

FRIDAY, SEPTEMBER 27, 2024

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Hello and welcome to this week's very special Dividend Cafe. My name is David Bahnsen and I am the managing partner of the Bahnsen Group and Dividend Cafe has existed for now 16 years for the purpose of bringing you weekly market commentary. And every four years for the purpose of doing this edition, this very issue dealing with the pending election and what we believe to be the implications and ramifications in the economy, in markets, what it means for investors.

There is a lengthy, written version of this week's Dividend Cafe that you may be interested in if you want the charts and if you want to have it written out and spelled out and so forth this recording the podcast the video is not a just reciting of the written Dividend Cafe so again the medium you prefer is the medium you prefer but I just want to make sure you know what's out there what the options are And I want to dive into this.

It was an extensive project to write this, but a lot of the extensiveness of that was in introductory preamble comments. That is something I was not doing when I first began doing election commentary when I was managing money. 25 years ago, this was not the same environment. Republicans and Democrats disagreed on almost everything.

There were bitter campaign battles that took place. And of course, literally 24 years ago, we had the closest election we had basically had in modern times, the, in the Bush v. Gore situation that, that ended up in a month long, dispute out of Florida. So close elections, contested elections, big policy disagreements, candidates not, maybe not even liking each other a lot.

That's all been there, but this is just different, and I think everybody knows it I think you know what? I mean, I don't think I have to even elaborate a lot and there is a sense in which I as a self-avowed very transparent And very unashamed lifetime conservative who grew up as a very young person have very fond of Ronald Reagan, but mostly influenced under certain pillars of movement conservatism, a kind of ideology around a particular vision for society that was very compatible with the American founding rooted in a strong appreciation of the constitutional order.

And from a more political philosophy standpoint, I have a lot more in common with Edmund Burke than anybody you would find on the scene today. For somebody like me to do this,

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when I'm doing it for the purpose of investment counsel, of economic analysis, it's very tricky because I will not sit here and pretend that my political ideology is different than it is.

But I also very much want to give objective advice about what I believe the lay of the land to be. And what happens out of that is inevitably, I mean, hopefully the majority of people will appreciate it and find some value in it. And, and at least, be sympathetic to where I'm coming from and how I feel and agree on some disagree on others.

That's all the intent, but there will be some. where I'm coming from and have problems with some of the things I say along the way, I fully understand there'll be others who I believe themselves to be aligned with me and be disappointed that I don't say things differently the other way or harder or whatnot.

I think the, probably the most common issue I've run into since the 2009 around that time period, roughly last 15 years through, what has now been three presidents and going into another election has been people that feel I'm not fearful enough that I don't have enough. The sky is falling mentality around some election outcome and all I can say is I'm calling balls and strikes here as I see the plate and as I see the ball and I am so unbelievably comfortable with disagreement.

And even if people get mad and send it to me, you have no idea the types of emails and DMs and things I get, it's not going to bother me. But it's important to me because of my commitment to civility. In a period of time where I think it's lacking and where I believe society is making a big mistake by deciding that avoiding political discourse is the right thing to do because of tribalization, as opposed to leaning into it and just doing it better, doing it differently.

And so I don't think everybody needs to agree with everyone. I'm going to present things the way I see it. And I'm hoping investors will get something out of this. The history will, and again, I don't know if they're putting the charts up for you to see on the video or not. But again, I mentioned it's there at Dividend Cafe.com.

If not the history of this is important just to start things off. That regardless of the fact that this year, I'm a Harris current vice president Kamala Harris, the Democrat candidate and former president of Donald Trump, the Republican candidate, apart from those two individuals, there are parties and political parties and whatnot involved, and we can go back over a long period of history.

And find out that there just isn't a lot of daylight over history as to how a particular political party ends up impacting markets the stock market we're talking about right now 78 of the

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time a 40 year term has seen positive market results since the Great Depression. That includes the Great Depression, by the way.

And the average return in a four year term, Republican or Democrat, has been 33%. Now, here's the part that I think is most interesting. When you look at the per year median return. With a Republican and with a Democrat, it's 7.8 Republican 7.7 Democrat, basically the exact same thing. We're talking about the Dow returns, which by the way don't don't include the dividends.

