<u>**The Outlook: Sept. 16, 2020**</u>

"Where is the humility?" The Fed speaks.

"Can so many distinguished people possibly be wrong?"

That's the Question of the Day, triggered because the Federal Reserve Bank made today's headlines with, "Fed Sees Interest Rates Near Zero Through 2023!" The 17 members of the Fed's Board of Governors almost define the word "distinguished" . . . "dignified", too. Every couple of months the Fed holds a press conference to tell the world what it thinks of the economy and inflation, hence its plans for interest rates in the future. The market's speculators—who probably outnumber the market's patient long-term investors like ants to aardvarks—are passionately interested in these occasions because . . . each speculator knows all the rest of them are passionately interested. Yes, they're *each* interested because they're *all* interested . . . not because the Fed "sees all, knows all and tells all" and never fails.

We aardvarks, though, are more concerned with whether the Fed's 17 eminences actually "know all" . . . or don't. Outlook's clients and friends know all about what Outlook Capital Management thinks of that question, of course. They don't "know all." They're making fairly wild guesses in a climate of intense pressure and seemingly-unanimous opinion about what the Fed "ought" to think and say. Not many people can stand up in that climate and keep their objectivity, saying something unpopular; and Outlook's 43 years of experience and attention to history tell us that the more "distinguished" they are, the <u>less</u> likely they'll stand against the crowd . . . and, therefore, they'll be wrong in the end.

The crowd thinks the Fed "ought" to say: "No worries about inflation, so we'll help the economy with zero rates beyond the horizon" because of this picture (from economist Scott Grannis.)

18 Years of 2% Inflation

Those 17 eminences each made their own forecast through 2023; and certainly every single forecast was a dignified model of economic analysis. 13 of them concluded: "No need to raise rates all the way through 2023," and the other 4 allowed as how there might be a trivial rate hike or two, but nothing to worry about.

Here's the staggering question about this exercise: "Where is the humility?"

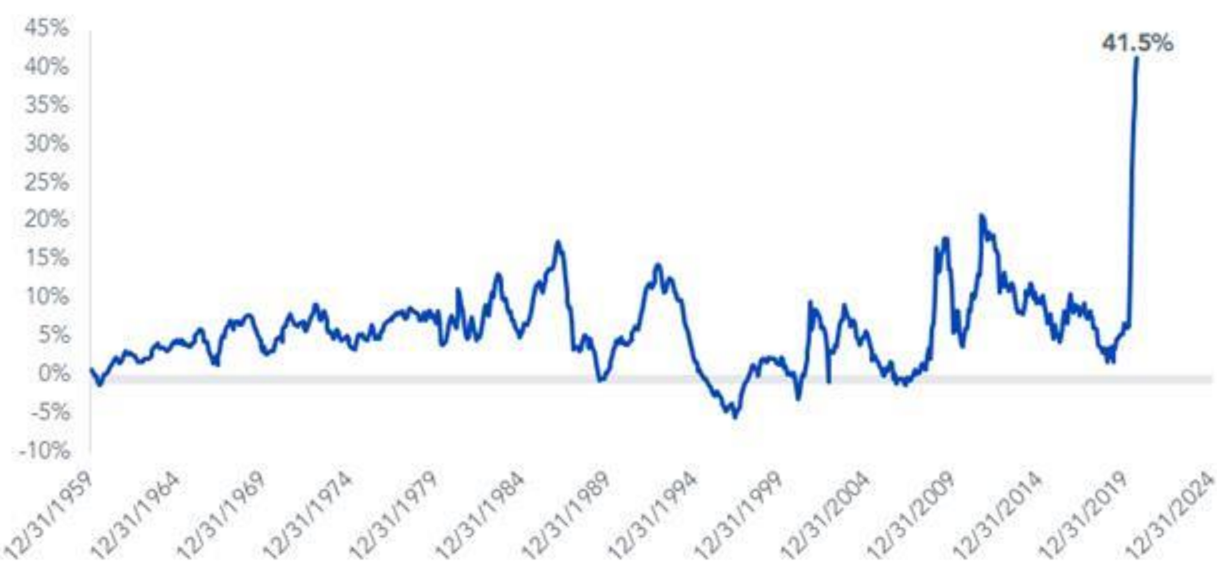
During Outlook's 43 years of lessons in the investment world, there have been two sharply different personal trends, on the subjects of "humility" and "confidence." Those decades have done nothing but strengthen our confidence in certain deep principles and "Golden Rules": like how free markets always fix themselves, curing both skyrocketing prices and cliff-diving prices; how companies always fix their problems when their leaders are good people, accountable for results; and more. And those same decades have done nothing but make us more careful and less confident about sweeping, grandiose predictions on certain kinds of things . . . like pinpoint economic forecasts, razor-sharp earnings predictions, and the like. One watches the deep principles and sees them stand up time after time . . . eventually. One watches the confident, pinpoint forecasts and sees them fail time after time . . . eventually.

Here was the Fed, today, making what amounts to a pinpoint forecast through 2023: trivial inflation, with no accelerating momentum to worry about; hence a zero-rate policy, with no bad consequences to worry about. Let us set aside the mountain of deep, dignified analysis which supported the 17 forecasts. The engine which really drove every one of them to their conclusion was that chart up there: trivial inflation for 18 years. What could go wrong? How could *that* change?

It's genuinely hard for people to imagine drastic changes in any part of their lives, or in their subjects of expertise. It's part of our nature. But history does not just *tell* us that drastic changes are closer to the "norm" than the continuation of today . . . it grabs us by the collar and hollers at us. It shouts, "Would you please try not to make that mistake again, for your own good?" And here's the last thing it tells us: "If you make the mistake again, disbelieving in the likelihood of big change, you'll look back afterwards and ask yourself how on earth you could have missed something so obvious."

What is "so obvious" about the Fed's mistake, today, is this:

Annual Money Supply Growth Rates Since 1959



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

Those 17 distinguished people are all telling us there will be no consequences from that astonishing spike in money-printing, at the right. They know exactly what Outlook knows about inflation: it's not complicated. It is literally "too much money chasing too few goods." They know we have "too much money" today, in spades; they know we have "too few goods" thanks to the Virus Lockdowns; but they think, for some reason, that the "chasing" part will be even more feeble for the next few years than it was from 2009 to 2020 . . . thanks to the enduring money-spending-and-lending caution triggered by the 2009 Calamity. But it will have to be <u>*a lot more feeble*</u>, to offset that Mount Everest spike in the money supply, up there.

That doesn't feel right at Outlook Capital Management.

The Fed made this statement today, roughly: "We aim for inflation moderately above 2% for some time, so that when averaged with the past many years of below-2% inflation, the average will be about 2%." The pinpoint confidence embedded in that statement was . . . just the problem we've been talking about. (That Fed statement deserves more colorful adjectives, in Outlook's opinion, but let us keep the high road here.) We'll end with our own prediction: not pinpoint, and not over-confident . . . but we are glad to bet money on it. "The Fed's "zero rates through 2023" forecast will go down in history as another of those astoundingly wrong predictions, from the most distinguished of experts, which fill the 400 pages of "The Experts Speak". (A compilation of astoundingly-wrong forecasts from distinguished people.) <u>The Fed will drop its zero-rate policy because inflation will *not* stay "moderately above 2%." It will accelerate, with that 41% spike in printed money pushing it from behind.</u>

Accelerating inflation is bad, not good . . . but for a good while it will be another tailwind for the several strong, commodity-based companies we own at Outlook.

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