FRIDAY, MAY 12, 2023

Well, hello and welcome to the Dividend Cafe recording for, gosh, I think it is the first time in a long time that I'm actually recording from my house in Newport Beach because we've been really recording from the studio when I'm in Newport on Thursdays for quite a while now. And even when I did record Fridays, we almost always were doing it in the studio. And yet I do recall recording here from the house in the past. It just feels like it's been a long time. And the reason for that is that I am leaving straight from here to go teach an economics class at the local high school I'm a part of and then am running on the road to go work on book writing. And so I am not able to get into the studio to record. And yesterday my meeting schedule kept me from recording on Thursday, which ended up being a good thing because I really don't, didn't have a vision for what I wanted to write about, talk about today until overnight.

And as I woke up early this morning, I had a number of topics I was thinking about covering in the Dividend Cafe this week, and I decided that it probably was one of those weeks or maybe it would just be helpful to do what I generally don't like doing in Dividend Cafe. And that's just kind of talking about the current state of affairs, what the lay of the land is right now, what is driving markets in the very present tense and the near term short term expectations. Now of course, the DC Today where we do a daily market recap every day Monday through Thursday, that's pretty much all we're doing. We're talking literally about that day's events, what happened in the market, what happened in the economy, what's happening in the news cycle. But there was some point a number of years ago where we decided, when I say we, this one was really my decision that I struggled with for a while and just became very, very happy with it almost immediately to use Dividend Cafe to just write about what most animates me to let Dividend Cafe be an extension of the topics that I think are most important in terms of macro economics, in terms of big picture in markets overall investment strategy, not week by week, news cycle, the Fed did this, the White House did, that type of stuff. And I've really enjoyed writing Dividend Cafe more since that change. And certainly it seems to me like readers and clients have liked it more as well. I hope that's true.

The topics that I was batting around with, and I certainly welcome your feedback on it, on which of these may be of interest to you and whatnot, are big picture issues that I think are really quite important and generally require quite a deep dive. I put a lot of work into this. This is really my baby. One of the things I enjoy doing the most every week is riding the Dividend Cafe. But right now I think addressing the changing dynamic and US China relations and what that means for the global economy is a big picture issue. Lots of people ask about, and I'm well aware of general, there's variant angles to it, but general questions about the role that artificial intelligence and increasing data intelligence and automation and technology, what those things will mean for the economy, for markets, for the world at large.

It's a topic I'm very interested in that I think is vastly misunderstood. I think that the CapEx cycle and our desperate need for increase in CapEx expenditures, and not just our need, but the inevitability in my opinion, that there will be a CapEx supercycle coming where there will be a certain reshoring and onshoring and nearshoring of various elements of American manufacturing. And not that there is a de-globalization taking place, but a re-globalization that is looks different than the last globalization. And that's a topic I love. So I love writing about monetary policy and the Fed and fiscal policy and indebtedness and that macroeconomic picture that I think is fundamental to what we're all living through and what is ultimately the economic narrative of my adult life and therefore a career based on what I chose to do with my adult life. I think that those topics will never go anywhere, and I'll write about that stuff for the rest of my adult life.

But there are these just different other issues. I do enjoy writing about energy. Certainly Saudi China Alliance has the potential of changing a lot of the American energy story. So take all that for what it's worth, there's various topics out there that you'll get to hear about in the weeks to come, and I think that's enough topics that'll take a couple months actually. However, right now this week it just seems to me that there is earning season just ended. We know that we're getting ready to go into this whole thing. There's been now one meeting that did take place between Speaker McCarthy and President Biden and another one was supposed to take place but was delayed and staffers are talking. You had a former president of the United States, Donald Trump this week say he thinks they should default on the debt if they don't get a deal. And we know where the media is on this issue. And so there's a lot of noise around it. And that story is there. You most certainly in my opinion, have the predominant story in financial markets right now being this question of will they, won't they about the Fed, about a rate pause and what the economic repercussions of what they've already done will prove to be? And these things are all somewhat inversely related.

So as a basic summary, and there are nuances around each of these, but I'll do my best to just summarize. The three schools of thought are school one, that the Fed breaks something and then has to start cutting pretty dramatically because of the breakage, which is likely code for a recession. Something goes bad, but then the Fed starts cutting. That seems to be what's mostly priced into markets now in terms of the yield curve and just the Fed fund's futures market. Camp two is nope, they're not breaking anything and they're just going to stay high and bond yields will come higher and the Fed will maybe pause but not cut. And the market, the economy rather just runs too hot longer and that we're not on a verge of breakage. And then Camp three is no, the Fed does start cutting, but not because they broke something, just because they stick the landing. They somehow start to peel this back. They claim victory over inflation, which I think they should have done a long time ago, and that they don't end up seeing unemployment go much higher. They don't end up eroding corporate profits that substantially. So it's kind of a Goldilocks camp. You kind of avoid a recession, may it's soft landing, avoid recession, and yet, yeah, the Fed does begin to ease monetary policy. So there's three camps and only the third one is kind of sanguine on both sides.