There's another chart we have in the Dividend Cafe that shows President by president returns and then the drawdown that's taken place and history is fascinating this way that, you know you can have a COVID moment, a nine 11 moment. You can have a great depression. There's various significant events throughout American history in the last a hundred years, and they just can come during public administrations, democratic administrations.

Likewise outlier positive events can take place. And in a pretty nonpartisan way, you know, I, I've always argued because it's contemporary to my life that Ronald Reagan did a lot of really good things, but there was probably going to be a great business boom in the eighties. No matter what, but that's not to take away the things he did to help facilitate it, particularly marginal tax rate reduction.

And there was going to be a technological boom in the nineties, no matter who was president. And that's not to take away some of the things that Bill Clinton did in the policy range. But both of those two people are remembered fondly in history for great economic expansion. And they did things to help that, but they also were beneficiaries of good timing.

And other presidents have been. Not so fortunate in terms of timing. So that's the way this goes. Because of the high partisanship that exists today, it's very understandable. People want to believe a certain partisan outcome kills markets, a certain partisan outcome. Helps markets that is not the testimony of history and then we're going to talk about whether or not well this time it's different right?

There's something so unique about candidate Harris is so unique about candidate trump that changes it We'll get into that a little bit the fact of the matter is that gridlock really is The outcome that seems to in more modern times have been most historically juicy What I mean is even when there's not gridlock in periods where the democrats had the white house the senate and the house You or Republicans had a majority or various combinations but in all periods, there's this positive market outcome because markets generally go up.

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That's the real takeaway here. Markets generally go up with volatility on the way because markets are the pricing of profits and profits generally are growing because of self interest. And because of human capacity for innovation and productivity. This is the basic philosophy that ironically, a lot of partisans are supposed to know.

They feel strongly about certain things in politics and economics. And then when it comes to this, they forget the most important thing that we believe so much in human freedom and human capacity for good. For productive good, for advancing, but what amounts to the ability to generate greater earnings because of increase, right?

Because of efficiencies, because of making goods and services that meet human needs and wants. We believe in it so much that there's a certain political philosophy that might follow from that. And then we forget that what we say we believe about human capacity. Actually even transcends some of the partisan limitations that can happen to be from time to time.

So, all that to say Gridlock is extremely possible out of this year's election. But it's a combination of Gridlock that I think is possible. That we have actually never had. It's the only combination of house, Senate, president, Republican, Democrat, that we have not seen in these various look backs. How many did we do again?

Since world war two, since world war two, a Democrat president with a Republican Senate with a Democrat house, that combinations never happened. We've had Democrat president. Democrat Senate Republican house. We've had that quite a bit under Bill Clinton, under Barack Obama, under Joe Biden. We have not had it with the opposite.

I'm not saying it will happen, but though that's on the table this time. It hasn't before. But then you look at some of the other outcomes are very, very common. Quite a few looks since world war two where there were, some of these different combinations we're talking about. And again, in all cases There's a positive market outcome, but where there's the largest premium to the mean the average, is in the case of gridlock, and by the way, a little even slightly extra juicy result when it's Republican controlled chamber in the legislative and the Democrat in the White House, and there's a reason I think that's been, but most of all it's probably Happenstance to certain circumstances in two term presidents.

But I'll, I'm going to get on a tangent if I go down that path, so I'll move on. Now, there's also a chart, Democrat Cafe, that is charting the history of small business sentiment and various other sentiment indicators, the consumer, corporate confidence, over Republican and Democrat administrations.

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And what's interesting is that the business sentiment drops, it goes very negative on average in certain Democrat administrations, and it's very positive in average Republican administrations. And you can go see, David, we told you, the, if you're wearing red, you, this is kind of your, your point.

But I would argue it kind of goes the opposite because all that says is since I just got done telling you that the market results were the same, apparently, even if there is a striking difference in sentiment. That the sentiment must not be driving market changes either. So I'd be very careful about trying to extract a partisan conclusion.

Because the data just doesn't bear it out. You know where people can begin to get in the weeds is not like I think the Dow goes down of this person's president or the S&P goes up of this person's president. It's in the weeds of sectors. Now I'm going to try to avoid spending too much time on something that I think I've said a hundred times on television and even in the Dividend Cafe over the last several years, which is the obvious example in very recent history of Biden being perceived as an anti energy president, where the energy sector's done very well.

