

The Outlook: March 26, 2021

The Big Picture . . . beyond the horizon, a bit.

Here is Friday's "sea of green," which ended a week of swings between red and green. This is a nervous market—as it usually is—which lately has been gnawing on the worry that Europe's vaccine and "third wave of infections" problems might derail the global economic recovery. Let's enjoy the green sea, below . . . then look at the Big Picture.

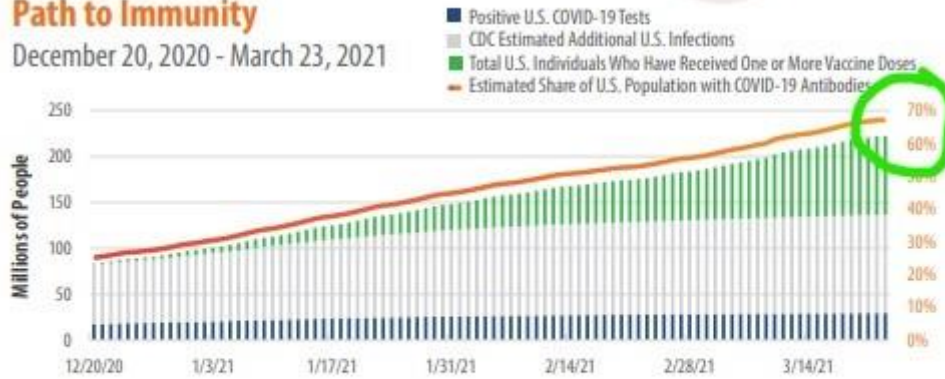
OCM Core Stock List SECURITY					Updated 16:02 EDT	Options ▼
Overview	Data	Events	Alerts	News		
Symbol ▲	Name	Price	Change	% Chg	As of (EST)	
CAT	Caterpillar Inc	229.60	+5.35	+2.39%	03/26 16:00	⊗
CME	CME Group Inc	208.48	+3.23	+1.57%	03/26 16:00	⊗
CMI	Cummins Inc	262.46	+1.28	+0.49%	03/26 16:00	⊗
COP	ConocoPhillips	55.04	+1.47	+2.74%	03/26 16:00	⊗
FCX	Freeport-McMoRan Inc	32.98	+1.87	+6.01%	03/26 16:00	⊗
LMT	Lockheed Martin Corp	364.81	+3.59	+0.99%	03/26 16:00	⊗
MSFT	Microsoft Corp	236.48	+4.14	+1.78%	03/26 16:00	⊗
MU	Micron Technology Inc	88.18	+4.09	+4.86%	03/26 16:00	⊗
TXN	Texas Instruments Inc	188.78	+10.29	+5.77%	03/26 16:00	⊗
XOM	Exxon Mobil Corp	57.72	+1.54	+2.74%	03/26 16:00	⊗

We've noted a few times that there are no certainties in the investment world, and only a small handful of "near-certainties." They're pretty rare, so when Outlook finds them, we're likely to bet on them. Here are the biggest "near-certainties" in today's Big Picture:

- We will have economic growth for at least a couple of years: especially in the U.S., but also around the world. We will have that growth no matter how long Europe keeps stumbling over its vaccine rollout or its supposed "third infection peak." The main engine driving that growth is captured by the picture below, courtesy of economist Brian Wesbury's outstanding weekly "COVID Tracker."

Path to Immunity

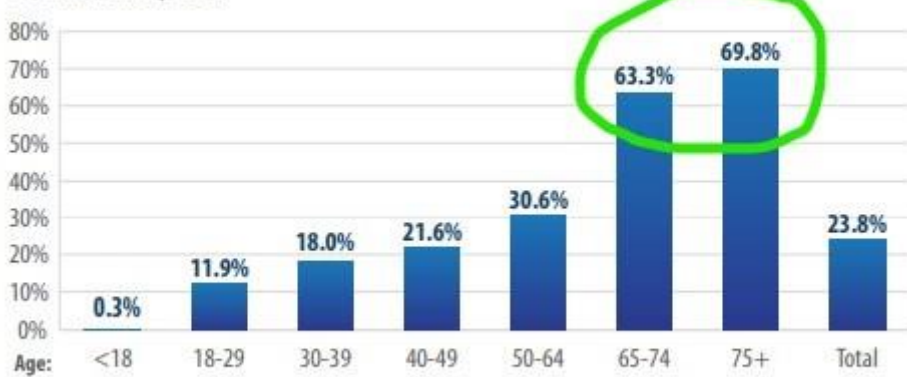
December 20, 2020 - March 23, 2021



Sources: CDC.gov, U.S. Bureau of Economic Analysis (population estimates as of Nov 2020), First Trust Advisors

Share of People Who Have Received at Least One Dose of the COVID-19 Vaccine by Age

