

The Outlook: March 26, 2020

“Facts are stubborn things” and the turnaround, eventually.

“New Bull Market Begins!” was the headline this afternoon . . . and we’ll bet it left most investors as speechless as it left us, at Outlook. The market rose 20% from its bottom, as of today, which apparently defines a “New Bull Market!” OK . . . but it’s still so hard to think of the right adjective for that headline that we’d best not bother.

The real turnaround—in the economy and the market—is the giant question, and will be for a good while. We all know it depends on how long the global “Virus Shutdowns” go on. We also know that’s entirely in the hands of politicians the world over. (Of course there is no way to make that statement without being worried about it.) It would be nice to believe that political leaders generally “get it right” when it comes to the giant decisions affecting their citizens . . . but unfortunately that is not the lesson of history. When it comes to those “giant decisions,” all of which come with intense pressure, Outlook’s judgment from history is that “a tiny few” get it right immediately; “a good many more” get it right after absorbing some hard knocks, because they were willing to change their minds; and “a great many” carry on blundering for a long, painful time.

That sounds bad—but there is one more general lesson from history. The amount of pain which accompanies “getting it wrong” makes the change to “getting it right” come faster: the more pain, the faster political leaders change their minds . . . in general.

Yesterday’s 3.3 million new unemployment claims—four times more than any previous record—was something like the first dose of major pain. Unfortunately the doses will be getting inconceivably bigger and more bitter, as the ripple effects of global shutdowns (more like tidal waves) flow through the economy. A big reason for this is simple: the economy is hard to understand. Getting sick, though, is very easy to understand. Every citizen and political leader perfectly understands getting sick. Only a tiny share of them understand the economy, at least with anything beyond “shallow.”

We’ll all be increasing our understanding pretty soon. The Virus Shutdowns will create wave after wave of statistics so terrible they deserve the term “inconceivable.” The U.S. and global economy is a giant, inter-connected machine with more critical links than even lifelong economists can easily keep in mind. There is *always* something going wrong with one, two or ten of those links: “Trade War!”, “Brexit!”, you name it. No real problem. But the Shutdowns break a thousand links at the same time--everywhere. No company and no nation can survive a Shutdown which goes on too long, including nations which can print their own money—a very helpful thing right now. Hence the mind-boggling nature of quite a few public remarks, lately, by quite a few “eminent” people along the lines of “we might have to endure a few months of this, but it’ll be OK.” They may be “eminent;” but they do not begin to understand the economy.

Again, that sounds grim . . . but those terrible waves of statistics will absolutely have a fast, educational effect. They will force every political leader to face the intensely hard question behind everything: “How many Virus deaths must be accepted to avoid the shocking and accelerating economic suffering inflicted by the Shutdowns?”

Just yesterday an “Outlook” pointed to the one thing which always happens, in crises like this, with absolute certainty: many so-called “facts” and statistics, concerning every crisis, turn out to be grossly

distorted or plain wrong, when we look back a year or more later. Apparently, this time, we don't have to wait that long. The most "eminent" of eminent medical experts in Britain, Neil Ferguson of Imperial College London, issued a report today which turned his own predictions, from one week ago, upside down. Here's a grid summarizing Dr. Ferguson's predictions:

<u>Public Quarantine</u>	<u>Virus Deaths in Britain</u>	<u>Virus Deaths in the U.S.</u>	<u>Length of Required</u>
	<u>Health System's Adequacy to Cope</u>		
Last week	500,000	2,000,000	18
months	Overwhelmed		
This week	20,000	?	2 – 3
weeks	"Should be OK" in Britain		

Britain has had 600 deaths so far; the U.S., 1200. They'll both go higher, maybe a lot higher—but they have a ways to go, even to get to Dr. Ferguson's "new" predictions. (And just for the scientific minds among us, Dr. Ferguson's changed forecasts were driven by the obvious facts other medical experts have been pointing out—to an uninterested media—for weeks now: namely that the true infection rate still hasn't been measured, but is certainly tremendously higher than the "positive test rate;" therefore the true "mortality rate" is tremendously lower than all of the headline numbers. And those deeply flawed "headline" numbers must be correctly understood before political leaders can possibly "get it right" about their choice, going forward: to treat the Virus like an unusually deadly flu season; or to treat it like the Black Plague of the 1400's.)

It will be interesting, of course, to see how much of the U.S. media picks up this story. A week ago, Dr. Ferguson's doomsday scenario got considerable attention. But "if it bleeds, it leads" perfectly described Ferguson Last Week; and "a lot less blood" describes Ferguson This Week.

"Facts are stubborn things," goes the old saying. The whole key to understanding the nature of the market is that facts can be distorted or ignored for a time, but never permanently. That's a very good thing, most of the time, because most of the market's extreme disconnects with reality are when terror rules and the direction is down. As grim as the economic news is going to be, now, we will also see more and more of the facts which really matter, eventually; and which clarify rather than confuse. Meanwhile, if the market "knows" anything, it knows that "Nothing but down!" won't fit reality in the future. Our little 3-day "up" streak will surely end sometime soon . . . but it will certainly be back.

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