Trump being perceived as a pro energy president, when the energy sector did poorly. Obviously, COVID at the end there didn't help. And you could make an argument around other sectors, other presidents. The energy sector under President Obama started off in his eight year two term presidency, just tanked during that brutal recession.

And near the end of his presidency, it tanked as Saudi and OPEC was flooding the world and trying to fight the American frackers. And in between, it was up huge, but was there anything President Obama was doing that caused the barbell of really bad results at the beginning and the end? And you could look at the energy sector and say it didn't do well under Obama, but for the majority of his presidency, it did.

And actually, timing. Is a big part of some of these things when you dig into the individual sectors I am open to the idea that there's policy differences from candidates that could become relevant. And we're going to talk about energy more in a second because I think that's not only a stock sector ramification but it's also very candidly something that has big market implications or, or excuse me, economy implications too.

But, but when someone will say, look, we think that Kamal is in a continue the inflation reduction act. And so there's more green energy spending more in infrastructure. And also this commitment to green energy combined with spending more for defense because of the Ukraine war. So industrials will do a lot better under Harris than Trump.

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Maybe they will, but again, that's a tricky way to view it. When some of the spending things they're talking about are already in law, they're not going to be new. A lot of these things could be very well priced in. And then does anyone, believe that? Trump talks very differently about the Ukraine war than Harris does, but do people believe that Trump's going to cut defense spending?

You know, I mean, maybe he does. I'm just saying I, I wouldn't take that base case. And so a simplification around, we think Trump doesn't like tech, so tech would do poorly is not a great way to do it. We think Harris likes industrial, so industrial is going to do better. It's not. A very sophisticated and throughout the testimony of history, hasn't proven to be a great predictor of sector results.

Now, all that said my own take. Is that I think Harris is more likely to favor some governmental intervention and drug pricing. President Trump, it's hard to wrap your arms around a healthcare sector outlook. I don't think it's an area of policy that animates him a lot. And there aren't strong objectives that would give an indication as to where he would stand on certain aspects of pharmaceutical or managed healthcare, what have you. With energy, I told you we're going to get back to that with financials.

I would think big picture that President Trump his history with real estate, his view on interest rates connections to New York you know, deregulatory bias, All things being equal, I would think his posture towards the financial sector would be more positive than Harris, but I think that's marginal at best.

I think I don't see the financial sector having a huge leverage one way or the other. Wall street has a funny way of currying favor with candidates of both parties in the end. I'm trying to think of an example where I would see more relevance, green energy, I think it's fair to say Harris is going to, Favor more government subsidies than Trump will.

But even like I mentioned with the defense sector I don't know that it's a reasonable assertion spending is going to be going down in that category under either where are. The differences that I think are more profound between the two candidates if I don't think it's stock market expectation and mostly marginal and idiosyncratic when you get into sector differences.

It's in the category of taxes, the category of debt and spending we're going to talk about, the category of tariffs. And then I would ultimately conclude with personnel. When it comes to taxes, there's a long list of tax policy commitments that both candidates have made in Dividend Cafe. And I'm going to spare listeners all the details of it.

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Because first of all, one of my major points is that I think a lot of it is highly unlikely to ever happen. In the case of some of these promises that Trump is going around making, no tax on tips, no tax on social security, no tax on overtime, a bunch of these different things, almost all of that is, is going to be very, very difficult legislatively.

Harris saying she wants to tax unrealized gains or add a wealth tax for people over a hundred million. Or not give step up in basis over 5 million of gains at one's passing. I think those things are all very, very unlikely to ever see light of day. But then the stuff that is more obvious is some of the ramifications from the Trump tax cuts in 2017 that are set to expire at the end of 2025.

The corporate income rate is not set to expire. But it's 21 percent right now. And Trump says he wants to bring it to 15 with a caveat on that. And Harris says she wants to bring it to 28. Either candidate to do what they want to do would need a Senate majority to do it and need a reconciliation process.

Cause you're not going to get 60 candidates. So it's filibusterable. You're not going to 60 Senate votes, but then you don't need 60. You only need 50 plus one. If you go by their budget reconciliation process. And so, yeah, I think if Trump's elected, it's pretty safe to say that all of his tax cuts are going to be renewed.

Except for one of his tax increases, he is saying he wants to get rid of, which was the salt deduction limit. So he signed into law, he now says he wants to get rid of it. That may not be able to happen either because of the budget reconciliation process. Harris hasn't really spoken much at all about and given indications to where she is on the SALT deduction cap, but Chuck Schumer, the Democrat Senate Majority Leader, says it's his top priority to get rid of that limit.

