

The Outlook: Oct. 1, 2024

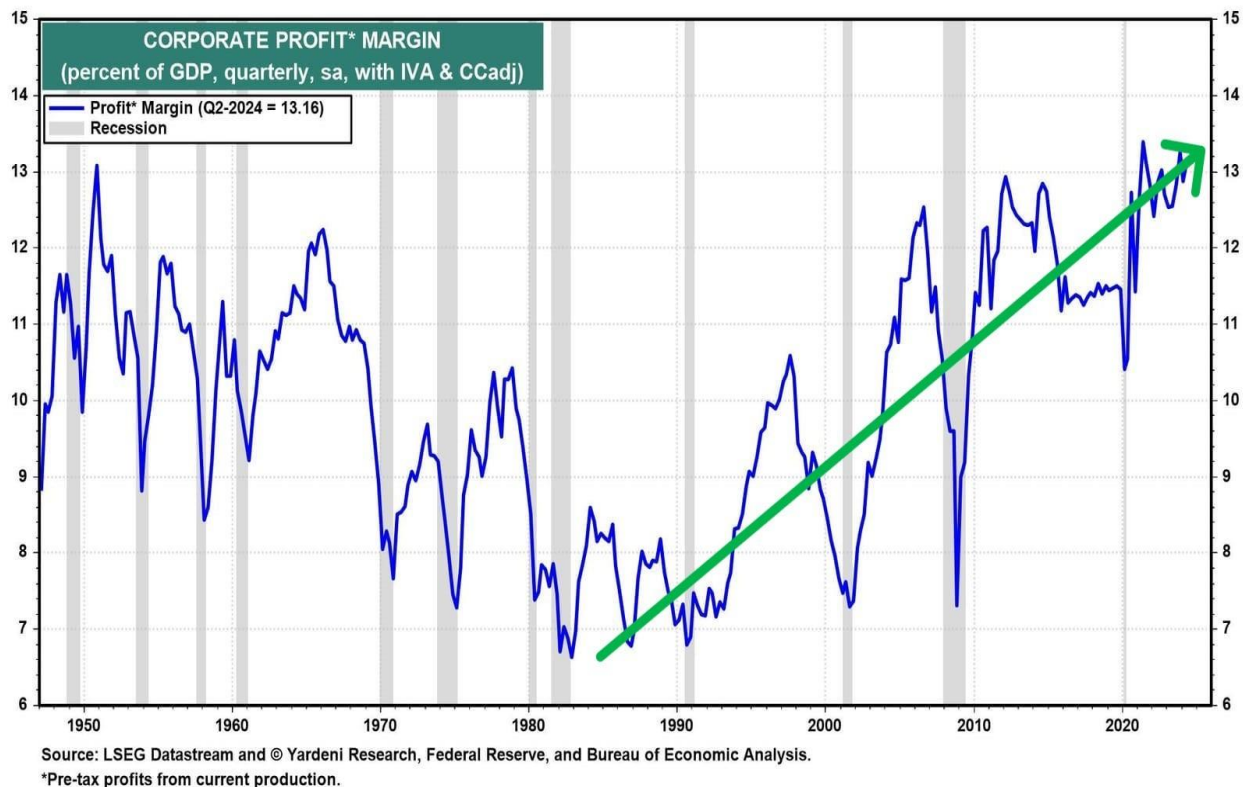
War! . . . and Tailwinds.

It's the nature of the market to promote every possible "Bad Dream" to "Nightmare!" status, in the minds of the daily betting crowd; and every "Nightmare!" to "Global Apocalypse!" The stronger the emotion seizing that crowd, the safer the short-term bet. And of all the possible "Bad Dreams" for the market to choose from, "War!" is always the strongest candidate for "Nightmare!" or "Apocalypse!" Thankfully, it doesn't come along that often . . . but it's here now, isn't it?

Even for those of us investors who like to stay calm and keep thinking, "War!" hands us a lethal combination: "big consequences, maybe very bad," and "uncertainty." We can think as hard as we like, but when "War!" is afoot we usually must resign ourselves to watching it play out for a while, before we can be confident about its effects. Now, that might sound like a prescription to "sell everything and run for the hills" . . . but as always, let's glance at the whole picture before heading out the door.

The picture below isn't quite the entire picture . . . but it's enough.

Main Street Profitability: Rising since 1990



At Outlook we think this is one of the most profound messages in the investment world. No matter how wild the gyrations of Main Street's profit margins from year to year, that green arrow captures what really matters. It's a downright astonishing improvement in corporate profit margins from 1990's 7% to today's 13%. It's a roller coaster ride, all right; but much like the roller coaster ride offered by great companies like Micron, Freeport, Texas Instruments, Caterpillar and the rest of the Outlook family. The high points keep getting higher; and the low points also keep getting higher. The trend is crystal clear.

The main engine for that green trend is also clear: the Tech Revolution which really began rolling around 1990. Outlook's own experience of business history is an example: today only two people are needed to do what required fourteen people back in 1990.

Here comes the best part. Artificial Intelligence hasn't even begun to have its effect on that long green arrow. But if there is one single thing about "AI" that is "crystal clear," it's that it will boost business productivity a lot . . . which means profit margins are not going to pause, take a breather or stagnate at today's 13%. They're going to keep rising: at least as fast as before, and our guess is "probably faster."

That is a Tailwind: a mighty Tailwind. "War!" is a headwind, to put it mildly; and we always have to wait and see just how strong it turns out to be, and how long it lasts. But when it comes to strength and endurance . . . it can't hold a candle to this kind of Tailwind. So as usual, we wait, watch, stay calm and keep thinking: and we don't even consider selling everything and running for the hills.

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