The first, if you think lower rates are good, the first has the bad of a recession with the good of lower rates, the second has the good of no recession with the bad of higher rates, and the third has the good of both goods. And so people will say, well, which camp are you in? And my answer is, I think it's either one, two or three. Well, we're paying you to understand this. And of course that isn't true. No one's paying anyone to predict what cannot be predicted. Some people may take money to claim that they can do something that they can't do, but we don't do that. What we do here is talk about the ramifications of what each one looks like and what the best all weather solution is through multi variant outcomes like this and stay humble along the way and stay communicative along the way. And that brings me to the point, this staying communicative to this question, and I try to address this every so often. I was definitely addressing it during Covid a lot because there was this big part of me that was like, I'm being such a hypocrite.

I'm writing every day on what's happening with Covid in markets. And yet telling people what's happening each and every day is totally irrelevant to your long-term financial outcomes. And it's absolutely true. And yet I do believe that the genesis of Dividend Cafe, which wasn't called Dividend Cafe back then, but the Weekly Friday investment market writing that started during the collapse of Lehman Brothers in September of 2008 really is why we do this. That it occurred to me profoundly, I mean like epiphany occurrence, that so many of my colleagues, peers, competitors, people that were in the financial advice business, I had no idea themselves what they believed or what was going on. And that they themselves were more afraid than their clients were in many cases. And as they were hiding under their desk. And yet I had a point of view, even though I didn't know exactly what was going to play out, I had a perspective, I felt incredibly engaged what was happening in financial markets. There was definitely fear and anxiety obviously around the unknown of things, but I didn't feel insecure about the fact that we had a point of view and that thought leadership was something clients benefited from. Not because you're going to predict the future, not because you're going to change someone's portfolio day by day around the news cycle, but that by providing information as opposed to only emotional solace. I think that we were adding to what we promised clients by way of trustworthiness, both an intellectual depth, a care to communicate, and that sort of mental addition that allows people to think through things even if they disagree and even if they're unsatisfied at the end of it, they go, I thought through it. I get what you're saying, but I still just don't know what it means or what's going to happen. I still believe to this day that that's better than nothing.

And of course some clients are going to say, I want to engage with that stuff on a monthly basis, some on a daily, some not at all. And then there's some who every 10 minutes want to see what pops up on the TV screen or the internet or whatever. But my point is that I view communication and sharing a point of view that comes from conviction, that comes from humility as beneficial. And I view coupling that to reiteration and reaffirmation of why behavior and temperament are far more important as our ethical duty that while I can share with you today, the Fed did this and to yesterday, the White House did that, and yet not say, therefore what I'm expecting for you in 20 years in financial outcome has totally changed. These do not have to be contradictory messages that we can talk about what's happened day by day, stay very engaged, we eat, drink, sleep, breathe this stuff, and at the same time work tirelessly on maintaining poise and discipline to allow it, to keep it from affecting a financial plan, affecting a financial strategy well thought through portfolio that we believe is the right one.

And so that ongoing tension we hold loosely and want to communicate around it. So when I say the three things going on now, I mentioned the debt ceiling. I mentioned this tension between will they, won't they with the Fed and will it won't it with the economy? And then the third thing is this subject of bank contagion, which obviously I've been writing about for months and there are questions, does it get worse? Does it get better? I've already done my best to put to bed the absurdity about comparing it to 2008. Yet there certainly ongoing questions. My own belief is there probably will be another bank that goes down. I'm skeptical if there's one beyond that. I think another one at that point forces the will that is necessary to just stop this because it could stop immediately. It's totally a question of will, but you bank contagion on day by day is enhancing the risk premium in markets. It's enhancing volatility because of uncertainty. And then just the underlying question of self fulfilling prophecy. Do more banks going down tighten credit more just tightening credit more lead to a contracting economy more, et cetera.

So it's not totally irrational, but that's the stuff that's on the table. So whether you're looking at Fed debt ceiling or bank contagion, those are the three major issues. And I recognize we still have the whole little Russia, Ukraine thing going on. We have a presidential election coming up next year. There is any number of issues, circumstances, et cetera that could be added to the list. But I think those are the three main categories. That's the lay of the land. We converse about it, not because tomorrow we're going to change a strategy completely upside down based on a headline in the New York Times. I bring it up because we believe that a part of what we want to offer is our perspective, our information and our strategy and thoughts on strategy any point in time, all the while maintaining an incredibly goals-based, outcome-based, planning based approach to what we're doing on behalf of clients.

So that's our story. We're sticking to it. There is a list at dividendcafe.com of a number of other topics, the one I kind of provided earlier in the podcast. Feel free to look at that and see if any of these topics animate you and ping us. I'd love to hear your feedback, but quite candidly, I'm still each week going to write about whatever inspires me. It's one of the beauties of owning this Dividend Cafe is I can kind of go where I want with it, but I do love your feedback. Okay, with that said, I'm going to get going and end the Dividend Cafe and you will hopefully rate us, review us and say good things about us in your podcast player of choice or whatnot. Thanks for listening. Thanks for watching. Thanks for reading the Dividend Cafe.
