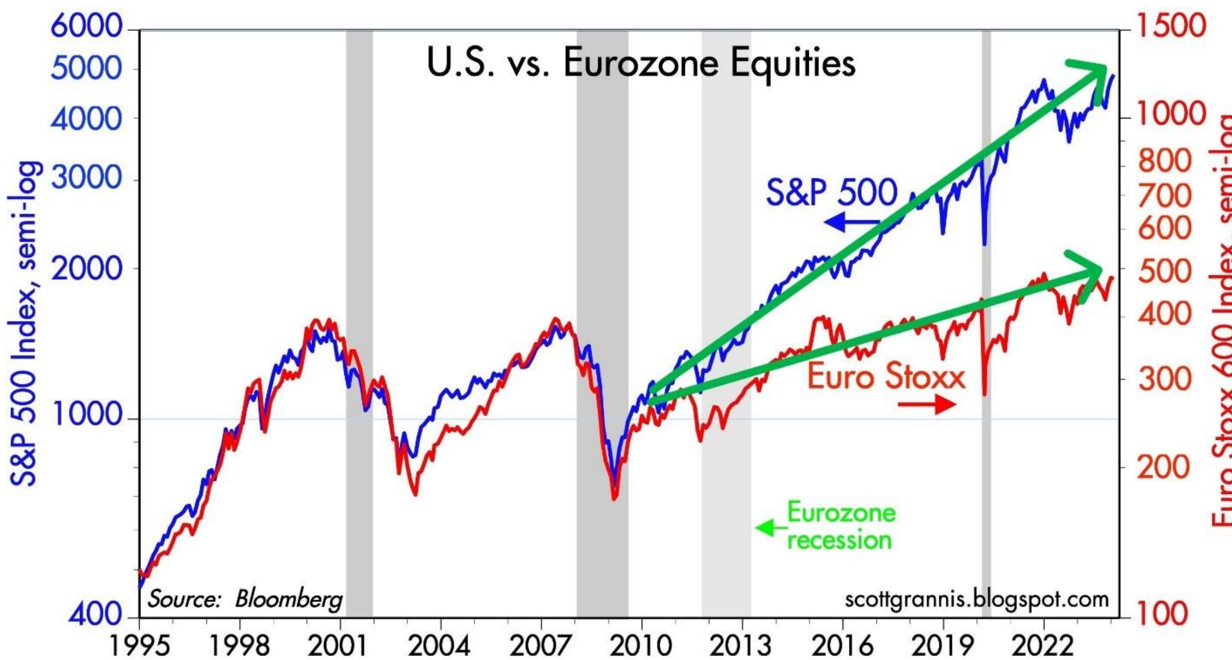
The Outlook: Jan. 31, 2024

Two sides to the market's coin, as usual.

Here's the meaning of today's 300-point market "plunge." The betting crowd spent the day twiddling its fingers, pretty much, no shocking news to bet on, then came Fed Chairman Powell's press conference. He hinted that the Fed might not actually cut interest rates until May. The betting crowd always sees the Fed as the Lord of the Rings, sort of: "one ring to rule them all, and in the darkness bind them," meaning nothing on earth actually matters except the Fed and interest rates, and if we investors don't believe that we'll probably spend years wandering penniless in the wilderness of Middle Earth. A glance at history shows it's complete nonsense . . . but one of our human weaknesses is that we sometimes find it hard to disbelieve complete nonsense.

So there was today's gift to the betting crowd—"Good heavens! No rate cuts until May?!"—and it ran with it, that is, it cliff-dived with it. But it wasn't much of a cliff dive, after all, since 300 points is less than 1% these days, and no daily market move even begins to be frightful if it can't break that 1% barrier, if not 2%.

Let's glance at a picture from economist Scott Grannis. A few useful facts jump out.



- At the far right, the blue-line U.S. market, we see it rising for 15 months now . . . <u>while interest rates rose and rose, then stayed high enough, supposedly, to strangle Main Street</u>. But of course Main Street is still breathing: alive and kicking in fact. Today's rate level just hasn't stopped it, even after more than a year of it.

- Then, in red, we see Europe's market. It's been downright sick, compared to our Main Street, since 2011, hasn't it? And in Europe, not only the market but its Main Street have indeed been suffering. Today's forecasts for Europe's economic growth are just plain dismal: 0%, 0.5%, 1% as far and wide as we can see. The sad thing is that there's been no change. Main Street Europe has been staggering along that way year after year: way, way too much regulation and taxes compared to Main Street USA.

But that's not actually the interesting thing in this picture. What's interesting is that despite all that, no matter the crushing burdens of taxation and regulation, that European stock market has still pointed up. It's been a painful, sluggish "up," but "up" it's been. Why? Well, it's not revealed in our picture, but here's a fact: the Euro market's forward-looking price/earnings ratio is around 13. Ours is around 24 (or 19, if we leave the Celebrity Techs out of it.)

In our investment business there are two sides to the coin. One side is "How much money is Main Street making . . . and how financially strong is it?" The other side is "Exactly how is the betting crowd valuing Main Street at the moment? Is it with silly optimism, with neutral watchfulness, with gloomy caution or downright anxiety?"

When we say it like that it seems terribly obvious. But in fact the volume of investors—and the overwhelming volume of media and market "experts"—who just don't look at "valuation" when they deliver their (mostly pessimistic) analyses and forecasts is, well, fairly shocking. Yet valuation is the only thing that explains Europe's market these past 12 years . . . and right now. Its Main Street has been hobbling along, shackled, carrying a 100-pound boulder . . . but its betting crowd has been even more pessimistic than Europe's Main Street deserves. So European investors haven't wandered in the wilderness, penniless; they've made a little money even as they've looked across the ocean at Main Street USA and Wall Street, all these years, and wished they could share some of that. And even though our market is more expensively valued, at 19 times earnings (without the Celebrities) and remembering its tremendous financial strength . . . it is not a train wreck waiting to happen. It is not a bus waiting for the wheels to fall off. It is not . . . we get the idea. At Outlook we're holding and buying as usual.

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