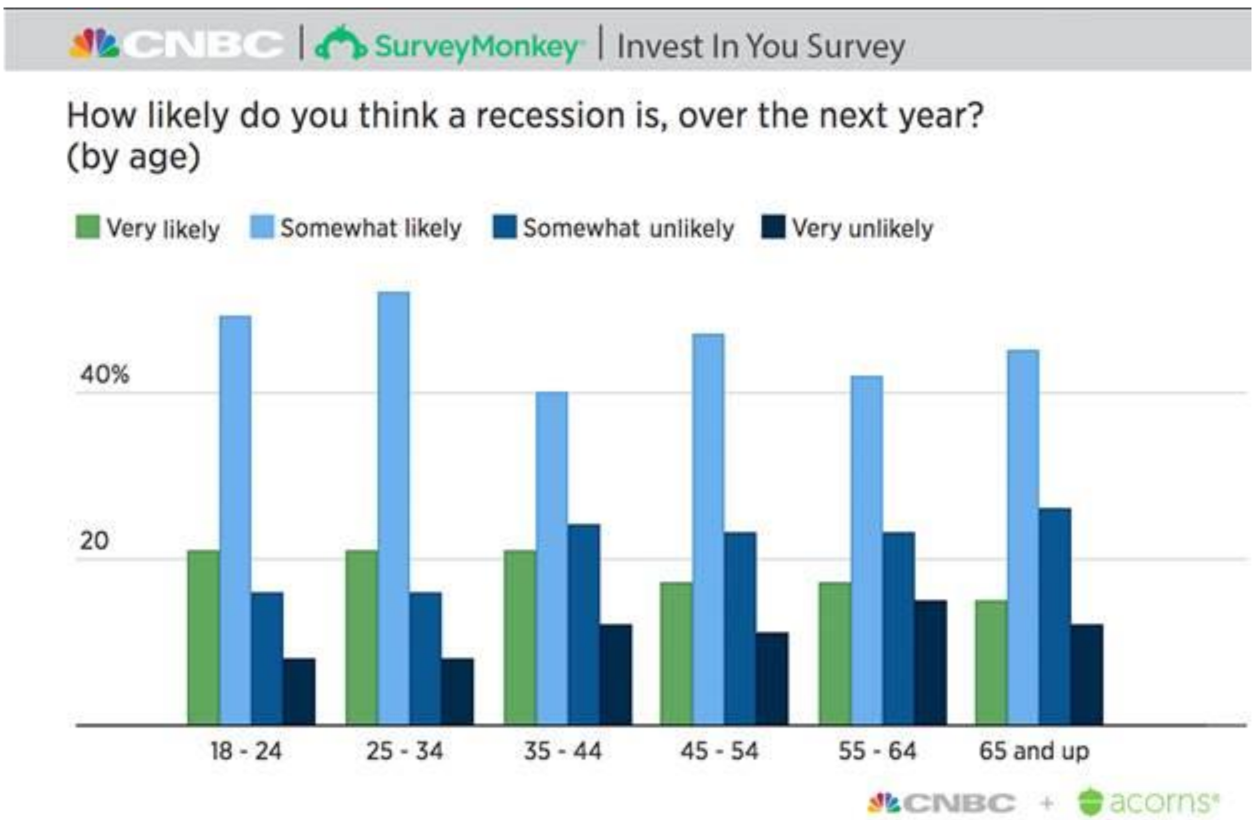
The Outlook: Nov. 18, 2019

Trouble, always: but with a small "t", not a capital.

It's the nature of the market to be mostly fearful. It's mostly fearful; occasionally exuberant; and grudgingly willing, pretty often, to revise its frightened opinion because it has to admit the sky hasn't fallen yet. It is all those things for the simplest of reasons: because it's a giant crowd of (fairly) normal people—and we're all easily alarmed, when it comes to our money. And that, in turn, explains why the overwhelming tide of media headlines and stories is thoroughly pessimistic, day after day and year after year. No matter what, the media needs our attention to survive; and it knows perfectly well that nothing grabs our eyeballs like frightening stories touching upon our money. And since journalists are (fairly) normal people, too, they're inclined to believe the alarming things they write, which happen to serve their self-interest too.

That's Monday morning philosophy. Let's glance at some recent examples.

Half of Americans Think a Recession's Coming Next Year; Another 20% Think There's a Good Chance



So 70% of Americans think we're in economic trouble, according to this poll from last week. <u>One year ago, they thought exactly the same thing</u>. They're just as alarmed now as then, because those 12 months gave us truly endless alarming headlines. We might remember one of the best, last May 23rd, was: "Yield Curve Inversion Means Recession Is Coming!" That day the 3-month T-Bill's yield rose above the 10-year T-Bond rate . . . and the wave of blood-curdling expert predictions made Hurricane Dorian look like a ripple on the beach—because such an "inversion" meant economic disaster 96.2% of the time throughout history, or something along those lines, according to a host of experts.

