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Market Musings

Victoria Capital Management, Inc.

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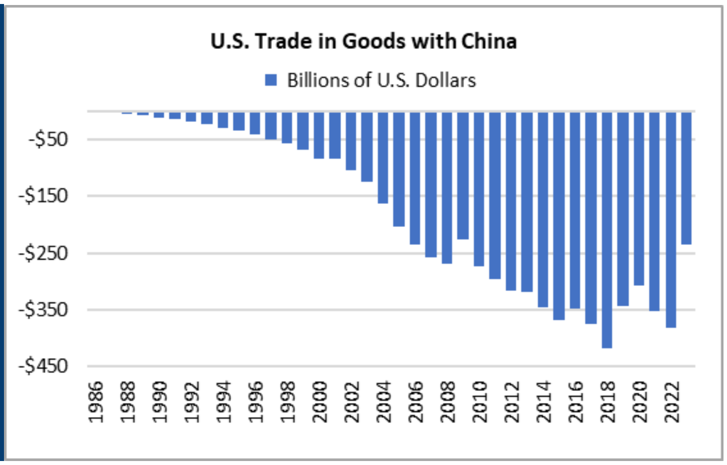
The chart displays China's trade surplus with the United States. As you can see, U.S. consumers continued to purchase Chinese-made goods at an ever-increasing amount until the imposition of the Trump tariffs. Until these recent changes were implemented, both U.S. consumers and Chinese workers were better off.



Is China Really Our Enemy?

More than one national publication continues to warn Americans about the dangers of China primarily on the back of the threat of a takeover of Taiwan whose people go to the polls in twelve days to elect their president. The idea that China is a growing military threat should be put in the context of how much money China spends on defense versus the U.S. In 2020, China is estimated to have spent $179 billion (about $550 per person in the U.S.). In comparison, in 2022, the U.S. spent $607 billion on defense, almost three times the amount China spent. More importantly, the true indicator of being an ally or an enemy is the level of trade between the two countries and how that trade affects standards of living. Back in the mid-1980s, there was no discernable trade between the two countries. The admittance of China into the WTO (World Trade Organization) changed all that. By 2022, the U.S. was importing about $400 billion (about $1,200 per person in the US) in goods from China annually. Although many trade specialists look at a trade deficit as negative, American consumers are the beneficiaries as they have the choice to buy those goods over those produced by others. In addition, China's population benefits from having jobs created by this overseas demand. Each time the U.S. economy slows the trade deficit shrinks and leads to rising unemployment in China. For example, in 2008 following the financial crash and economic weakness, over 10,000 manufacturing plants closed in China. Why would China's government engage in policies that cause rising unemployment? Lastly, who benefits the most from that trade deficit? U.S. consumers. The Chinese get dollars or IOUs for the potential to buy goods at some future period. Either the Chinese will exercise that IOU and contribute to rising output in the U.S. or they will not, and the U.S. will find itself on the better end of that trade. These statistics do not mean these two world-leading nations will not be at odds sometimes. Recently, President Biden prohibited the export of sophisticated computer chips and China threatened to withhold the rare earth minerals that are needed to manufacture such chips. Yet these tit-for-tat policies don't undermine the fact that China produces goods that Americans want, and that demand keeps China's people working. Threats to raise tariffs on Chinese imports will increase inflation here but also penalize workers in China.

"When someone wins the lottery, do you ask them how they picked the numbers?"

- Charles Kadlec

Market Commentary

Santa came early for investors in December, which was positive, bringing annual returns to the double digits for most stock markets around the world. The mega-cap "Magnificent Seven" dominated headlines for most of the year (and contributed 60% of the S&P 500's return) until mid-cap and small-cap stocks that were lagging turned around by as much as 15%. Foreign indices had a similar experience except for Japan, Italy, Taiwan, and Brazil which were strong throughout the year. Fixed-income markets, especially corporate and high-yield bonds, also rallied around the globe on the back of declining inflation and central banks' stabilization of monetary policy. The U.S. dollar started strong only to finish slightly down on the back of a strengthening Japanese yen. Meanwhile, gold glimmered while oil and natural gas were weak and ended down.

According to the U.N. and Our World in Data, there are 140 million people born each year and about 61 million deaths globally.