

The Outlook: June 10, 2021

Fearful Problems: the Inflation Rate . . . and Caterpillar

“Prices Rise at Fastest Pace in Years, Fueling Inflation Fears!” was just one of a blizzard of similar headlines today. The fact which triggered the headlines was the CPI for May, which rose 5% from a year ago, and is now running at 8.4% if we project from the last 3 months. Projecting *anything* in economics isn’t very helpful most of the time . . . but all the same, Chairman Powell and his colleagues over at the Fed can’t possibly be feeling good, these days, about the “low inflation and low interest rates beyond the horizon” remarks they’ve been making so confidently for the last 15 months. Not when they gaze at pictures like this:

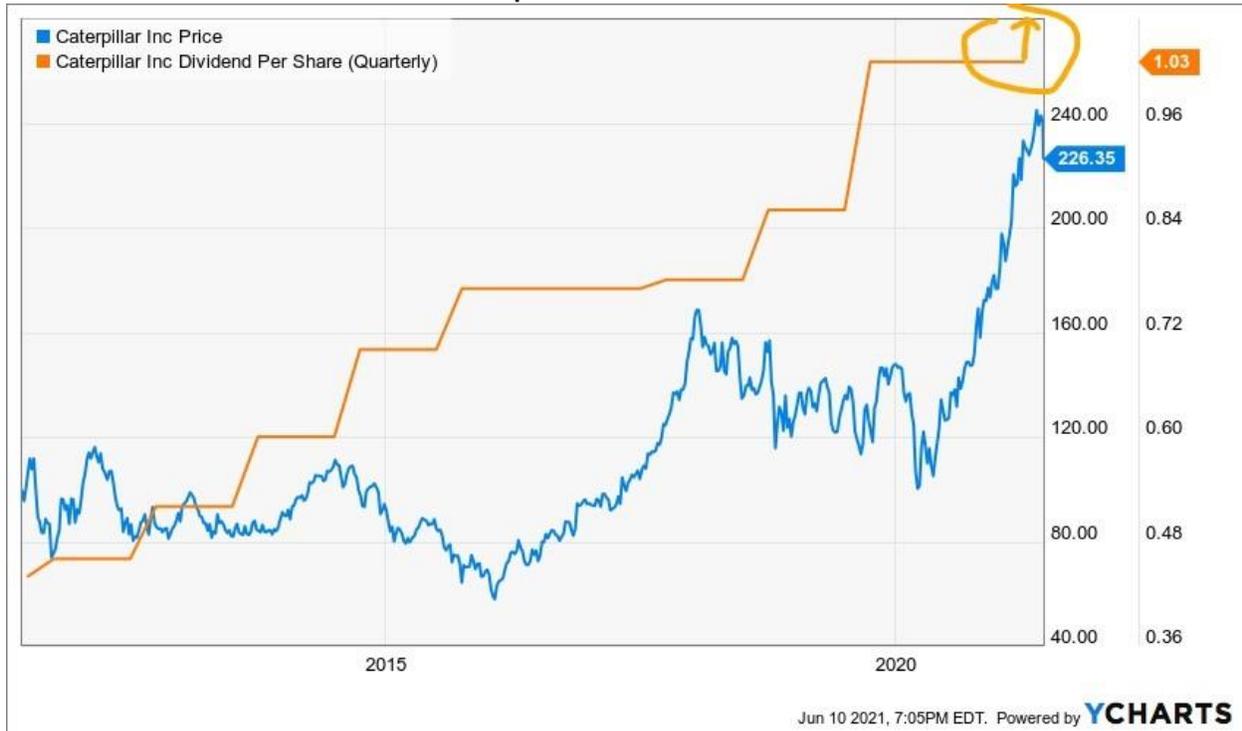


That 8.4% inflation rate—and even that 5% rate—may very well calm down in the months ahead. When an economist like Brian Wesbury digs into the numbers he sees some big bounces from abnormally low figures a year ago. All economic measurements ebb and flow—like life does, sort of—and Mr. Powell’s current forecast that these big numbers are “temporary blips” will be . . . half true. But it’s good to remember a very old saying: “Half truths are always whole lies.” In the Fed Chairman’s case, “lies” isn’t the right word . . . but “wrong” sure is. At Outlook we’ll be surprised if inflation runs at anything less than 4%, next year. That’s double the 2% rate the Federal Reserve is targeting, more or less. There will be no “low interest rates beyond the horizon.”

Yet the market rises, and rises again. Why?

Here's one picture which captures the heart of the answer:

Caterpillar Hikes Dividend 8%



“We’re executing our long term strategy, and Caterpillar is generating higher free cash flow throughout the cycles,” said CEO Jim Umpleby yesterday. This isn’t news to Outlook clients and friends, but CAT’s success, over the last decade (pictured above), at creating solid earnings and cash flows during the worst of times, as well as the best . . . has been spectacular.

Inflation will be a gradually more fearful problem; but Caterpillar has done so well with the fearful problems it’s faced over the last decade (and more) that it makes no sense to Outlook to bet against it. Quite the opposite.

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