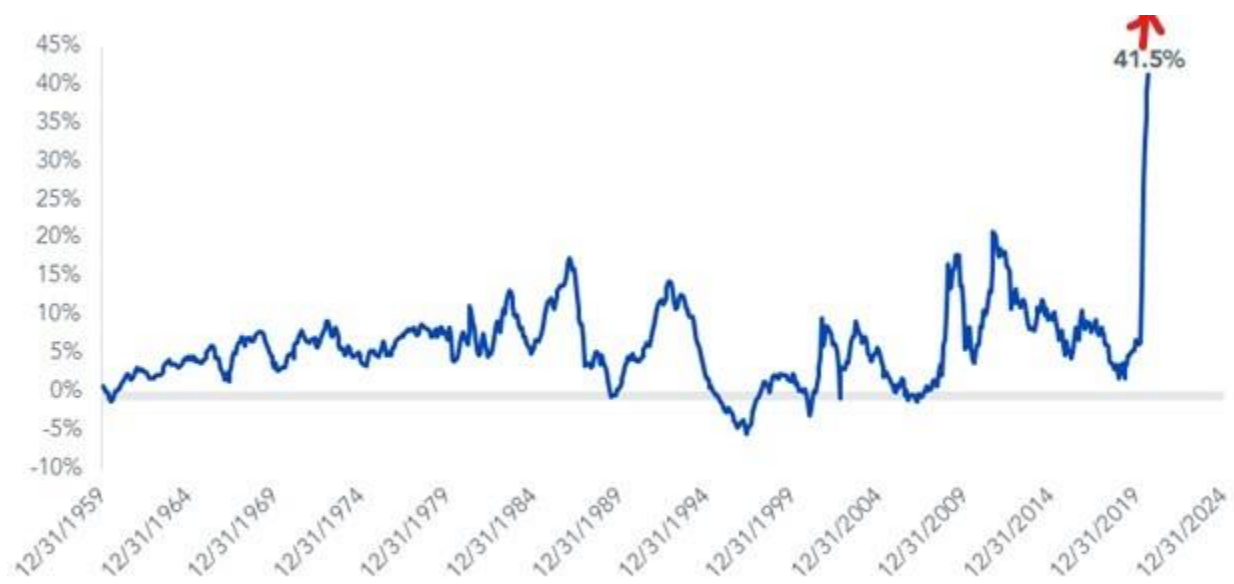
As of March 23, 2021



Sources: CDC.gov, Census.gov (population estimates as of 4/1/20), First Trust Advisors

Mr. Wesbury's 2 charts, up there, add up to "herd immunity" for the U.S. as a whole, and for America's most at-risk groups of people. Europe is a long way behind the U.S. right now . . . but its direction is the same. For one solid year, the world economy has been nearly paralyzed by fear and lockdowns. The message from these charts is: "The virus, fear and lockdowns have done their worst. The world's economies are overcoming them." The resulting "back to normal" tailwind is extraordinarily widespread and strong, hence "we will have economic growth."

- We will have inflation, and after a couple of years it will grow fast and strong enough to be a problem. These next 2 pictures are an odd match, at first, but they tell the story.



Sources: Federal Reserve, through 8/3/20. Past performance is not indicative of future results.



The top chart points to one of the most shocking things we've seen at Outlook in 44 years: the explosion in money-printing since the Virus showed up. The 41.5% growth number at the right is now way out of date. The new number will be more shocking, if that's possible: 60%, 70%, who knows? Last summer Outlook sized up the possible political risks ahead, as they might affect the economy and market. We said, "A Democratic sweep will mean extraordinary government spending, because very few politicians (of either party) are really worried about inflation from money-printing . . . simply because we haven't seen it in so long." It's turning out we were right . . . but even so, we didn't imagine money-printing and spending on *this* scale.

When will that inflation show up? When will it grow fast enough to be a real problem for growth?

In the few days since that gigantic cargo ship ran aground in the canal, 200 ships have backed up, waiting to get through. Cargo rates and many related prices have skyrocketed . . . again, since they had already skyrocketed through much of 2020. It's been an unusual event, and the freight market's spike in prices is just normal behavior, which happens all the time and gets reversed all the time, eventually, when supply catches back up to demand. "Unusual events" don't cause inflation. "Too much money chasing too few goods" causes it. But though inflation begins with the kind of "too much money" pictured in that 41.5% spike above, human behavior has a lot to do with when it actually shows up, and how fast it gets rolling.

In 1973 the very first OPEC oil embargo made oil prices skyrocket. Inflation followed, and stuck around at dangerous and growing levels until 1980 or so, when a Fed Chairman had the nerve to break it with 20% interest rates (also breaking the economy, for a while.) But that inflation would not have followed except for the preceding 10 years of money-printing, triggered by the "Great Society's" big spending on war and social programs at the same time. The human contribution to that inflation came when businesses all over the country began to realize one thing: "We can raise prices . . . and we won't lose customers to price-cutters because we're all raising them."

It's been a long time since people felt that way. Intense cost-cutting competition from China (and many others) for the past 20 years, plus fairly restrained money-printing, by and large, made the business sector's general feeling, "We make more money by constantly cutting costs, improving products, and gaining more customers . . . not raising prices."

That general feeling can change, and it will change: kind of slowly but not too slowly, over the next couple of years. Just as in 1973 and the following years, the “too much money” engine behind inflation is in place, but even more emphatically. As that 60-year chart shows, we haven’t seen anything like this kind of money-printing before. The world’s business sentiment will change too, back toward “We can raise prices (every year!) without getting hurt.”

It won’t happen too fast, and when it begins to get rolling it will help business earnings and the market for a good while. Eventually another Federal Reserve Chairman with nerve will be needed, to fix the problem when it gets out of hand.

That’s the Big Picture, looking pretty far out toward the horizon and even a bit beyond. Our companies are going to do very well for a good while, though—mainly because they’ve earned it with their admirable solutions to tough problems over the past years. We’re sticking with them, as usual.

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