The Outlook: May 31, 2023

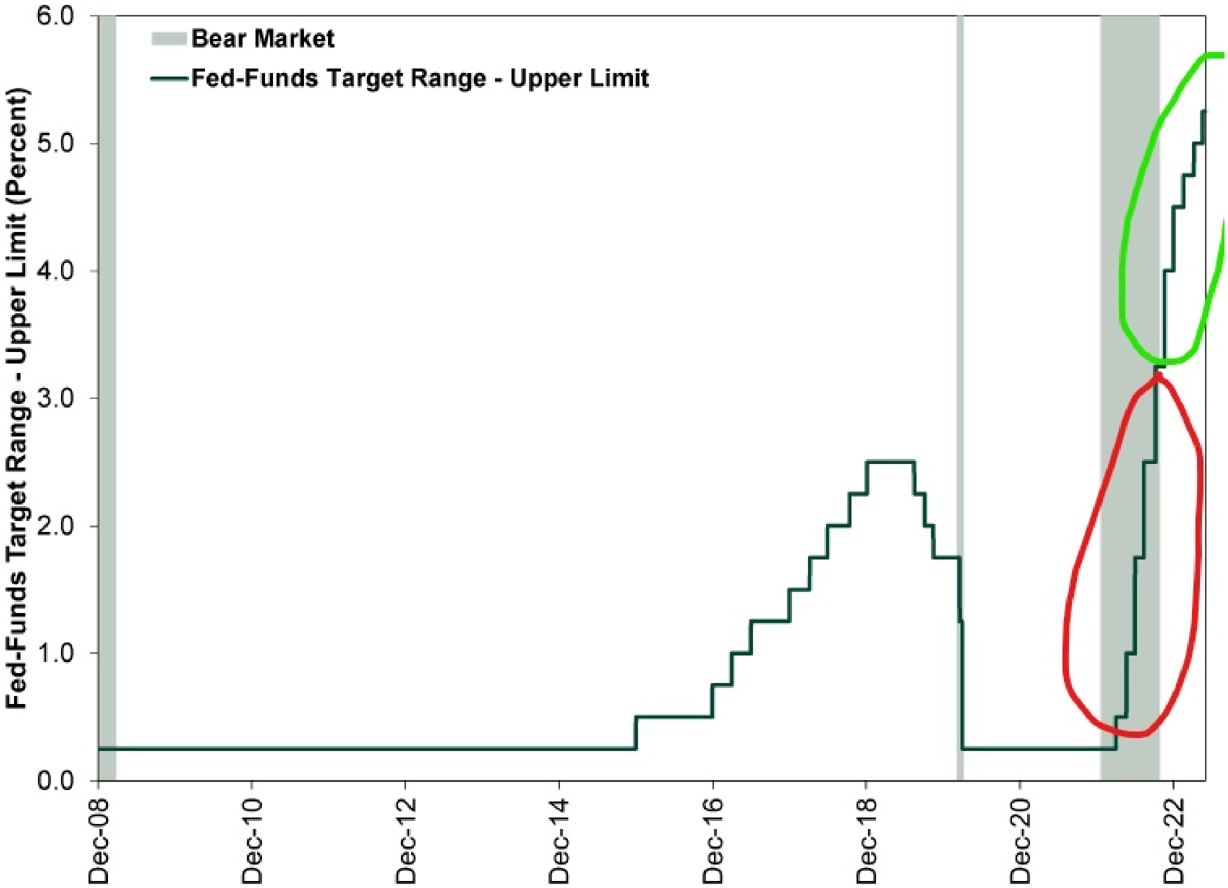
The Big Picture.

Here's the Big Picture. This stock market (that is, the daily betting crowd which drives its daily ups and downs) has been obsessed about the risk of "Recession!" for a solid 18 months. If we ever do fall into "Recession!", it'll be the most expected, analyzed and feared-ahead-of-time Recession in modern history, or pretty close. The market's obsession got triggered with the first rate hike by the Federal Reserve in early 2022. It's been rolling along ever since, helped every few weeks by Chairman Powell's stern remarks about killing inflation with "Rate Hikes Beyond the Horizon!" if need be.

The betting crowd really expected Main Street (the real, working economy) to collapse under this anxiety a long time ago. Naturally the market was supposed to crash, too. The crowd's impression of how things work on Main Street is always something like this:

"When the Fed prints money in gushers, Main Street does well. When the Fed stops printing (raising interest rates), Main Street gets sick."

Of course Outlook clients and friends know what's coming, because we underlined that deadly word: "impression." *"We must never, ever let impressions do our thinking for us"* is Outlook's Golden Rule One for both succeeding and avoiding disaster in the investment business. The daily betting crowd breaks that Rule every hour of every day . . . because it's in the *business* of making quick bets on impressions. But if the betting crowd heeded the Rule just this once, engaging its brain and doing a little work digging up facts, it would soon stumble across the facts below—which come to us today courtesy of the professional debunkers at Fisher Economics.



The red and green circles up there surround the <u>ten</u> interest-rate hikes delivered by Mr. Powell and his Fed since early 2022. That's a lot of rate hikes; and a lot of vertical distance: from 0.25% to 5.25%. Now, the shaded area is the latest "Bear Market," which lasted through the first 5 hikes and 10 months or so.

The Mystery, of course, is the green circle surrounding the <u>next</u> 5 hikes . . . and the clear white space inside the green circle, meaning "Market Up, not Down." That white space also means "Main Street Up, not Down." By all that's holy in the betting crowd's method of thinking—yup, just absorbing impressions—that white space should not exist. It shouldn't even be gray. It should be dark black, befitting a collapsing market and sick economy. The last 5 hikes, taking Main Street from 3.25% to 5.25%, should have done way more damage than the first 5—derailing the whole train on Main Street, pretty much.

But they didn't. Main Street stumbled a few times but never fell, and it's still marching on pretty steadily (not just here but all over the world, almost.) That brings us right back to today's Big Picture: with the betting crowd welcoming every sign of possible weakening on Main Street with a "We told you so!" bashing of the market.

Yet apparently the market doesn't want to stay bashed, for some reason. For six months "down" has been quickly followed by "back up again," and Main Street has kept chugging along in the background, with every sign of weakness followed by a sign of strength . . . especially inside Main Street's working companies themselves. Why? How? Because Main Street's engines of invention and problem-fixing never stop working . . . again, as we've seen over and over inside our working companies. That is not an impression but a fact about Main Street, and it's why we never stop betting on our Street.

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Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

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