

The Outlook: Jan. 12, 2024

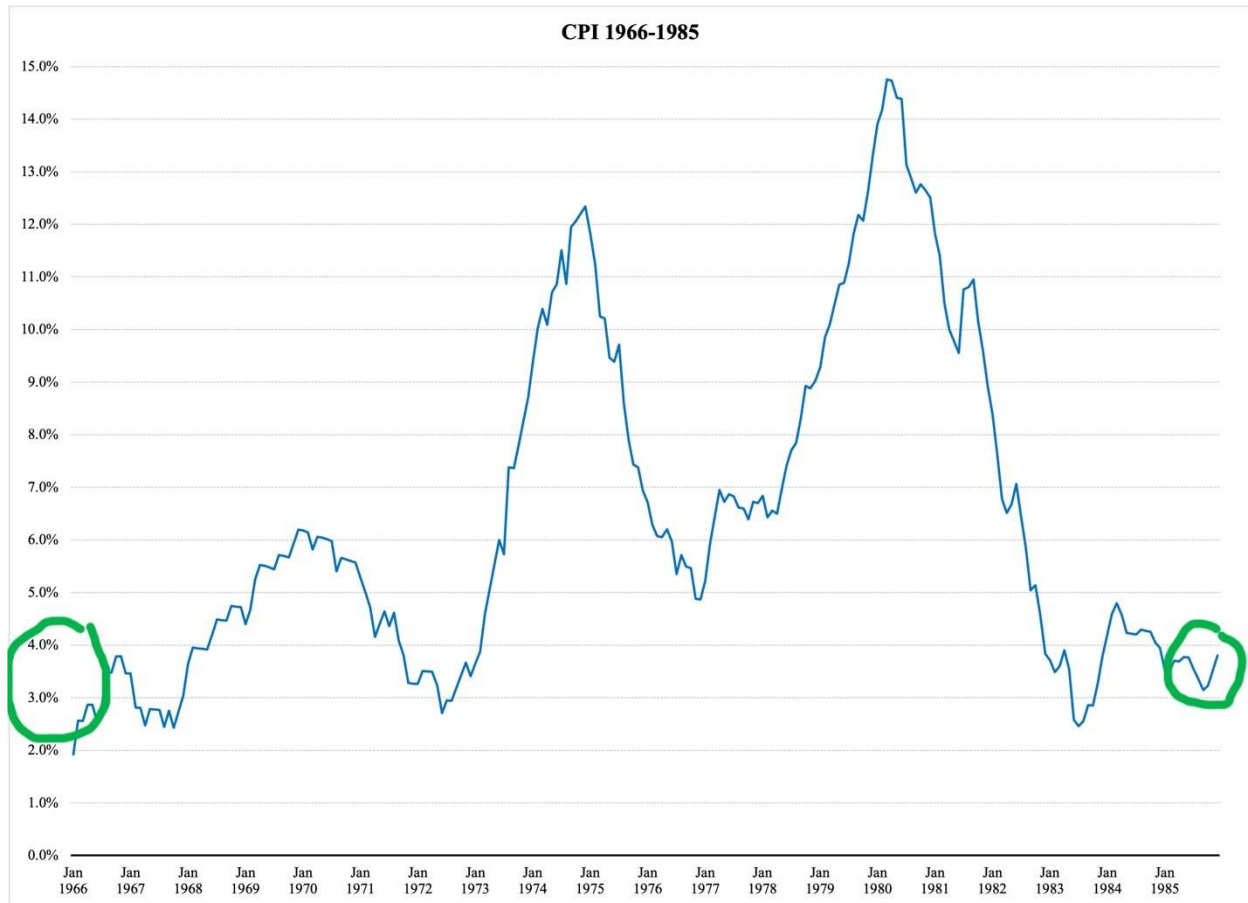
Look! Over here! Inflation!

“Hey! Over here! Look at this! Look at me! No . . . only look at me!”

That line might make us smile, on a snowy Friday, because it reminds us of something in our daily lives. It'll be no surprise to Outlook's clients and friends that it reminds us, anyway, of the media, of celebrity experts, of politicians (of course) and of everyone in Hollywood (naturally.) For us investors, it's a helpful line to remember because the “tunnel vision” such people always want from us will lead us straight to Big Mistakes. We don't like Big Mistakes . . . they hurt.

