

FRIDAY, OCTOBER 25, 2024

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Well, hello and welcome to another special Dividend Cafe special because. Who can't possibly get more of this election 2024. I promised you last week, we were going to devote this week's Dividend Cafe to a Q&A edition of all things relevant to the election. We solicited for questions and we got quite a few, about a dozen great questions from people regarding.

the impact of the election, what to expect, what may or may not want to be done about it, et cetera. I do want to remind everyone, if you're listening right now watching or reading The Dividend Cafe Q&A edition, we did already a more comprehensive special election issue a few weeks back. So that's available on the website, where I, without answering questions about the election, go through and address all the different.

topics that I think I've done this every four years for quite some time that I think were most relevant to the election. And so that issue I think lays out a lot of our theory of the case about the history of these matters where the Congress, both, both the Senate and the House, where that plays into the outcome of the White House, some of the particular sector implications in 2024.

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There's just a lot to unpack around all this. And it is often done by folks in a very partisan way. And I think that Dividend Cafe I'm referencing was able to communicate without a lot of the heat, a lot of the noise around the politics of this electoral cycle, what I think the market implications and economic implications are.

We're going to cover some of those things again right now, but I'm doing it specifically in the context of what your questions for me were. So we're going to stay more focused on some of the particular questions. I think I probably should also address another elephant in the room, no pun intended as to why I'm wearing a tuxedo right now.

And that's because I'm in Chicago where I'm attending a black tie gala tonight for an organization I'm a part of, and then I fly to New York City early in the morning, so I'm recording this Dividend Cafe on Thursday evening and won't be able with flight times to record Friday and so that's the explanation.

This is not going to be a new trend, in The Dividend Cafe, where I put a bow tie on to record for you. So don't give your hopes up. The very first question that came in was not exactly a easy one. Or a shocker that it would be on people's mind when someone asked point blank, who do you think is going to win?

And I guess that's a pretty good place to start in a Q&A around coverage and implications of the election. My answer was that I think Governor Justice in West Virginia is going to be the new

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Senator in West Virginia. And so that obviously very clever and humorous dodge is a little bit more, um, meaningful than it may meets the eye because the point I'm making is while I recognize that everybody is focused on the presidential election.

I believe it's worth taking a perspective in that if the Senate is going to go to Republican control, that changes things dramatically around markets economic expectations, sentiment from the vantage point of the presidential outcome. Because if. One of the potential outcomes is a President Trump win combined with a Republican control of the Senate.

There's that outcome for markets to price in and investors to think about, but then if the other outcome might be Kamala Harris win, Vice President Harris win, and a Democrat controlled Senate, that's a very different expectation. However, if there's a hybrid there, and that, the, that outcome of Harris win with Democrat Senate is off the table going in, if it were off the table going in, and the second possible outcome, besides a Trump win with Republican Senate, were a Harris win with Republican Senate. If those were the two outcomes. That changes the variance of possibility a great deal. And essentially my view is that is highly likely that you're either looking at a Trump win with the Republican Senate or a Harris win with the Republican Senate.

In other words, Governor Justice is surely going to be Senator Justice in West Virginia. That's the 50th Republican seat. He's up by anywhere from 34 to 38 points in the polls and in the

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great state of West Virginia. And I would argue that the most likely 51st seat is Montana. Where Tim Sheehy looks very likely to beat the incumbent Democrat, John Tester.

I would argue that there's a less likely, but still let's call it 50/50 possibility Bernie Moreno, the Republican candidate in Ohio who's running against the Democrat incumbent Sherrod Brown. That being the 52nd. Do I think there's a 53rd in there? I don't think it's impossible. The Republicans end up with the 53rd Republican Senate seat.

I think it's very unlikely. Dave McCormick has definitely tightened the race against Bob Casey in Pennsylvania, but that's, that, you know, there's not a lot of other competitive situations there. Nevada, Arizona are not competitive races for Republicans apparently this time around. And so I would argue that the most likely scenario is 51 or 52 Republican senators. Therefore, when you say who's going to win the presidential race there's two outcomes. And neither of them are what really significant market bears might have worried about. One outcome is a Trump victory with Republican Senate. One is a Harris victory, the Republican Senate.