So, we know generally where folks on the left have come down on that issue but, um, Harris hasn't chimed in on it directly herself. There are a lot of issues in the tax code that they both have talked about. The Nonpartisan Tax Foundation has estimated that it will increase Harris's proposals all put together would increase business taxes, 2.

2 trillion over 10 years, individual taxes, 1. 2 trillion over 10 years. But I don't think that analysis is very helpful when I just simply don't believe that it's going to happen. And likewise, president Trump's claims of various tax cuts, the tax foundation has scored it, that it will increase the deficit by an additional 1.

2 trillion over the next decade. And again, I don't think all those things are likely to happen. On the margin, it's very clear that there is a certain, from the first term President Trump had,

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a certain posture that one could assume is more friendly to markets. One is saying they want to cut business taxes and one says they want to raise them.

That's pretty cut and dry. But when you get into things like SALT limits, child tax credit some of the particulars, this is just absolutely unknowable. Until you get on the other side of the election and have clarity as to where the Senate stands. Tariffs are probably the most unknowable of all of it.

And I need to do a whole Dividend Cafe dedicated to the subject, but this is essentially the Republican candidate for president, Donald Trump talking about raising taxes via tariff, but doing so in a way that's more politically palatable because he's claiming that it's doing it's going to protect American jobs and I think that there's strong opinions on this.

In favor of his view out there. It's politically much more popular now than it was eight, nine years ago. I have opinions that are different on the subject, but the issue right now is not so much the good and bad of tariffs, it's the what's going to happen. Trying to assess this descriptively, not prescriptively.

I don't believe that we know, because on one hand, candidate Trump refers to tariffs as a negotiating tactic he's going to use to get better deals, on the other hand he says we're going to bring in so much money because I'm doing the tariffs. And if they're only a negotiating tactic, so you don't need to do them, then you're not going to bring in the money, right?

So there's a sort of catch 22 in that. My nuanced view on this is it's possible he will do tariffs if he's elected. And it's possible they will be as bad for markets as I think they could be. And that he very quickly changes his mind. This is not something I've heard discussed anywhere. He has bragged about the stock market's performance.

He views it as a scorecard of his presidency. He's bragged about it hundreds of times publicly. So I don't think I'm talking out of turn, but I also have. Very reliable private sources, that it's something he thinks about a great deal. I think if you were looking at 200 percent tax on certain American, or tariff on American companies, and some of the broad based really significant issues, apart from policy maneuverings and trying to get better deals and trying to help American workers in certain places or what have you avoiding the complexity of all that, I just think that if there was a severe market reaction.

I don't think he'd stick with that. And so that's where there's nuance on the tariff side that we not only don't know what is serious, what's really going to happen and what the response will be, but we also don't know that there would even be any stick to witness with

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it. And I very strongly suspect there would not be the biggest economic issue of our political lifetimes is debt, the issue of Governmental debt is the thing I write about most in Dividend Cafe that I believe is the most profound hindrance to economic growth is how much of our economic pie is now consumed by governmental spending, servicing a government debt, and the basic crowding out a private sector from governmental debt.

Spending divided by GDP and debt divided by GDP have become extremely problematic. Those percentages have moved a great deal. There's charts to that effect at DividendCafe.com. This is not an issue that's a part of the 2024 election. This is not something either candidate's talking about. It's not something either candidate's going to talk about.

Deficits have exploded under Biden Harris. They exploded under President Trump. I don't know how I can be any more nonpartisan than on this issue. There is neither person of these two candidates who's going to get elected, who's going to lower the national debt. All we're debating about is how much the deficits increase.

And in one case, there's a candidate who says they're going to raise more revenue by raising taxes, but they're going to also raise spending. And another candidate says they're going to increased spending, but then gonna cut taxes and revenue and so the way it gets scored, is more or less, both are looking at trillion dollar plus deficits.

That's just the reality. So that aspect of long term economic growth impact because of the reality of the national credit card is not on the table in 2024. The way in which entitlements fit in, and transfer payments fit in, and the social safety net fits in, is not on the table in 2024. And I can't sit here and tell you one candidate's worse for it, or one candidate's better for it.

