

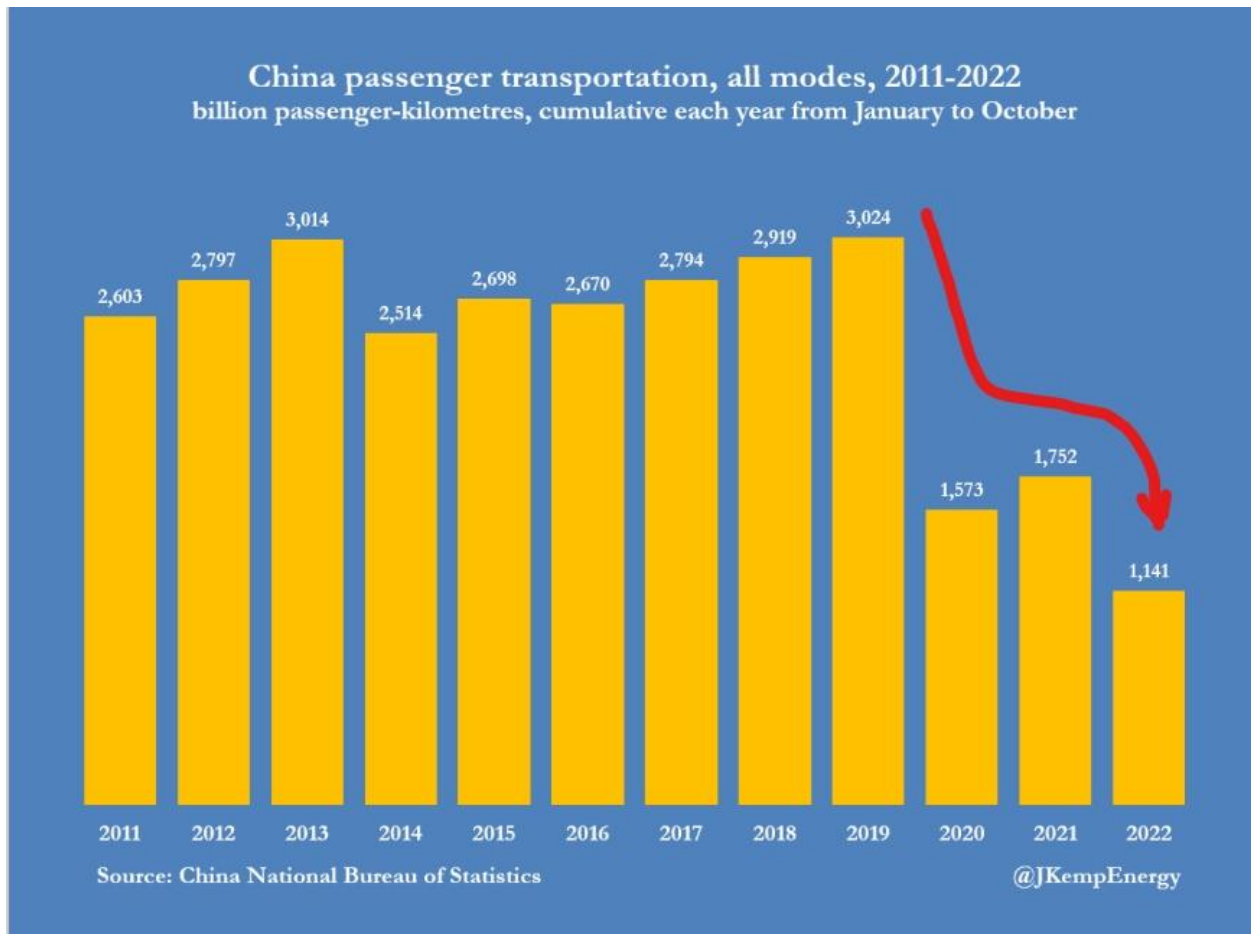
The Outlook: Dec. 13, 2022

Not in the market's mind . . . but should be.