Now, again, if I'm wrong, if Montana doesn't move if something changes, there's different things to calculate and think about there. And that brings me to essentially where we are with the overall race, which I'm holding to my view that it's a 50/50 race. There has been movement in polls, there's been movement in sentiment, there's momentum issues.

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At the end of the day, I believe the polling and all of the data analytics were very clear that President Trump was going to be headed to a very big victory against current President Joe Biden, just on the basis alone of President Biden's capacity with health and, you know, fitness for office and so forth.

And so then I believe that when candidate Harris came in, Vice President Harris came in, the momentum shifted a great deal, a lot of funding momentum and polling reversal, and she took an advantage in the race that was undeniable. And in recent weeks, does that seem to have stalled? And is there some indication that, that President Trump has asserted some momentum?

I think that there's plenty that can be looked at there, but all of it is within the margin of error. All of it's very tight. And if I were in the Harris campaign, I'd be feeling like this was going down to the wire. And if I were in the Trump campaign, I would be feeling like this is, Going down the wire.

I'm of course in neither campaign but objectively, I think it is a very reasonable thing to say that this is a very tight race I do believe. The winner of Pennsylvania is very likely to win the election, but even that's not guaranteed. I suspect that Georgia and Arizona are gonna go to the same person and if that person is president Trump and then you look to the Rust Belt states of Wisconsin, Michigan, Pennsylvania, and the argument, if, look, if President Trump were to lose Nevada and North Carolina, but

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win Pennsylvania and yet lose the other two Rust Belt states, Michigan and Wisconsin. Then Vice President Harris would be the new president with 273 electoral college votes. I think it's very unlikely that Trump would lose two Rust Belt states, and Nevada and North Carolina, but somehow win Pennsylvania. But it's possible.

But more than likely, the winner of Pennsylvania probably wins one or two of the other Rust Belt states as well. And if president Trump wins Pennsylvania and North Carolina, which he won in 2020 and 2016, then he, even if he does lose Nevada he would still prevail. But one thing that's interesting here is I kind of do believe that the winner.

Whoever it would be is going to have between 270 and 290 electoral votes. I know that it could go the other way. You could be looking at some of these battleground states that I think are going to be determined by one percent or two percent or less. Maybe they, some of them go by three or four percent and maybe there is 310, 320 electoral college votes that go to one candidate versus the other.

But I don't think so. I think more than likely. That you're going to be looking at a very tight race on election night. And again, from the vantage point of markets and economic expectation, that the Republican Senate majority is the most likely scenario. So all of that said that's why they play the game.

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We will see what ends up happening. You know, then I guess a question that I'm being asked is, are there trades to put on in anticipation of a particular outcome? Is there a scenario in which we should expect, you know, One particular win or one candidate winning the other candidate losing that it helps a sector or helps a certain space and you've seen kind of like niche trades where certain crypto exchanges have been running higher thinking President Trump may win or Private prison companies have been trading like 25 percent higher in a couple of weeks And Vice President Harris, when she was doing really well in the polls and moving higher throughout August, I believe it was, that you saw some of the American importers doing better, presumably that people thought the tariff threats from President Trump would be hurting them, and so a Harris victory would help them, so people could put all those trades on all they want and hope that they're right and who ends up winning, but that is not what it's about.

You cannot make money doing that by predicting who will win the presidency, which I would already suggest as a coin flip. You then have to predict if you're right about what the outcome will be of the thing you're talking about. And you have to predict if people have already priced that in. That one is the killer.

So I don't think people know who's going to win the election. I don't think people have any way of knowing if these outcomes in certain particular policies and specifics as to how it would play down or. or accrue to the benefit or the pain of a given sector or company. I don't think people have any idea.

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And so there is, even at the end of the day, the risk that you could get those two things right and still lose because it may very well already be priced in, buy the rumor, sell the news, the curse for all traders. Just so you know, I don't think the people that are doing this are speculating on those things.

