts wrong. The investment world overflows with experts: from journalists to hedge fund gurus and a great crowd of celebrities in between. Most of them just couldn't believe Main Street could possibly stand up under skyrocketing interest rates piled on top of a list of Troubles which was downright alarming by anyone's standards: two wars, inflation, etc. They were all wrong. Main Street stood up to "sky-high" interest rates and Big Troubles just fine.

The market's betting crowd, meanwhile, got it right this time . . . sort of. That crowd bid up the market 26% or so. Yet before we offer that crowd our humble apology for always doubting its thinking ability, we have to notice that most of the 26% return came from the biggest 7 stocks: those Celebrity Tech companies we're always warning about. Those 7 stocks rocketed to the moon, pretty much; while the other 493 stocks wallowed in the mud, pretty much. (Among the 493 were Outlook's core companies, which didn't wallow at all, returning something in the neighborhood of 18 to 20 percent. But neither ours nor anything else held a candle to the Celebrities in 2023.)

So the heart of 2023's story—and the heart of today's story as we look to the new year—was that Main Street did what it almost always does: coping with problems and finding ways to keep growing profits, cash flows and dividends. We're pretty sure it's going to keep doing that in 2024.

Why?

Outlook's clients and friends know the answer by heart: because Main Street is immensely strong financially; and because its management determination and accountability, together with the endless invention of its engineers, are stronger than Big Troubles and High Interest Rates, if we just give Main Street a little time. Here's the latest picture of that financial strength, courtesy of Scott Grannis, who has been quite right about inflation, interest rates and growth for the past few years.



That's probably a dull picture, except to stodgy old bankers. To us, it's astonishing. The delinquency rate on all bank loans stands right next to a 40-year low around 1%. "Delinquency", of course, means "Your payments are late." To stodgy bankers, it's always been a four-letter word—in capital letters. The profit margin in banking is, well, pretty miserable—not quite down there with grocery stores, but so low it might explain why so many of us stodgy people became bankers. That thin profit margin means banks just can't afford to have many loans go bad, which in turn explains an old saying about bankers: "They'll only lend you money if you don't need it." Either it's safe, or forget it.

But even so, that picture shows the roller-coaster ride of loan delinquencies in the banking business. And 1% is just a jaw-dropping number, as is that 40-year downtrend. They mean that Main Street's financial strength is jaw-dropping, too.

The heart of the picture is not complicated: tremendous financial strength; genuinely exciting inventions; management skill and determination. The final piece, always, is "valuation:" is the betting crowd being silly, pricing Main Street for perfection? That answer is "Nope." It's certainly being silly about some of those Celebrity Techs, even with the solid business performance shown by most of them lately. If Outlook were in the daily betting business we might even make a bet in the futures market against those stocks. But there are 493 others . . . especially Outlook's core companies. As usual, we don't care what the betting crowd is doing. We're very pleased to hold big positions in exceptional companies, and wait for time to pay off again, as it did last year.

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