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“The Trade War will never end.” So what?

For some time now, the market and the media have been acting as if the most important thing in the world is how the “Trade War” turns out. With each passing week, their focus on every twist and turn in the Trade War Story has become so total that “obsession” is a pretty good word for it. “Obsessions,” of course, are not good things; they’re bad things. They *mean* loss of perspective, judgment and common sense. As this week comes to its end, let’s try to add just a small dose of those things back into the whole “Trade War” business.

- The Trade War does matter to the U.S. economy and everywhere else, but it does *not* matter as much as the market and media act like it does.

Why not? In a nutshell, because it is not a global trade war. It’s America against China (with much of the world happy to let America go to bat for it, at least regarding some key Chinese misbehaviors which every nation knows about.) There are limits to the damage a 2-nation trade war can do, as economist Brian Wesbury noted recently:

From the perspective of US economic growth, the relationship with China has received way too much attention in the past couple of years. Even before the trade dispute started, US exports to China were a smaller share of our GDP than exports to Japan were before the Japanese economy went into a long-term funk in the early 1990s. If the US could prosper in the 1990s in spite of Japan's problems, the US economy *overall* should be able to absorb softer demand for our products coming from China, which lags well behind Canada and Mexico as an export market.

Mr. Wesbury has also noticed, several times, that while U.S. trade with China has plunged with the “Trade War,” America’s trade with Vietnam, India, the Philippines, Mexico and others has rocketed up at exactly the same time. That points straight at Conclusion # 2:

- We’re around the 18th month of this “Trade War.” That is not a bad thing; it’s a good thing. *It means everyone has had time to adjust.*

“Time heals all wounds,” is the old saying; which may be trite, but like most trite sayings is also basically true. Time absolutely heals wounds in business, and in free-market economies . . . and in the market, too. For at least the last year and a half, the whole business world has had time to ponder the “Trade War” problem, and adjust. When it comes to containing the damage from new problems, “time to adjust” is everything. 10 years ago, the market had *zero* time to adjust to the shocking news that the U.S. government had decided to let Lehman Brothers fail, and a global financial panic and bank run washed around the world faster than the Bush Administration could say, “Oops!” The worst place in the world to have “zero adjustment time” is in the economy’s banking sector—because it’s the only place in the world where “runs” are always a deadly possibility.

The U.S. and global manufacturing sectors—ground zero in this “Trade War”—just aren’t like that. They’ve been wounded by the Trade War . . . but they’ve also had time to adjust and, after the first 6 months or so of wondering, they absolutely began to adjust in obvious and decisive ways. (Hence the explosive growth in U.S. trade with Vietnam, the Philippines and

others, as U.S. (and more than a few European) companies began moving their factories out of China.)

- This Trade War will never go away.

There will probably be “Phase One” agreements, like the one which has been trembling on the brink of completion for the past few weeks, supposedly. At Outlook we’re not holding our breath. But the past 18 months have seen a turning point which is not reversible, in U.S./China relations and in China’s relations with the whole rest of the world. When it comes to economic strength and growth, that big change is mildly bad for everyone, but emphatically worst for China. As Outlook has remarked a few times, China has shown its snarling face to the world, which has done nothing but hurt its path toward the global power which its dictator wants more than anything else.

It’s impossible to imagine anything but a future of friction and conflicts between Mr. Xi Jinping’s China and the U.S., as well as the rest of the world (no matter how much a few European political leaders may wish to pretend otherwise.) As quite a few deep thinkers have been pointing out, China’s “Social Credit” system—nothing less than Orwell’s “1984” come to life, with Big Brother’s constant surveillance of everyone —must collide with American business in China, and eventually even outside China. Mr. Xi wishes to stamp out politically-incorrect acts and words in China: *everywhere* in China, from home to work. But at heart, U.S. companies and their people are riddled with Mr. Xi’s notion of “incorrect” words and deeds. We call it “freedom.” That can only mean friction and conflict, not “peaceful coexistence.”

It will take time for all this to play out; and time helps our companies adjust to this permanently-darkened relationship with China. China cannot do without products from companies like Micron (memory chips) and Freeport (copper.) 7 to 10 years from now, it might be able to thumb its nose at Micron, by continuing to invest mountains of money and years of time to “catch up” to Micron’s big technological lead. China has no such hope with Freeport. As Outlook has mentioned once or twice, copper is too hard to find, and too hard to mine.

It’s not a happy, carefree picture of the world to come, is it? But, as usual, it’s also far from the *whole* picture. Another corner of that picture, India, is somewhere near China’s position 30 years ago. Urbanization, industrialization and steadily growing economic strength are certainties in India, even though it hasn’t yet approached China’s accelerating economic speed as of the 1990’s. Another corner of the picture is “invention and technology,” which are always the power behind growth. The Internet of Things and the arrival of ultra-high-speed 5G wireless systems are as powerful as any engines we might desire—and they’re happening right now. And there are plenty of other corners of the picture which are a lot brighter than the darkened corner in China. Our companies are exceptionally strong, and are still valued with caution or downright anxiety by this market. That means one thing: “China, Shmina—we hold and keep buying.”

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