

The Outlook: July 14, 2021

The storm clouds of inflation.

The storm clouds of inflation have been darkening and growing, month after month. They began as little gray wisps on the horizon as this year began, while the Federal Reserve Bank's Chairman Powell made confident remarks along the lines of, "That sky is clear, nothing to worry about, inflation and our interest rates will be near rock-bottom for a very long time to come."

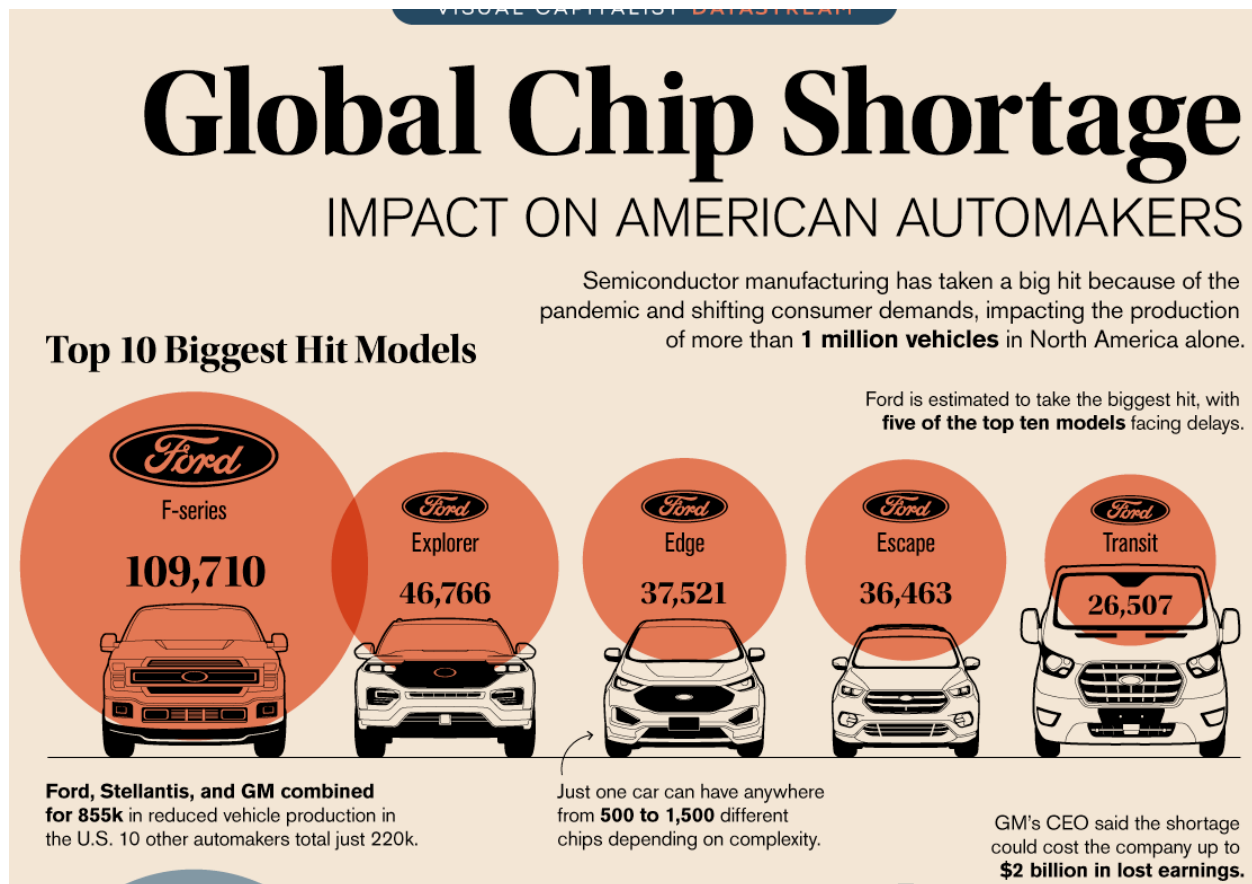
At Outlook our reaction to Mr. Powell's prediction was, "He is going to be very sorry he said that." But as the months passed after January, and the inflation storm clouds got darker and closer, and Mr. Powell refused to take back a single word, we began to feel like the legendary witness to a train crash: "Here they come, straight at each other on the same track . . . and there's absolutely nothing anyone can do about it." All Mr. Powell can do, eventually, is to climb down from the limb he's placed himself upon and tell his central bank it's time to start shrinking the vast pile of money printed since 2020, and tolerating higher interest rates.

He's not ready to do that yet. It's hard for any of us to admit big mistakes . . . and gets harder, the more of a "distinguished authority" one feels himself to be. Let's glance at those storm clouds.



That picture was today's headline: inflation running at near 6%. Mr. Powell and his staff of experts have convinced themselves it will be temporary: a natural spike caused by comparing today's booming economy with the economic death-spiral of last year's Lockdown Calamity, which created dramatic price plunges for a while. They've further convinced themselves—and are telling everyone who will listen—that the startling shortages (also a consequence of the "never before seen in history" Lockdown) of commodities, labor, computer chips and many other items are obviously causing prices to rise—as consumers and companies bid against each other for scarce things, from houses to cars.

They're partly right. Here's a nice picture of how the chip shortage has created an auto shortage:



But Mr. Powell's optimism is something like a weather forecaster saying, "There's still plenty of blue sky between those black clouds up there," even as the black clouds rush toward us with frightening speed. We non-experts are running for our raincoats no matter what the forecaster tells us to think about, because what's about to happen is too obvious to ignore.

The obvious thing about inflation is that the Fed has printed truly mind-boggling clouds of money last year and this year—and unlike the clouds it printed during the 2008 – 2009 Calamity, a great deal of that money was handed directly to consumers and to federal, state and local governments, which are spending it. Production of goods has had no chance to keep up with printing of money, so are seeing "too much money chasing too few goods," and we'll see much more of it in the year ahead. That is so obvious that an expert like Mr. Powell can only look past it because he has already painted himself into a corner (denying the obvious) and can't figure out how to get out gracefully. People do that—particularly famous authorities.

So inflation's storm clouds will continue to grow and darken, and eventually the storm will burst upon the U.S. economy. And what will happen then? Outlook's answer is: "Nothing too bad, for a good while, because the economic ship is remarkably strong—far stronger than pessimists feel it is." But inflation will show itself to be strong, too, and Mr. Powell's Fed will raise interest rates faster and sooner than it told us it would, back in 2020 when the happy talk of "Low rates beyond the horizon" was its constant

theme. That won't stop the economy or the market . . . for a while, meaning 2 or 3 years or more. But it will give the market's pessimists something to warn us about; and it will give the market's speculating crowd the usual recurring Nightmares, hence the usual recurring temporary plunges in value. But it will be time to hold, not sell. Outlook's plan will be to do exactly that, while watching the storm clouds every day. We've been doing that for 44 years now.

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