<u>The Outlook: Sept. 11, 2019</u>

The News! (Investing anyway.)

In one of his comedies long ago, Steve Martin played the fire chief in a sleepy Colorado resort town. In one 10-second scene, Mr. Martin cheerfully strolls down the street one morning, whistling; stops to get a newspaper from a sidewalk vending machine; glances at the front page and shrieks in terror; jams the paper back into the machine . . . and strolls down the street, whistling again. (And people say Hollywood only makes junk.)

At Outlook we remember that scene pretty often, because we spend so much time reading shocking headlines and stories in the news. How much time, and how many such stories? "Every day, all day" is the answer, pretty much. But one good thing has happened during 42 years of terrifying headlines: after a certain number of years, they began to seem more comical than frightening. One can only read so many dead-serious variations of "The sky is falling, run for the hills!"—applied to hundreds if not thousands of different topics and events over the years—without eventually learning to keep a mountain of grains of salt handy, and instantly applying one to just about every awful news item on every page.

Let's apply a couple today.

- **Trade War Sinking U.S. Economy! Recession Near!"**

  The media and the vast crowd of bearish speculators just won't let this one go. It's been a scream-inducing headline, on and off, for at least one solid year. Economist Brian Wesbury provided the grain of salt today, as he very often does.

Total US trade in goods and services, 2016:	$4.9 trillion.
Total US trade in goods and services, 12 months-to-date in 2019:	$5.7 trillion.
Trade growth in 2.5 years:	14.5%
US GDP growth in 2.5 years:	9% - 10%

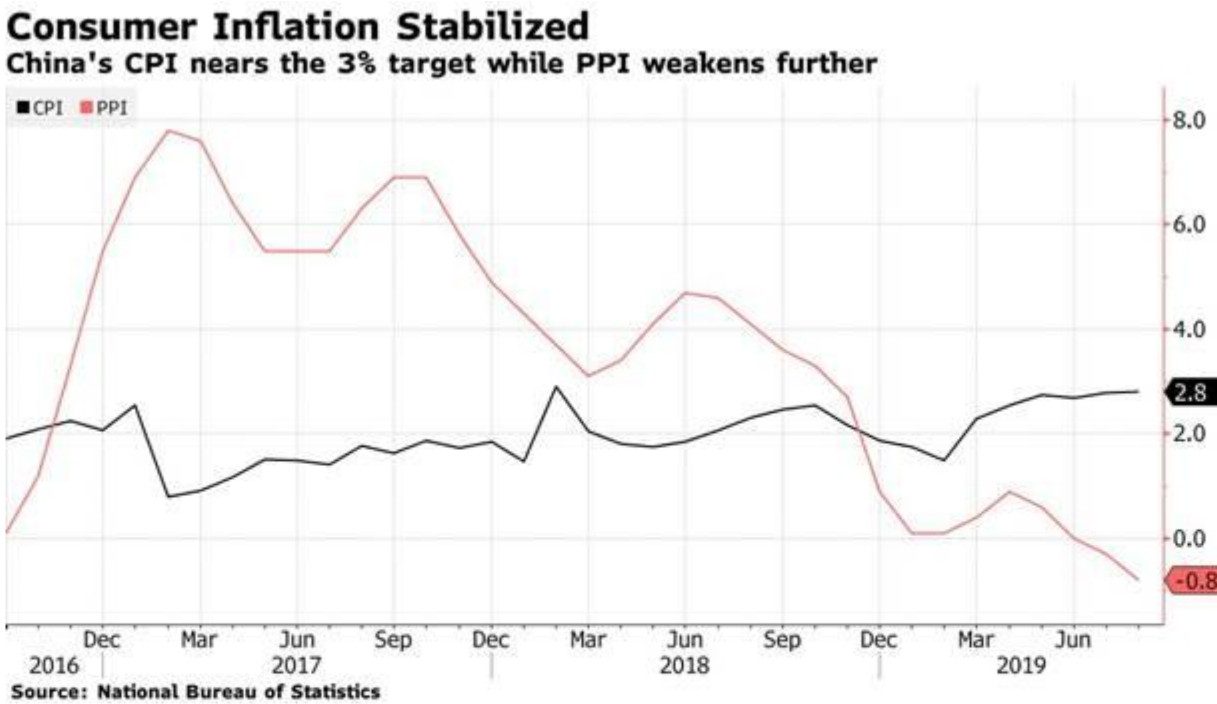
  (Outlook's rough numbers)

  "In other words," said Mr. Wesbury, "trade has grown faster than the overall US economy." (<u>Even</u> faster, it's fair to say, because the US economy has been the envy of the western world.) If Mr. Wesbury's figures made us blink, it's understandable. In the billion words, or so, written under shrieking headlines for the past 12 months, informing us with countless facts, figures and charts that the "Trade War!" was a torpedo under the waterline for the economy (and the market!) and we'd best sell our stocks and man the lifeboats before it's too late . . . almost none have managed to notice that the total volume of US trade has been <u>growing</u> rather strongly, not shrinking or imploding.

Here's another, as long as we're on the Trade War subject.

- **"China Shrugs Off Tariffs! Government Unconcerned!"**

  In truth there has been a great variety of analyses (guesses) by experts on the question of the economic damage to China, if any, from the Trade War. The general tone, though, has been "Not much!" when it comes to guessing about the damage, hence the urgency China might feel to end the war (and remove a ton of anxiety from the market.) That's never made sense to Outlook—mainly because the whole package of Chinese behavior, from counter-tariffs to military threats, has amounted to one genuinely-frightening "headline" aimed at <u>all</u> foreign firms trying to do business with China: "If You All Thought It Was Safe to Depend on China . . . Think Again!" That "headline" has been so perfectly obvious that there is no chance foreign firms aren't taking it seriously, and taking action. That, in turn, means pain in China. So when we saw the chart below, we were not surprised.



The sinking red line is the prices of goods leaving Chinese factories. The slowly-rising black line is Chinese inflation as it's felt by common people in China. Both lines mean only one thing: economic pain. When a nation's manufacturers receive lower prices, their pain spreads throughout each company and the economy. Lower revenues means lower earnings and cash flow, to pay everything from debt to workers. And when those workers find themselves paying more for the costs of living, while making less at work if not losing their jobs entirely . . . it means widespread pain.

Not shown on the chart, but very important, is the price of pork in China. It has risen 50% or more in the last 6 months, due to a swine flu epidemic which has devastated China's pig farms. Pork is a major grocery staple in China.

Finally, this chart comes courtesy of China's National Bureau of Statistics. A diplomat would say, concerning those statistics, "Ahem, well, they're generally a bit on the optimistic side of the possible facts." So when the "NBS" publishes a chart admitting that factory prices have been emphatically weakening for a couple of years, and are now actually falling . . . then we Western observers might very well wonder if "The sky is falling! Run for the hills!"

Our last grain of salt for today reminds of an enduring truth about advanced market economies and the businesses which have grown inside them, all through the years. They are a great deal stronger than the media is ever inclined to notice; so they have a great deal more staying power in the face of problems, or even "crises," than we would ever think, if we neglected to apply our salt to the news. The US economy and the businesses we own, among many others, have that strength to an astonishing degree. That's probably the simplest explanation of Outlook's attitude toward the scare stories which dominate the daily news: we hold, shrugging off the headlines, because that's just what our companies are doing in running their business operations.

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.