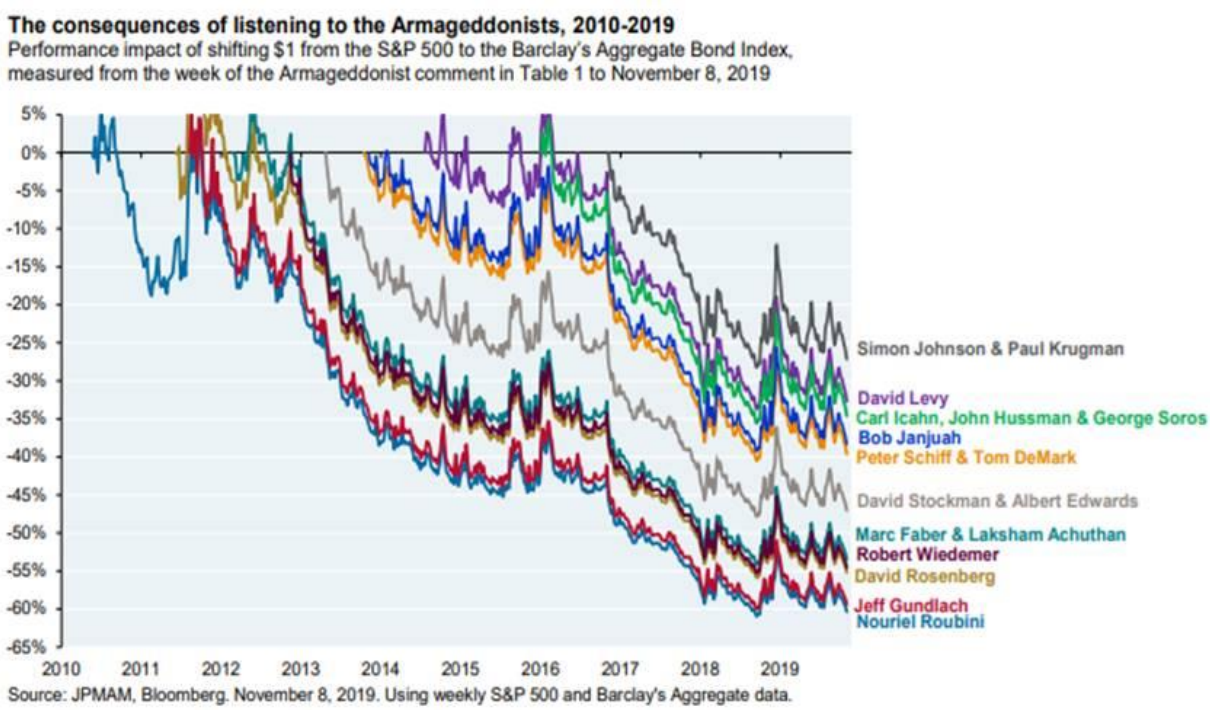
Circled in green below, we see today's yield curve. No more inversion . . . and no recession yet or any sign of one, even though the May 23rd "inversion" lasted a good 6 months, which should have been more than enough time to bring the sky crashing down.

Treasury Yield Curve Today

Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
11/01/19	1.58	1.58	1.52	1.55	1.53	1.56	1.55	1.55	1.63	1.73	2.03	2.21
11/04/19	1.58	1.57	1.53	1.57	1.56	1.60	1.59	1.60	1.69	1.79	2.10	2.27
11/05/19	1.56	1.57	1.56	1.58	1.62	1.63	1.63	1.66	1.77	1.86	2.17	2.34
11/06/19	1.55	1.56	1.56	1.57	1.58	1.61	1.60	1.63	1.73	1.81	2.13	2.30
11/07/19	1.57	1.57	1.56	1.58	1.58	1.68	1.70	1.74	1.84	1.92	2.24	2.40
11/08/19	1.56	1.56	1.55	1.58	1.58	1.68	1.70	1.74	1.86	1.94	2.27	2.43
11/12/19	1.56	1.56	1.59	1.59	1.58	1.66	1.69	1.73	1.84	1.92	2.24	2.39
11/13/19	1.56	1.57	1.57	1.59	1.57	1.63	1.65	1.69	1.79	1.88	2.20	2.36
11/14/19	[illegible]	1.57	1.57	[illegible]	1.55	[illegible]	1.59	1.63	1.73	1.82	2.15	2.31
11/15/19	1.59	1.56	1.57	1.59	1.54	1.61	1.61	1.65	1.75	1.84	2.16	2.31

Nov 15, 2019

Our last picture is courtesy of JP Morgan's Chief Investment Officer—who shows us that some of the smart people who work on Wall Street have common sense, too. (Let's only notice all the lines are falling, below, then skip to the explanation. It'll save eyestrain.)



Mr. Cembalest, the Morgan man, asked himself what would happen to an investor who decided to believe the “sky is about to fall” forecasts from the most eminent doomsayers over the last 9 years. His hypothetical, alarmed investor moved one dollar of his capital from stocks to bonds (as a “safe haven,” heaven help him) each time one of those experts came out with a “Market and Economy Doomed!” headline. Then he did the math, and good for JP Morgan for handling that job because it was surely a headache.

The result? The dollars the alarmed investor shifted from stocks to bonds cost him at least 25% in lost returns; and as much as 60%.

That list of celebrity pessimists barely scratched the surface of the mountain of alarmed forecasts, headlines and in-depth stories we’ve had to endure since 2010. Like the media which trumpeted all that alarm, the celebrities up there mostly actually believed what they were warning us about. But they weren’t making themselves look at the whole picture, rather than whatever dark corner horrified them; so they let their fears ruin their ability to think straight. It is the nature of the markets, the media and of normal people to let fears do that—but we cannot do well as investors if we let fear do our thinking.

Mr. Cembalest, explaining why he isn’t too frightened about the next recession (which will certainly show up sometime), pointed to a few of Outlook’s favorite facts: extraordinarily high capital levels at U.S. and European banks—the highest in history by a long shot; extraordinarily strong balance sheets for U.S. households; and high and rising levels of foreign exchange (cash, that is) among a lot of “emerging markets,” making them less vulnerable than usual to their economic problems. Such facts are the engines which have driven the economy (and the market, grudgingly) ever upward—with ebbs and flows of course—for the last 10 years, despite the daily tidal wave of alarms. They haven’t changed.

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