

The Outlook: Feb. 16, 2024

Always hard to believe . . . but good news does follow bad, eventually.

The Lesson for Today is something like this: the investment world (and the media) always see more bad news coming, if the news is already bad; and they often see more good news coming, if it's already good. But they almost never see bad news changing into good news until well after it's happened, and it's too clear to miss.

Here's a picture about China . . . where the news has been thoroughly and downright bad for quite some time: property bubble bursting, galactic debts, dictator whose mission is bullying his own people and the rest of the world, etc.

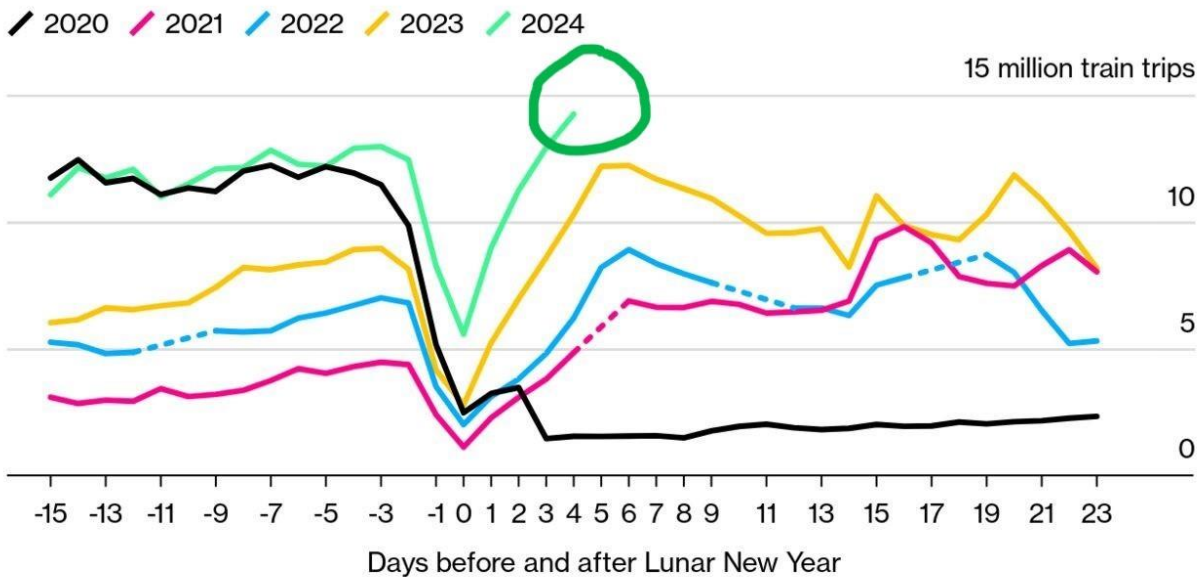


The idea of this chart is simply that the Western world's companies and investors finally woke up to the worst things about China, and got scared enough to run for the exits this past year. That plunging red arrow is the first of its kind since 1990 or so. Any sensible Chinese leader would care a lot about this. China's dictator, Mr. Xi, pretends to care, but he does not. We can draw our own conclusions about his mind and character.

That has helped tip that red arrow so sharply down, as those Western capitalists began to understand his mind and character . . . finally. So they began taking their cash and going home. The result of this year of Chinese economic misery and leadership failure had been the usual reaction in the investment world: “Things have been bad, bad, bad in China. So clearly there’ll be more bad news, and they’ll just get worse.”

They would indeed . . . if China were a trainwreck economy like Venezuela, Cuba . . . or Russia—a trainwreck waiting to for its oil revenues to go even more stagnant. But China’s Main Street has had a good 30 to 40 years to build itself from its 40-year Communist trainwreck to something vastly different, no matter the many weaknesses. Now it’s a vast, market-based economy—yes, riddled with exceptions and government bungling, but vast and diverse nonetheless. A lesson of history is this: “A big, market-based economy takes an awful lot of punishment before it folds up.” In fact, most Main Streets which get to that “vast, market-based” level just don’t fold up, regardless of serious problems. Big parts of them do what Main Streets always do in the West: learn, adjust, adapt . . . and keep trudging ahead. Here’s the next picture.

China's New Year Holiday: Train Travel Surges
 Number of rail trips is highest in five years



Source: China's Ministry of Transport, China Railway; Bloomberg Bloomberg

That green circle is consumer train usage in 2024, compared to the prior 4 years. “Up,” isn’t it? Main Street households, in China, are supposed to be paralyzed with justified worries: the housing market broken; banks tottering; youth unemployment sky-high. Strangely enough, though, it looks as if Main Street households are going on vacation more determinedly than any year since 2020.

It’s only one of those “green shoots” . . . but it is unexpected. Good news coming on the heels of long bad news is always unexpected; but somehow in those “vast, market-based economies” . . . it always happens, sooner or later. At Outlook our opinion of China’s leadership is about as low as it gets . . . but China’s Main Street is far beyond him. It is not the puppet dancing to his strings. As long as there remains a

goodly amount of the individual freedom which sparked China's Miracle decades ago, its Main Street is going to get better eventually . . . and the incredible, tangled volume of world trade being what it is, that will be good for Main Street USA.

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