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Trade War Hysterics . . . Not End of the World.

"Trade War Hysterics" was the title of economist Brian Wesbury's piece, this afternoon, after the market indulged in one of its "End of the World!" days. On those days, when the market plunges 600 points or so and more or less slaughters every stock in sight, the most powerful feeling in most of our minds is always, "The market must know something we don't! China's trade salvo must be very bad news!"

The best way to counter this feeling is always to remember the nature of the market. It's mostly a vast crowd of quick traders, trying to make money by guessing how the rest of the crowd will react to the impressions created by some headline. "Impressions," of course, are not "knowledge," and they're not "understanding." They're the opposite. Let's acquire just a bit of knowledge and understanding, courtesy of Mr. Wesbury.

- "Tariff increases won't help the U.S. economy. But $100 billion of tariffs spread over $14 trillion of consumer spending is not a recession-inducing drag."

- "And if tariffs nick our economy, China's gets hammered. Last year we exported 0.9% of our GDP to China . . . but China exported 4.6% of their economy to the U.S. We have leverage which they can't match."

- "An extended U.S.-China trade battle means U.S. companies will shift supply chains out of China and toward places like Singapore, Vietnam, Mexico or "Made in USA." (All well underway already, as Outlook has observed.) If that happens, the Chinese economy is hurt for decades."

- " . . . a Smoot-Hawley (1930's) global trade war appears very unlikely. We're not the only country victimized by China's (trade) piracy. In the end, China wants to trade with the West, not North Korea, Russia and Venezuela. China needs the West. All these trade war hysterics just aren't warranted."

As usual Mr. Wesbury offers calm facts and perspective to counter the "impressions" preferred by the market mob of day-traders. Here's one more, which was the first reaction at Outlook upon seeing the morning's headline: "China Hikes Tariffs on $60 Billion of U.S. Exports." $60 billion? Mr. Trump's $200 billion opening salvo was a fairly deafening artillery barrage. China answered with a popgun.

We can twist ourselves into pretzels wondering what's in the mind of anybody at all, and certainly wondering what's in the mind of China's dictator, Mr. Xi. Even the most shallow acquaintance with history reminds us that the most "important" people in the world have quite often made the silliest blunders, based on remarkable ignorance and/or lack of understanding. But Outlook would be willing to bet that Mr. Xi is reasonably knowledgeable and reasonably comprehends his own country's weaknesses and America's strengths, in this "trade war." His $60 billion popgun sounded a lot more like "This is just for show, let's wait a bit and then talk again" than anything along the lines of "Tora! Tora! Tora!"

We'll see. Meanwhile the trading crowd sits between a rock and a hard place, as before: U.S. companies are much too strong, and their valuations are much too cautious, to give the crowd the long ski slope ending off a tall cliff which bearish speculators dream about. "Trade War Hysterics" are exactly that.

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