

# Weekly Market Insights

October 19, 2020

## The election and beyond

Irrespective of what the campaign issues are, the newly elected president, whether the incumbent or the challenger, will have to deal with a number of important issues in short order. Over the next few weeks, we will isolate one or two, try to explain them and shed some light on possible solutions. This week we concentrate on China.

### Equity Markets

U.S. equity markets remained stable despite rising fears of Covid-19. Even with the apparent increase in cases, investors continue to accumulate equities. The Dow was up 0.07%, the S&P 500 0.19% and the NASDAQ 0.79% for the past week.

For an excellent review of the fixed income market, readers should look forward to a White Paper by my colleague, Baylor Lancaster-Samuel.

### The U.S. Economy

The economy continues to move ahead, albeit, at a slower pace than the recent past. As we explained many times, most recently last week, reported economic statistics can vary greatly over a short timeframe and direction is far more important than size.

Fully realizing we are repeating ourselves, investors, consumers and business managers are awaiting the disposition of the hoped-for stimulus bill. We are confident it will come but are at a loss as to when. When it does come to fruition, its effect will be felt first at the consumer level and work its way up the economic ladder. Until then, we rely on the Federal Reserve to continue its aggressive monetary policy.

### Europe

The European Union continues to have the same problem we have written about for some time. In a way they are neither fish nor fowl. They are a union

of disparate countries attempting to move forward in the face of differing sets of values. The story is the same—trying to marry a common monetary policy with 19 differing fiscal policies. All 19 countries are certainly not equal but many are in agreement. There are two ways of describing the divide—geographically (North vs. South) or financially (creditors vs. debtors). Perhaps never the twain shall meet. We hope that is not the case, but it is not unreasonable. Also in the news is the seemingly stalled negotiations between the E.U. and the U.K. concerning Brexit. Both of these problems must be dealt with successfully before the E.U. resumes full economic progress.

### China

In our introduction, we spoke of problems the president must deal with right from the start. A smart beginning might be to reexamine the China problem and see if our view of the issue and solution in dealing with the People's Republic of China (PRC) are correct. Our friend and China scholar, Derek Scissors,<sup>1</sup> has just published an insightful essay from which we are borrowing.

Three powerful fears are prominent about China. First, China is growing so rapidly that they will overtake the United States. Second the Renminbi (RMB) will become the major global trading currency. Third, China's trade policy will take all of America's better paying jobs. At close inspection, all appear incorrect.

# Weekly Market Insights (cont'd)

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The fear of China overtaking the United States is quite common. Yes, China has grown rapidly in the past ten years, but a comparison of economic and demographic statistics proves that this fear is well overdone.

U.S. GDP is far larger than China's. China's share of global outward bound foreign direct investment is 0.4% while the U.S. is 36.4%. Furthermore, China's disposable income per capita is \$760 compared to \$26,621 for the U.S. Adding to this, China has a faster aging population and is not a popular place to emigrate. It shows some of the difficulties China faces. This does not mean China is not causing problems that need to be addressed—just not the

ones many people think. The issues that must be faced are China's refusal to let foreign companies compete with State Owned Enterprises (SOE) and forced intellectual property transfers. These are serious problems, but they will not likely be solved by broad-based tariffs but by selective actions. Happily, the president will not have to work alone. Europe will gladly work with the United States if we work through the correct channels. We have attached a hyperlink for those who want more data. We don't necessarily agree with everything, but this is an excellent article by a fine scholar:

<https://www.aei.org/wp-content/uploads/2020/10/Some-US-China-economic-and-trade-facts.pdf>

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<sup>1</sup> Derek Scissors is resident scholar at the American Enterprise Institute where he focuses on the Chinese and Indian economies.

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