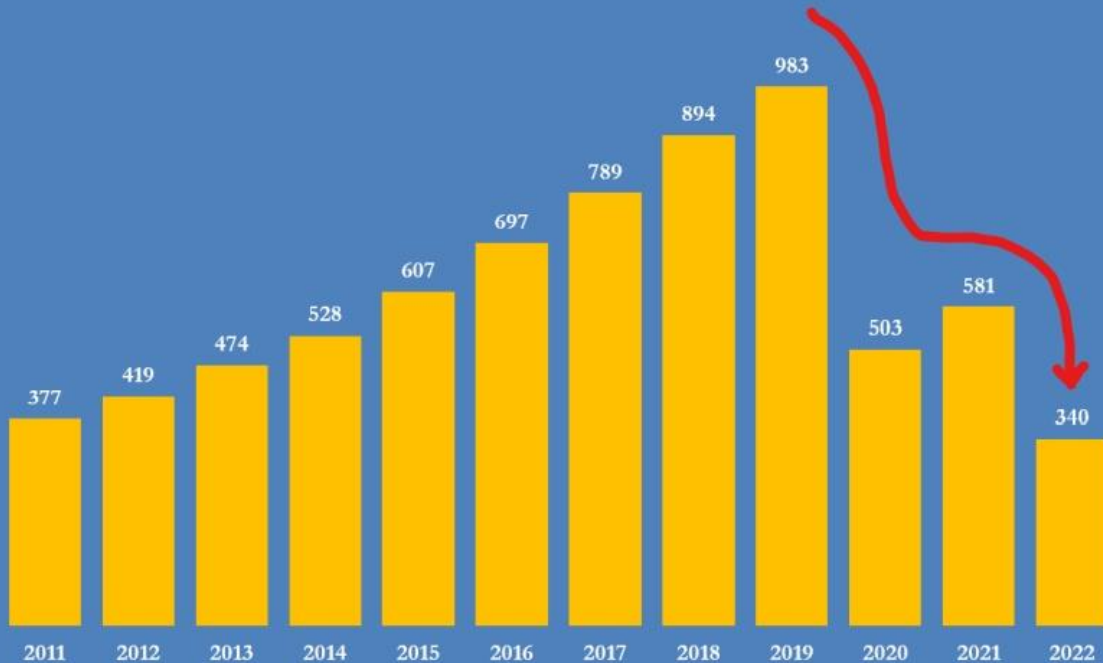
We've asked a couple of times, lately, "What's in the dictators' minds?" For China's Mr. Xi, our guess was that "Oops! How do I get out of this mess?" was certainly one thing taking up his mental space—maybe even taking up most of his mental space. And Mr. Xi's genuinely surprising reversal of China's economically-disastrous Zero Covid policy (driven by the angry voices of China's common people) supports our guess.

"What's in the market's mind?" Let's see if it might be helpful to ask the same question about the "minds" of the market's giant betting mob.

Our guess is something like, "Recession?" For most of this year the market has been riveted on this thought. Since the betting crowd mostly believes in the supreme power of the Federal Reserve Bank to dictate the eventual answer to "Recession?", the crowd's gaze has been glued to each Fed meeting and every word from Chairman Powell. At Outlook we don't use that glue. We think (as Outlook clients and friends know) that Main Street's mood and actions are a lot more powerful than the Fed when it comes to the Recession Question. On that subject—Main Street's mood and actions—along came a couple of very interesting pictures, today, from a columnist at Reuters. Let's look.



China passenger transportation, civil aviation, 2011-2022
billion passenger-kilometres, cumulative each year from January to October



Source: China National Bureau of Statistics

@JKempEnergy

They are the picture of “Travel in China.” America lived through one 2020, when travel—especially air travel—dove off a cliff. Thanks to Zero Covid, China’s had three 2020’s in a row. Those pictures up there are shocking enough, but the top picture—total travel miles on every possible vehicle, yes, “planes, trains and automobiles”—deserves a second look. Total travel fell 70% from 2019 through 2022-to-date. We don’t have to use much imagination, do we, to grasp the feeling among China’s billion people that their own government has put them in prison for 3 years. No wonder they’re angry.

But what will happen as Zero Covid is lifted—cautiously, sometimes falsely, always start-and-stop, because that’s how China’s government has always changed policies—to the actions of Main Street China and the results for Main Street USA and World?

The first result, as the Reuters columnist pointed out today, will certainly be “more energy demand,” especially oil demand. A lot more . . . because Giant China uses a lot. The second result, almost as certain, will be “more” economic growth in China. Now, it’s for economists and professors to ponder the exact meaning of “more” . . . and good luck to them. They’ll be using China’s suspicious economic statistics to guess at its future suspicious statistics. (It’s a job, and somebody has to do it.) But we investors, thank goodness, can put down our pencils and just wing it. Mr. Xi crushed his own nation’s economy, nearly. If he means to let it get back to where it ought to be (which is in his personal interest, though we wouldn’t know it given his three blundering years of Zero Covid), China’s economic engine will do a lot more good for the world’s economic engine than it has for years. (As we’ve mentioned a few times, like it or not China is one of the world’s economic engines.)

“What’s in the market’s mind?” “Recession? The Fed? When?” has been dominant. That answer isn’t silly . . . it’s just not the overwhelming answer. The Fed’s rate hikes (plus Europe’s) have been a headwind against growth . . . but they’ve been a breeze so far, not a hurricane. China’s lurching trudge back toward economic normalcy will certainly be a tailwind for global growth. It won’t be a hurricane tailwind, but at Outlook we’d call it something more than a breeze: a “steady wind” might do it.

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