The Outlook: July 24, 2019

The "strange world" of today: Wall Street's mistakes; Main Street's solutions.

We've just begun to feel that quarterly dose of fresh air and reality called "Earnings Season," when hard, cold facts about companies' sales, profits and cash flows give us the clearest possible view of what's going on in the world. We only get a few weeks of such fresh air, then must plunge back into the always-foggy world of dozens of economic statistics, which range from "probably useful" to "hopelessly misleading," leaving investors squinting at each of them as they appear, trying to figure out which label applies this time.

Soon Theresa will be issuing her "Inside" reports, and we'll see what each of our ten companies has to say about the state of the world. But let's take a step back, this afternoon, and paint the broadest picture of that "state of the world."

We've been looking at the state of the world for 42 years. It's never dull. It's often as dramatic as an action film, almost; or sometimes a horror movie. Here in mid-2019 we're not in one of those horror movies at all; nor much of an action film. But we are in a world, these days, which is as downright strange as anything we've seen over the decades. Here are some of our world's strangest corners:

- Negative interest rates scattered here and there—but dominating Europe. We've talked about them recently, so we'll pass them over lightly today. A world falling into depression and deflation—with prices and incomes steadily dropping, as in the 1930's—might make some sense next to a bond market featuring negative interest rates. If we put $1000 into our banks and watch the banks mark it down to $990 a year later, having collected their 1% interest charge from us savers, we might feel good about it if consumer prices dropped 2% or 5% in the meantime (deflation.) Negative rate or not, our savings are worth more than the previous year. But today's negative rates have had nothing whatsoever to do with depression and deflation—which don't exist even in Europe's stagnant economy. Today's negative rates are political creations: bureaucrats and politicians waving their arms at the voters, saying "See how hard we're working to improve your weak economy? We know you don't really understand what we're doing . . . but trust us, we're really trying."

- One of the world's major economies—Great Britain—stuck for 3 years in a showdown with the rest of Europe, because a majority of its voters disliked the rules inside the European Union enough to vote "Leave" in 2016.

  What is most strange about this 3-year story, which looks like it's rushing toward its climax this Halloween, is not the action of those British voters but the action of Europe's "leadership," led by France, then Germany, in that order. They've chosen to play hardball with Britain rather than cooperate. It is stunningly obvious that "hardball" is the worst thing those European leaders can do to their own economies. Trade with Britain is simply too big and important for the economic well-being of almost everyone in Europe—and that well-being has been teetering toward "recession" from mere "stagnation" for the past 3 years, with 2019's statistics some of the most "teetering" of all. No matter, hardball it is, right to the bitter end as far as France's Mr. Macron and Germany's Mrs. Merkel have been concerned.

  There is a lesson here, which we'll point to shortly.

- One of the world's major economies—China—approaching "standstill" for the first time in 20 years—because its dictator dumped the successful strategy used by every Chinese leader after Mao Tse-Tung (namely "speak softly, no confrontations, pretend to cooperate, work quietly toward China's goals") in favor of "hardball" with the United States . . . and with the rest of the world.

  Mr. Xi Jinping's willingness—almost "eagerness"—to show the naked sword of intimidation to China's neighbors and, of course, to the U.S. in the trade war, has been as strange and astonishing as any political behavior we've seen over the decades . . . and that, of course, is saying something. There is no possible way in which his strategy has been good for China's economic well-being, which is certainly the foundation of all the weight he'd like China to be able to throw around in the world, in the many years ahead. Choosing to play hardball in a trade war focused only on the U.S. would be one thing; but the astonishing side stories have been the many ways Mr. Xi has threatened a growing number of other nations in Asia and around the world, at the same time. It's been the "naked sword" indeed: with military intimidation so often in China's playbook that no nation has been able to close its eyes or look the other way, regardless of whether their leaders have spoken up or not.