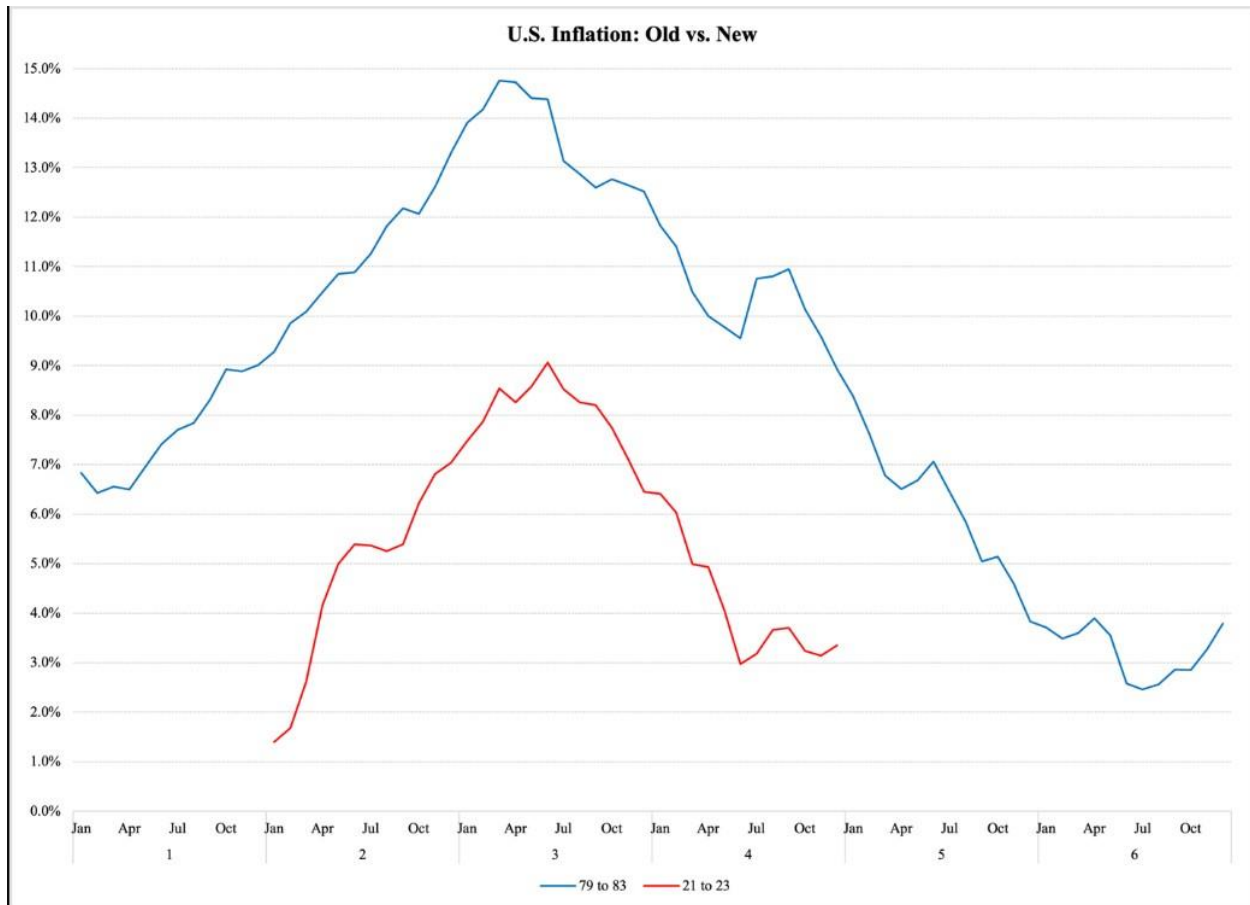
The investment world's tunnel vision, at the moment, is on Inflation. We are supposed to fix our gaze on every tenth of a point change in the inflation stats; on every sub-index and component of inflation; on every despairing forecast that Inflation is not dead . . . it's back! The main idea behind that goes right back to the market crowd's and the media's endless obsession with the Federal Reserve and interest rates. As we've noted once or twice before, to those folks the Fed is a lot like the great and powerful Wizard of Oz: seeing all, knowing all, running everything for good or bad. Even a casual look at history and facts tells us that idea is nonsense . . . but history also tells us, sadly, that nonsense ideas can have a very, very long life.

So there was a great fuss this week when the CPI came out ticking higher, reversing its recent trend. Then along came a Danish economist, of all people, named Sven Larson, to blow up the tunnel and give us a wider view of the picture.



First Mr. Larson treats us to a picture of, not just “inflation” but “INFLATION!!!” back when it was Big Trouble indeed in the Seventies and early Eighties. There it was, up there, hitting 12 and 15 percent, and scaring the daylights out of most of us. Serious experts made lots of serious analyses to the effect that America’s days as a banana republic had arrived and stretched beyond the horizon, so forget about investing, buy canned goods and so on.

They were dead wrong, as we can see. Looking at the big picture from 30 years later, “INFLATION!!” fell off a cliff. But that is not how it felt at the time. That cliff-dive looks awesome and convincing now; but at the time it was very easy to feel inflation was being mighty stubborn; yes, falling somewhat, but sure to come roaring back. That’s what the upward blips during the cliff-dive strongly suggested, back then. Mr. Larson wasn’t finished, though.



The blue line is a close-up of the worst part of 30 years ago: the spike to 15%, then the seemingly slow decline, taking quarters and years to really make an impression. The red line is now: the money-printing explosion and inflation spike of 2021-22; the seemingly halting decline, complete with the latest upward blip. Mr. Larson’s point is pretty obvious, isn’t it? They look alike.

There is a deeper point here, though. Whenever someone tells us we’d better look through this tunnel, right now, and only through this tunnel . . . we will be missing the truth. The deepest truth about these pictures isn’t in them. It’s what Main Street was doing 30 years ago, during “INFLATION’S!” frightening spike and then its interrupted decline; and what Main Street has been doing now . . . right through the Lockdown Calamity, right through the interest-rate and inflation spikes. Main Street shrugged and got on with the job; and that “job” turned out to be performing near-miracles of renewed invention and economic growth . . . despite the years of 10% to 5% inflation, and high interest rates, which our Street had to cope with while it got on with the job.

That’s the deep story: back then, and still today. It’s a simple story, and at Outlook we apologize for telling it so often; but it’s what really matters for our investments and our sacred fortunes.

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