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On Main Street, “people behave sensibly . . . eventually.”

“People behave sensibly.” That’s a challenging statement, isn’t it? If the first ten people walking down the street were asked if they believe it, nine of them might say, “No!” Half might add, “Are you kidding?” And in Outlook’s opinion, they’d be right. But what happens if we just add one word? “People behave sensibly . . . eventually.” Then we might say, after pausing to think, “Well, OK. They do, mostly . . . eventually.”

They do indeed. At Outlook we think that statement is the truth which lies behind the most important things to understand about investing (and a few other things in life, probably.) It lies behind the fact that supply and demand always behave sensibly and predictably (yup, eventually), which in turn lies behind an unbroken Golden Rule about the markets: “The cure for low prices is low prices, and vice versa.” When the price of anything drops, people try to buy more of it, and sellers supply less of it. That eventual pressure of more demand on less supply “cures” the lower price, pushing it up.

It does seem obvious and clear when we put it that way. Why do so many investors (and possibly every single speculator) have such trouble believing it? The answer is easy: Because it doesn’t come true in a hurry. It takes time to come true: a shocking long time, pretty often. And it’s our nature to begin doubting any obvious “truth” which takes a long time to prove itself, during which we might be feeling plenty of pain from the wait.

The U.S./China “Trade War” began in 2018 or 2019. On its heels came the world’s Virus and Lockdown Calamity. In China, on top of those woes, came emphatic changes from the top. Xi Jinping, China’s dictator, did a 90-degree “left face” with his nation’s long-time policies and philosophies—declaring war on most of the things which had created China’s economic miracle: individualism, personal freedom (even China’s limited version), business initiative, competition . . . and “foreigners” in general, particularly including those who had brought capital and jobs to China, and were clearly trying to bring more. Mr. Xi, like all dictators, rules by fear; by making examples of those who dare to not kowtow to his will. Fear paralyzes Main Street, anywhere; which of course means everyone’s economic progress slows down or goes into reverse.

Mr. Xi began making this left-face obvious in 2018 . . . and by 2020 and 2021 no foreign business could kid itself, any longer, that it wasn’t real. But the \$64,000 Question, all this time, was: “And what on earth are they doing about it?” Story after story, from 2018 to 2021, featured CEO’s expressing concern. Story after story had them scouring the world for alternatives to manufacturing in China . . . and mostly concluding that most of those alternatives (Mexico, Vietnam, India, Indonesia, etc.) fell so far short of China’s quality labor force and infrastructure that it would be nuts to change.

At last we come to the “behave sensibly . . . eventually” part of this story, courtesy of journalists at Bloomberg.

Multinationals rush to build factories just across from El Paso, Texas

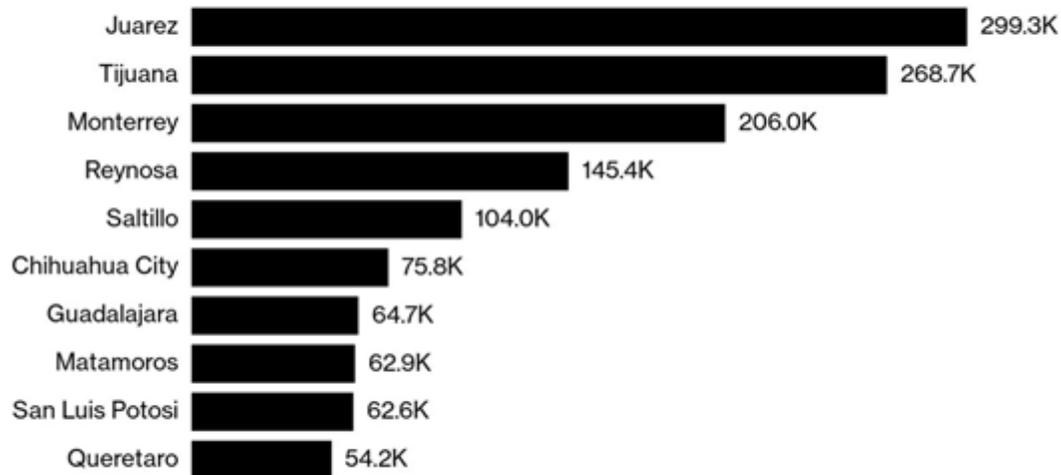


After the pandemic snarled supply routes, many executives turned the city of Juarez into a new hub.
Photographer: Paul Ratje/Bloomberg

Maquila City

Mexico's magnet cities for foreign plants are booming with investment

■ Number of maquiladora factory workers



Source: Inegi

Bloomberg

It's now taking 110 days for freight to move from Asia to North America, still near the all-time high despite being a three-day improvement from the previous week. That's according to the most recent [Ocean Timeliness Indicator](#) reading from San Francisco-based freight forwarder Flexport. That compares with an average of 5 to 10 days of shipping time from Mexico.

That remark is old hat; we've been hearing about the "100 ships circling outside Long Beach" for a good 12 months or more. Shipping costs from Asia have been through the roof most of that time. And all that, courtesy of the Lockdown Calamity and resulting "Supply Line Chaos", has been on top of Mr. Xi's frightening left-face. But the picture and chart above are the real story. "People behave sensibly . . . eventually."

Building a factory, training its workers, creating supply lines and transportation to markets . . . take time, and lots of money. It's no wonder that businesses the world over—including American businesses, which in Outlook's judgment are the Usain Bolts of the world's Main Streets, when it comes to fast, aggressive problem-solving—could not do an about-face on a dime in response to China's high prices and low changes. But those pictures up there show that a great many of them took the sudden Big Problems from China seriously, and began making plans years ago to cut their risks.

Most people do behave sensibly, eventually. It just isn't obvious for a while. That's true whether it's a single company like Conoco, tackling terrible problems in 2016 and creating solutions which are only obvious today, as earnings and cash rewards skyrocket; or whole industries finding themselves deeply troubled about "too much" vulnerability to a nation whose leader decided to snarl instead of smile.

China will pay the price for this for a long time. Mexico and other nations will benefit for a long time. Most of Outlook's companies, as usual, will benefit from the actions they've taken to shrink their China risk in favor of more dependable (and suddenly much cheaper) alternatives.

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