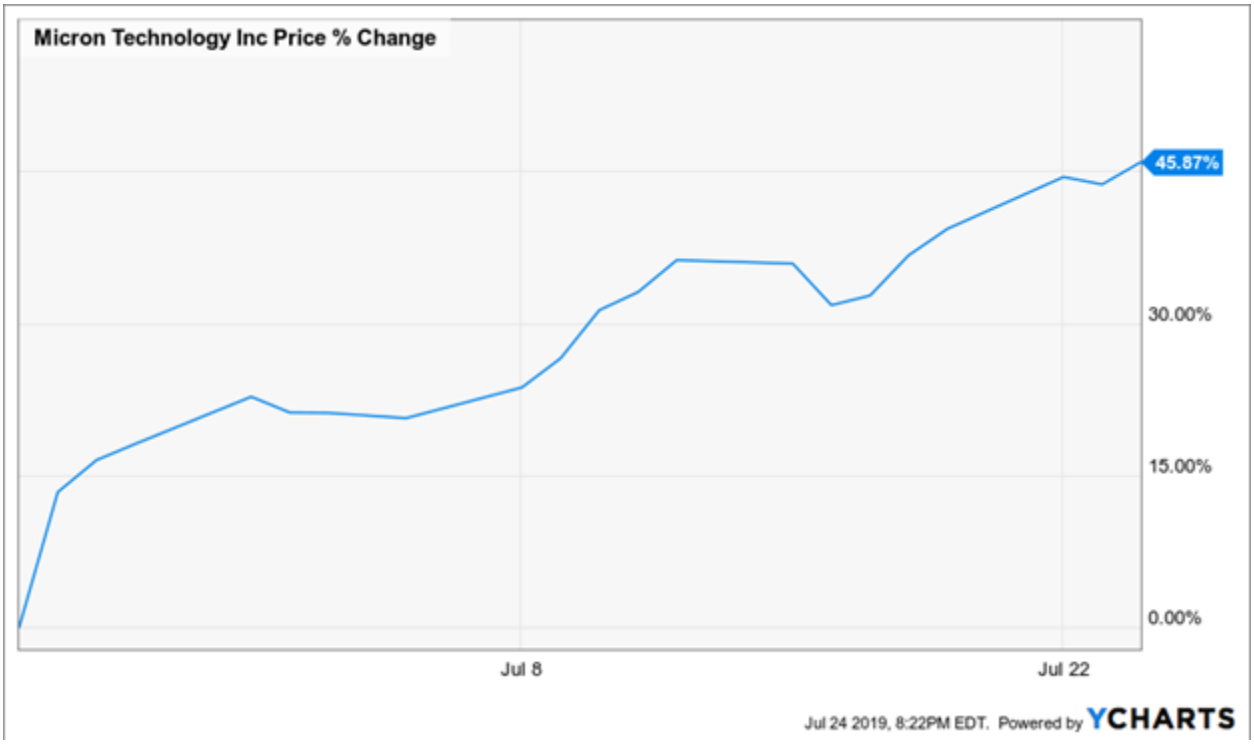
  That playbook just hasn't made sense for China . . . yet Mr. Xi has adopted it just as Mr. Macron has stuck with his version of hardball.

What's the lesson here?

The first one is that political leaders do make awful mistakes, and their countries suffer for it. "Stunningly obvious" would be the right label for that fact, backed up by an ocean of history. That's a pretty dark fact to highlight about our "strange" world today, isn't it? (Especially for investors who think the best possible thing to do is own good stocks, right now.) But here's another fact concerning those awful mistakes. When they don't involve a shooting war, political leaders' mistakes get more obvious to everyone with the passage of time . . . and one way or another the mistakes get reversed, or at least watered down enough to lose their sting. A good deal of the "watering down" happens when all the other players in our "strange" current world have time to recognize the danger and make adjustments. There have been all kinds of examples of that in the "China Trade War" nightmare in which the market has repeatedly wallowed for at least 18 months, now. There have been fewer publicized examples of those "adjustments" to the Brexit fight . . . but we strongly suspect they've been happening nonetheless.

Time softens dangers . . . because people on Main Street have time to prepare for them, and react to them. The people on Wall Street often act as if the people on Main Street aren't using their heads and acting to help themselves. Wall Street is always wrong about that . . . and always hands golden opportunities to patient investors in the meantime. Some of those opportunities have been kind of obvious lately, as this 30-day chart of Micron tells us. There are more on the way.

Micron: 30 Days



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