I think they're speculating on what they believe speculators are speculating on. There are people trading around where they think trades will go. And so there's a front running gamesmanship to it. I talk about this a lot with the Fed. People aren't trying to guess what the Fed's going to do. They're trying to guess what other people are going to guess the Fed's going to do.

And that is just. Not what I recommend people do. It's certainly not the way we invest. And so, no, I don't think there are short term tactical maneuverings around an uncertain election with uncertain outcomes that already have uncertain pricings factored in. Somebody asked me if President Trump were to win the election, who would his key advisors be?

And this is an area I will point out first that nobody did ask me that. about Vice President Harris, but I still want to answer that. I think that is a very interesting question too, because our campaign team. Is largely holdovers from the Biden campaign out of Wilmington. And there wasn't a lot of choice there.

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There was a campaign infrastructure that was already well set up in Wilmington that she kind of inherited. And so would she end up looking for a lot of continuity with the Biden team, cabinet, staff, policy advisors, et cetera. I don't really know the answer to that. We are, there are certainly Obama administration alumni in her Rolodex.

There are certainly Clinton administration alumni. And she also has her own you know, database of people from her time in the Senate and attorney general's office in California. So it's very possible that she'd want to bring some of her California cabal, out to D.C. I don't know what to expect there.

As far as if President Trump were to end up winning, his first term is difficult to base it off of, because I think a lot's changed since then. You know, he had a real kind of traditionalist Reaganite in his Vice President, Mike Pence where J.D. Vance is a bit more of, what they call a national conservative, a bit a bit more unconventional in terms of the traditionalism of limited government conservatism.

And this isn't to say one way or the other something good or bad about candidate Vance. If he were to be Senator Vance, if he were to become vice president, but that's a different voice and influence than Pence right there. You look at, like, the Treasury Secretary, he was a very Wall Street technocratic guy, Steve Mnuchin, he's now back in private equity, he had spent his career at Goldman Sachs and he stayed as Treasury Secretary the entire time of Trump's term in office.

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His first National Economic Council Director was Gary Cohn, the former president of Goldman Sachs. His second ended up being, for the final three years, Larry Kudlow, who of course is an advisor with us at The Bahnsen Group. And so, he had Wall Street guys, and he had kind of Reaganite supply siders.

Art Laffer Steve Moore were all really key integral parts of his influence. And Kevin Hassett, who is my colleague at National Review, was a was the director of his Council of Economic Advisors, and I think he would very likely be part of a second term. But then you had Bob Lighthizer, who was his trade commissioner, and Pete Navarro, who was an advisor.

that are much more economically nationalistic protectionist. So there, it was sort of, you know, competing intellectual influences and competing temperaments and styles. I think that you'd have a lot more of that in a second term. And I think there would be a lot more tug of war. In the first term, there was some of that tug of war, but I think that the supply siders and more Reaganite traditionalist won.

More often than not, as evidenced by the large corporate tax reform bill and things of that nature in another, if President Trump were to get a second term, I think that you'd see some of the old faces, some of the new faces, but I think that there would be just a kind of constant tension between some of these ideological divides and so that is what I'm expecting if there were to be another Trump term and I'm more focused on that by

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the way, around the economic side around things related to treasury, the Fed, the NEC, the CEA, that's more my lane and where I have a lot of relationships and where I have a little more interest, things with other cabinet positions and foreign policy and so forth is very important, but it's not something I have as much direct line to.

Okay. Do you have an expectation of what the market will do between now and the election and what about, you know, right after the election? And again it isn't the type of thing we'd be investing around trying to, you know, get in front of what would happen or right afterwards play into some volatility.

My expectation is that there will likely be a little enhanced volatility in a couple of days, in a week or two, just around the uncertainty of it. That's happened over the elections in my adult lifetime, through which I've been professionally managing money. But of course, we're right smack in the middle of earnings season and you could just really continue to have forward guidance around earnings, drive a lot of the day to day results, but it wouldn't surprise me if you get some enhanced volatility people kind of shutting down the trading book for a few days to sort of be on the other side of some of that noise, nothing I would consider to be investable, and as far as the immediate aftermath of the election, I don't know how to answer that because You know, if it's going to be very tight and you have recounts and you have any, God forbid, lawsuits and things of that nature, that could slow things up too.

