The Outlook: June 29, 2023

Good news and the powder train.

For the past 18 months, almost nothing has mattered to this market except the latest piece of "bad news." The daily betting crowd—which is really big—has been driven by its feeling that there's a shoe to drop on Main Street all over the world . . . and surely it's got to be a giant shoe, a Jack in the Beanstalk giant, which will squash Main Street flat. And for the same 18 months the startling thing has been how many times the crowd has bet that "This is it! Flattened for sure!" . . . but been wrong. It's kept trying Bad News and Bear Markets on for size; but Main Street has kept saying "Nope! Doesn't fit!", forcing the betting crowd to cancel its latest tries at selling the market and do a little buying instead.

At Outlook we don't know how much longer this will go on. We only know it will end eventually. The trigger for its ending will be some piece of Good News. That item, whatever it is, will ignite an explosion in the market: not because the item is so unbelievably "good", but because it's piled upon a long powder train of other Good News items, ignored by the market until it can't ignore them anymore.

That's what makes our daily search for "Good News" interesting and fun. Any item we find probably won't make the explosion . . . but it'll be more powder added to the train. Here's a recent one:

Container spot rates on major trades have dropped below pre-pandemic levels

Development port to port containerised freight tariffs in $ per FEU (40 ft container)*
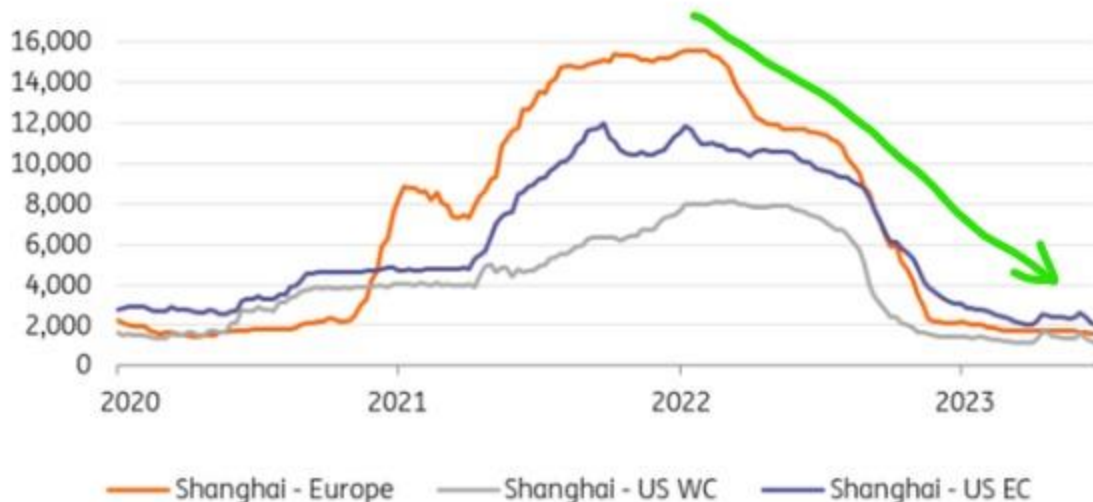
Clarksons, ING Research *last data point 06/23

This picture is basically about the future of inflation. We've seen it before of course, but it's really a remarkable picture. Shipping container costs rocketed from $2000 to $16,000 per unit as Lockdown

Calamity created Supply Chain Chaos. Shipping costs weren't alone: so did all kinds of other costs as the supply of goods was choked off and demand remained . . . or at least only faded a little.

What happened next was foreseen by nobody, because it seemed impossible . . . but it happened anyway. Shipping costs dove right off the same cliff they'd climbed. Now they're <u>below</u> where they began, just before Lockdown Calamity. And there's more. There is something close to a tidal wave of new container ships being built, and arriving over the next few years. They were ordered back there at $14,000 - $16,000 per unit, when sensible shipping executives thought, "Of course these prices can't last . . . but even if they plunge 50% to $7000 - $8000, we'll make plenty of money on an investment in new ships."

Most of Outlook's favorite CEO's, running Outlook's favorite companies, have made the same statement over the years: "We <u>never</u> see when the cycle will top and turn down; and we <u>never</u> see it when it will bottom and turn up. So we don't run our business by trying. Instead we just keep trying to make ourselves stronger, no matter what happens." Those shipping CEO's are surely reflecting on that idea right now.

But the point is that the plunging green arrow is probably not finished diving. And the "Good News" item to sprinkle on our 18-month powder train, waiting patiently for something to toss a match, is that the long-lasting "Inflation! Rate Hikes Forever!" nightmare will be watered down even more, by shipping's green arrow and all the similar cliff-diving cost arrows scattered around other parts of Main Street. It would be very nice to know when exactly the match will get tossed. We can't know. But we can and do know what will happen after the match shows up. That's why we insist on owning our companies ahead of time, and ignore the betting crowd's "feelings" about dropping shoes.

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