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"Too much fear:" America, the market and even China keep trudging ahead.

"We have nothing to fear but fear itself." That was one of Franklin Roosevelt's lines, early in the Depression—and it was a good one. It was good even though it was entirely too cheerful, because Americans had plenty of serious problems to fear back then, and not just "fear itself." But the President's principle was still a truth for all time, right up through today. If we've seen anything clearly this past two years, it's surely been that we're inclined to be much more fearful of a problem than its facts justify . . . and our fear itself can cause far more damage than the underlying threat.

As Outlook has remarked once or twice, that's the result of "nature"—human nature, the nature of the media, and the nature of politicians—so we're probably stuck with the problem of "too much fear" for the next millennia, just like the last few. But it's a very good thing for us investors to keep in mind the phenomenon of "too much fear" . . . and never make decisions without whittling the fear down to size by looking at the facts.

<u>The major positive in the Big Picture today</u>, as we begin the 4th quarter of a troubled year to say the least, <u>is the continuing determination and ingenuity of America's people and businesses in their recovery from a catastrophic economic event</u>: the Virus and Lockdown Calamity of 2020, and its long-drawn-out tail. America leads the world in this, but the rest of the world is on the same path . . . just more slowly. "Determination and ingenuity" are corny words, to a good many "experts." They shouldn't be. They are the wellspring of everything good, when it comes to the growth, productivity and problem-solving which have made America (and us investors, hopefully) wealthy over the long years. They are the tailwind which ensures that the blizzard of economic statistics which try to measure "growth, productivity and problem-solving" <u>always trends positive over time</u>, no matter the occasional nightmarish plunges triggered, usually, by too much fear of misunderstood problems.

The major "misunderstood problem creating too much fear"—for the last couple of weeks anyway—has been China.

To the market, "China" is a great big impression. That impression is: unthinkable size, dynamic growth helping to drive the whole world economy, shaky foundation to the whole thing due to too much debt. Like all impressions, the "China impression" is partly supported by facts at the core: yup, it's huge; it's been one of the drivers of global growth the last 20 years; and there's a mountain of debt underneath, with plenty of it unpayable. That does sound bad, doesn't it? It sounds bad enough to inject plenty of fear into the market's view of China's 2 recent "big problems:" the default of a big homebuilding company; and the "energy shortage" threatening to shut down vast chunks of the economy. The flames of fear have been fanned even higher by another of the market's "impressions" about China: that the central government runs everything that matters, which means if it blunders in its response to those 2 big problems, China will come crashing down with terrible effects on the world economy (and the market, of course.)

The simplest way to see the "misunderstood" part of this problem is this: China's government has been blundering for the last 20 years of the country's hyper-growth. If it blunders again now, it won't be anything new. The miracle of China's 20-year growth has flowed from the same wellspring which nourished America's growth, the last 2 centuries: individual determination and ingenuity. In America, government policy blunders slowed that growth countless times over the years—but they weren't capable of stopping it. In China, government blunders have been more massive and frequent . . . but also haven't been able to stop the growth. As Outlook has mentioned before, when a billion people are suddenly given a little freedom to better themselves, the result has been a tidal wave of growth whose depth and breadth have been far beyond the Government's capacity to control, or to hurt too much.

So the Evergrande debt collapse looked big, but even though the problem is serious it is not shaking the foundation of China's economy. It's too big to be shaken by a company which just isn't big enough to do that job. And the sudden "energy shortage" which has prompted the usual government blunders—shutting down power production, and allocating it by committee instead of by market prices—did not catch a hundred million companies by surprise. They've seen it before. One of the anecdotes coming from Western witnesses this week has been the city-wide sound of private generators grinding away when the central planners have suspended power delivery by government-owned utilities. The private generators are in place because people are used to such government blunders.

"The only thing we have to fear is fear itself." Mr. Roosevelt, back in 1933, certainly had one particular thing in mind when he made that speech: bank runs. Fear, driving countless bank runs, had indeed paralyzed America's economy . . . and one of the government blunders of all time made it worse: the closing of 1/3 of the nation's banks, wiping out their depositors. As we noted at the top, there are always some real facts behind exaggerated fears. The facts which matter for China at the moment come down to the government's capacity for a blunder ranking up there with our Fed during the Depression, and with our Fed and Treasury during the Financial Crisis of 2008. But within hours of the first Evergrande headlines, China's central bank was printing money to calm the markets—the opposite of the 1930's and 2008 blunders.

When you get right down to it, the <u>only</u> thing which can bring down a giant, market-oriented economy is panic and runs on the banking system and financial markets. Despite its never-ending blunders, if a government has the sense to stop <u>that</u> kind of fire from spreading . . . the economy will adapt to the problem and eventually heal itself. That's mainly what's happening in China; and adapting to blunders in general is mainly what's been happening in the rest of the world, since early 2020. At Outlook we're pretty sure the U.S. and global economy—and the market—will keep trudging along that bumpy road.

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