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And that would certainly add to some volatility. One way or the other, you get on the other side of the noise and, you know, you rediscover normalization. That's all that really matters. I just don't care much what happens over the next week or two or the week or two thereafter. And I and if I did have an opinion on it, it would be uninvestable.

Someone asked, could I explain how tariffs could be good for the economy and how tariffs would actually generate a little zero or a little inflation? And the answer is no, I cannot. But I am going to go ahead and do a whole tariff issue in Dividend Cafe next week. So I think that topic warrants a lot of unpacking.

Okay. And I would rather, instead of giving one answer to a question here about it, devote a whole Div Cafe to the subject of tariffs. Again pretty apolitical. It's just, it happens to become a very political issue. I'm going to make an economic and market case around where we stand with that.

As I pointed out in the original special election issue, Dividend Cafe, The issue now trying to handicap the possibility of tariffs is that there's very little clarity as to what could or would really happen if we knew that President Trump was going to win. Does that mean we know that there's going to be all these tariffs implemented when he has talked about tariffs in the context of being a negotiating tactic?

When there is the possibility of very draconian tariffs disrupting markets a lot, and then those markets signals themselves

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causing president Trump to reverse his own policies, because I do believe he puts a high value on tariffs. the market as a sort of validator of his presidency if that were to happen.

So it, there's a lot of ambiguity about that, but I'd rather unpack the substance of the issue, not the politics of the issue next week. With all this political dysfunction, why should I keep my financial assets in the USA at all? And if I don't keep them here, where would I go? Well, that second part answers the question of the first part.

Where would you go? And what is it about our political dysfunction that would make your assets unsafe here? We have an extremely capitalized banking system. We have the rule of law for the most part. There's marginal things where that fails us. We have private property. There's marginal moments where those things fail us.

But our financial assets as the richest nation on earth, our financial assets as the most militarily equipped nation on earth. There, there certainly isn't a second place. So whatever folks think about the concerns of our country, many of those concerns I have, they're not relevant to the country in which you hold your financial assets.

And so if that changes, you will hear it from me first. That might even warrant a special midweek Dividend Cafe. If I ever decide that our assets are no longer safe in the United States, I'll give

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you a little hint. If you don't think your assets are safe in the United States, I don't think you're safe in the United States.

But, in the meantime, no I do not believe that the political dysfunction, that the very unfortunate tribalism, the very unfortunate toxicity the deeper divide between red and blue, and all of those things, I share that cultural angst. I am a partisan, movement conservative. When I say partisan, I mean, I have always voted a certain way until kind of recent times, like I, I identified, you know, with the Reagan revolution as a kid, all these things I've admitted to you in the past.

I don't mean partisan in the howling mad, you know, my party or bust. I'm more of a movement and ideas guy than a party guy, but no, I freely admit to being someone who's ideologically wired as a conservative, a political Burkean conservative. I through my distaste of the current political environment, cannot comprehend not having my financial assets in the United States.

All right. Do gas prices drop a few months before an election? Does this help the incumbent? Well, look, I put a chart in Dividend Cafe. They might put it up here on the screen for you right now. Gas prices are down a little bit here in the last month. They're just basically back to where they were at the beginning of the year.

It's only 20, 30 cents difference. Even that price is where it was in January of the year before. So really since the big bump up after the Russian invasion of Ukraine, there hasn't been a huge

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move in gas prices. They've largely stayed in the low to mid threes. So 20, 30 cents is certainly nothing that's going to move the needle in the election.

And I went back and looked over the last about 10 presidential election cycles and there've been some where they went down before and there's been some where they went up and a lot where they stayed right in the same range. So no, I don't think there's any correlation between the immediate few weeks or months before a presidential election and gas prices.

And of course, if I did think a president could do that and kind of turn some knobs and move some numbers in a way that brought gas prices down to help their incumbent election pursuit, I would recommend they just did it for four years. That would really help their electoral prospects. If Trump wins, do you believe there'll be more fracking during the next term?

