

The Outlook: Nov. 17, 2022

Something to guess about.

Yesterday we looked at the market's Biggest Question of the moment, whose answer the investment world is desperate to know: "Inflation? Up or Down?" Here's another Big Question, unanswered as usual (yet) which is certainly adding to the jangled nerves all over the investment world: "What on earth is in the minds of the dictators?"

That's been a pretty important question throughout modern history . . . sometimes a life-or-death question. Of course what's in the minds of all major political leaders matters; but by the nature of democracies it's easier to tell, and usually matters less, due to their checks and balances against one-man power. Dictators are a different story. If we weren't sure of that before Mr. Putin began his war last February, we are now.

The two dictators who matter are obvious: Russia's Mr. Putin and China's Mr. Xi. Let's go straight to Outlook's sheer guess about what's in their minds, without bothering to build up a rationale. A guess is a guess, and when it's about what's going on in someone's head, there's not much point in trying to sound scientific about it.

- **Mr. Putin. "Oops. How do I get out of this mess?"**

That question is certainly floating around in the Putin mind. It's not the only thing, and it may not be the controlling thing. But at Outlook we'd bet a lot that it's there, and it won't quit buzzing around. It's obvious. The Ukraine invasion went nothing like Mr. Putin expected, and no matter how many fawning sycophants may surround the dictator he *knows* his War has been something in the "Disaster" category, or too close to that neighborhood for comfort. When we normal people realize we've made a Giant Mistake, the passage of time gradually pushes us toward the painful actions needed to fix the mistake. It takes time to do that because we don't like pain, so we tend to postpone, delay and defer the painful actions until our minds finally accept that we've got no choice.

None of us would call Mr. Putin "normal," but there's a good chance he's "normal" enough to be going through the same process. And it looks like there are only 2 open action plans: drastic, and not drastic. "Drastic" of course means nuclear war or weapons. "Not drastic" means trying for a stable military situation for Russia—ending its amazing losing streak of the past several months by going on defense in a way which discourages Ukraine from trying too hard for more victories.

We're well into "sheer guesswork" by now, so let's cut it short with a last guess: at Outlook we think the odds are improving, as time passes, on Mr. Putin choosing the "non-drastic" action plan. That's not "good news." But it is side-stepping "terrible news." We suspect the market already sees it that way.

- **Mr. Xi. "Oops. How do I get out of this mess?"**

For a good two years Mr. Xi has been pushing the gas pedal gradually down toward the floor, in his race to stifle the economic engine which made China a world power. The pedal got all the way to the metal, so to speak, with his "Zero Covid Lockdown Policy," which has done all the damage

we learned about, first-hand, in the democratic world. The Big Question all over the investment world has been: “What on earth is he thinking? Is he such a Marxist fanatic that he doesn’t grasp that he is killing the goose that laid the golden eggs, for China . . . with one of those eggs being the global political power he obviously wants?”

China’s big political event just ended: the 5-year reshuffle of those in power. Mr. Xi did exactly what the world expected, making himself dictator-for-life and surrounding himself with lackeys. If he is indeed a Marxist fanatic, there would be no reversal of the “kill the golden goose” strategy.

But lo and behold, there’ve been signs of just that reversal. Mr. Xi’s lackeys announced clear steps to encourage China’s property market: an emphatic reversal of two years of tightening controls. And almost the same day came a long, jargon-filled pronouncement about the Zero Covid Lockdown policy . . . which boiled down (after wading through the tortured political jargon) to: “Um, maybe we’ll be backing off on this.” It was a total reversal of Mr. Xi’s “no tolerance, no change in policy” comments before the 5-year Event. It was almost the kind of normal political behavior we constantly see in the West: “Talk about one thing, usually extreme; go and do another thing, more sensible.” The only explanation is that “Oops. How do I get out of this mess?” has indeed been an item buzzing around in Mr. Xi’s mind, for a good while.

Taken together, this exercise in guesswork points, at best, to something modestly positive for the world economy, and ultimately for the market. On this subject we’ll watch, and keep guessing as time passes.

© Dave Raub
Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

The remarks above aren’t a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor’s own circumstances. Stocks and bonds carry the risk of loss.