I just think that they're both unwilling to deal with it. And the reason they are, is that the American people are unwilling to deal with it at this point in time. And I think that will change. But that is the biggest long term, multi Term in office, multi decade generational issue, and it's not part of the 2024 election.

The energy issue is, and this one is a mixed bag for investors I find it beyond ironic that the, that we are producing 13 million barrels a day right now of crude oil and the Biden administration and candidate Harris can't and aren't bragging about it because there is a part of their base that would be turned off by it.

We had a significant increase in export LNG in the Biden Harris term in office. Liquefied natural gas, largely because of the Russian invasion of Ukraine, but then last year they went and announced a cessation of all permit approvals for ongoing export LNG. There's no

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question where a certain element of the environmental base of the team Harris lies and yet that as actually a very good thing for the investment, it holds prices higher.

And margins higher to drillers doesn't allow for a lot of E and P of new exploration and production, small cap players, new rigs. But it does help those already doing drilling. In other words, it's not that it's good for energy or bad for energy. It's good for one part of energy, bad for another part.

Likewise with midstream. It's not good for export LNG, but it is good for current oil and gas pipelines that already exist when you're not getting approvals for new ones to be made. With the Trump administration, I think he's very pro energy and will surround himself with very pro energy people.

But I also believe that it would be more advantageous for E& P than it would be for incumbent drillers. And it could theoretically push prices down, which is better for consumers, but then might cut into margins of some of the big upstream players. And then increase volumes, which would help more of the midstream.

So if it sounds like I'm setting this up as a heads, I win tails, I win it. It's kind of true, but we're winning in different ways. I have a pro energy outlook that is based on economic fundamentals of the sector and where exactly that is, is manifested might be slightly different with each candidate, but one is ideologically pro energy and one is not.

And yet I think from a market standpoint, You get to a still very favorable outcome and proof of that is in the last four years, candidly. So I mentioned that President Trump would surround himself with people I think are more pro energy and this is a segue to the final point I want to make. It's the most important point.

Personnel is policy because I don't know exactly what tax policies Harris gets passed or what tax policies Trump gets passed or what he does with tariffs or what she does with this spending or that spending because presidents talk a lot and 90 to 95 percent of what they say never ever happens because the separation of powers in Congress and because campaigns are just filled with bloviating.

But what is to me throughout history the most impactful thing in economic reality and the way it comes out into investment markets in financial market is personnel. And I learned a valuable lesson when Barack Obama was elected president. And there was a lot of people concerned. He was a far left candidate and certainly he had been more to the left than a past Democrat president we'd had in Bill Clinton.

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And I remember what happened when Barack Obama appointed Larry Summers, his national economic council director who had been Treasury secretary under Bill Clinton, and he appointed Tim Geithner, his treasury secretary and who had been the New York Federal Reserve president. These were center left people, neocaynesian Clinton alumni, but center left, not far left and markets rallied and took it in a certain stride.

There are a lot of people in the Trump administration in their personnel that, that I know well and am fond of. There's people that were in the. Past term in his administration, economically, I wasn't fond of, but you look at the ability a president has, whoever it may be, to impact policy via their cabinet selections, of course, but staff positions, we have a national economic council that helps formulate policy and a vision strategy as well as the council of economic advisors.

The federal reserve chairs are appointed are nominated by the president approved by the Senate. You look at the FTC, federal trade commission, the EPA, FDA, from health to energy, to interior, to education, financials, there's all these appointments, personnel is policy. And I will not know what I believe about certain market ramifications on election night.

Assuming we know a winner on election night, we'll know certain things around where the white house is going. All that, but until we start seeing some of the personnel appointments, that's the lowest hanging fruit. And I think people are very free to conclude, okay, there's going to be some good ones here, bad ones there, depending on your point of view on things.

But the details matter. And that's why this is an ongoing process. I really encourage you to look at the charts at dimmingcafe.com to check out the full writing there. I feel a little rushed with what I've had to do here at the podcast or video, but that's because I am rushed for our deadline right now.

And the written, I didn't feel rushed writing, so hopefully you'll have that elaborated out more there. Pass this on to whoever you want. A lot of people are talking about the election. If you think any of this information is valuable, I encourage you to share it. And I really do appreciate you bearing with me as we walk through the ramifications of the 2024 election.

Thank you for listening. Thank you for watching. And thank you for reading The Dividend Cafe.