What about if Harris wins? Will there be less fracking? What will the market impact be? You know, what's very interesting is I think that President Trump is ideologically more supportive of fracking, of horizontal drilling, and hydraulic fracturing than Harris is, and Harris has in the past talked about wanting to ban it, has now said she doesn't, but I think it's not hard to parse out who is more supportive of it, and yet I don't think there'd be a difference in what the production output would be.

The highest amount of daily production in crude oil, in terms of absolute number, is taking place now in a Biden Harris

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administration. Supply demand factors really drive a ton of this, and then the biggest issue right now is on the margin of whether or not we got an extra 500,000 barrels a day or 500,000 or a million barrels less per day, the biggest factor is the capital discipline of the oil drillers themselves.

So on the margin, there's definitely things like federal land permits. There's definitely relevance to some pipeline approvals. I think the biggest aspect would be longer term around the ability to go build more export LNG terminals. So presidential regulatory energy policy matters here. But as far as like the volume of fracking that would go on or just oil drilling, presumably they're referring to shale.

No, I think that number would probably be the same in both situations. What does the election mean for emerging markets, frontier markets, impact on sovereign debt costs, how that affects commodity prices, kind of impact a lot of the third and even fourth world. It's a great kind of question. And I would say that there is an impact, But it's going to be more from the Fed than from the White House, that if the Fed is going to be loosening monetary policy.

That should weaken the dollar, which should strengthen some of these emerging market economies particularly those that, that have dollar denominated debt. And if a Fed were to be tightening or not easing as much as expected, that would probably be a bigger negative for emerging markets. But I don't see that being directly correlated to who wins the White House.

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I think that's more of a Fed decision. Will the popular vote winner be the Electoral College winner? Very likely. The popular vote winner will be the Electoral College winner if Kamala Harris wins the Electoral College. And if President Trump, if Donald Trump wins the Electoral College, then I do not believe that the popular vote winner will be the Electoral College winner.

So, basically, the, it's a 50 50 proposition based on my earlier statement. Okay, how does the growing national debt impact economic growth? This is something that is not really even an election question because I write about it all the time. Our constantly growing national debt impedes Economic growth as a matter of an mathematical tautology that less money available for saving because more money has gone to debt means that less money is available for investment, which means less money is available for productive growth.

The crowding out of private sector, the fiscal and monetary response that alters capital and resource allocation. These things all put downward pressure on growth with the big question an economist have to debate. being what the margin, the magnitude of that impact to growth is. That it is a negative impact is not very debatable, whether or not it pushes us down to 1 percent real GDP growth, or we hold the line at 2 percent real GDP growth, or we go to outright at some point, Japanese style deflation.

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There's different outcomes that can come, but that all of it has pushed us below our own trend line growth. That's the impact of growing national debt. What would the catalyst be for politicians to realize the U. S. debt situation and begin acting upon it? I love the kindness of the question that politicians now don't realize it, and then once they do, then they need to act upon it.

The politicians do realize it, and they do not care. And my answer here is not universal. It's my own view. But I do not believe the issue is for, I don't think the catalyst has anything to do with when politicians realize about the national debt. I think it has to do with the people who elect politicians.

And I do not see any short term catalyst for the people deciding. that they want the policy framework that would limit the growth of spending, perhaps even cut spending, perhaps even eliminate certain parts of spending, and at the same time try to facilitate growth on the other side you know, of the ledger.

So I think this has a lot more to do with the people than the politicians, sad to say. Okay, those were the main questions that came in about the election. There's plenty more it could be said. I, again I think that the prior Dividend Cafe devoted to this subject covered a lot of ground, but if you have any additional questions, please do send them in.

We're still going to be doing our Ask TBG every day as we always do, and you know, we're down to the last week and a

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half of this situation, and So there you go. I look forward to talking a lot less about this, but this is a big moment in our country. I'm fairly confident. I haven't said anything in the last half hour to offend anybody.

And if I did, I apologize. Not really. Thanks so much, as always, for watching, listening, and reading The Dividend Cafe. We look forward to being with you again on Monday. Take care