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Well, hello and welcome to the first Dividend Cafe of November. I am David Bahnsen, Managing Partner at The Bahnsen Group. It is November the 1st. I am in our New York City office and we are just days away. from the 2024 election. We are into the final two months of the year. It is fall, it is beautiful, there is football on Thanksgiving is coming up at the end of the month.

What could anyone possibly be anxious about? This is not going to be a Dividend Cafe dedicated entirely to the election. I'm going to jump around to a few different topics, but a lot of them are connected to the election or the aftermath of it, but it's, it, there's some important stuff to say today.

So I'm excited to go through this. I do want to quickly do a mea culpa because last week from Chicago, I believe I said. That I was going to do this week's Dividend Cafe on tariffs and dedicate a whole unpacking of the ramifications of tariffs, taxes on imports. They have been a significant plank in the Trump campaign.

I don't want to say they're a significant plank in his policy portfolio because There hasn't been a lot of specifics as to what may be involved, but there's been different aspects of you know, a reduced corporate income rate for companies that manufacture exclusively in the United States, tariffs for companies who don't, but of course the companies in the U S don't pay tariffs.

It's imports coming in, but then it's talked about different rates, different times, different specifics. So it's hard to analyze that. And then I started thinking about the fact that, you know, I'm standing still, you know, now just a few days before the election, where I was a week ago is where I am now, which is a 50 50 outlook on the potential results of the election. And I'm well aware that there are people that think President Trump has a much better chance than 50 50 of winning. And I'm aware that there are people who think Vice President Harris has a better chance than 50 50 of winning. And I can make an argument in the data for slight advantage here, slight advantage there, but based on the Electoral College, based on some turnout issues, based on unknowns, based on polling, based on battleground states, I just, I think it's a coin toss.

And so, you know, if I'm wrong. I mean, if it ends up being a landslide one way or the other then I am barely wrong because everybody is not anticipating that. So I don't know what to tell you. We're going to know when we know. But I don't believe it is worthwhile to do a whole issue dedicated to tariffs in advance of the election.

I think that if president Trump does end up being elected, it's a topic I want to almost immediately address. I happen to be very critical of a heavy tariff policy portfolio, and I want to explain why, what the concerns are, and again, some of the nuances as to what may or may not happen around that. So, the tariff issue is not happening this week, but I do want to address a few other things.

Let's stick with some of the election oriented stuff first, because I was trying to be very positive you know, get into kind of a kumbaya mode. I am. so utterly exhausted by the tribalism, by some of the intellectual dishonesty, some of the lack of civility. I just am a political junkie because when I was young, I got really into policy and ideas and sort of a governing philosophy that I believe in.

And that's not what the debate or toxicity is often about anymore. So this other stuff Where one side learns to hate the other side and never really debate ideas but rather things like vibes and intent and throwing, you know, all the things that go on. I just get sick of it. Okay, so anyways, you don't need a sermon from me about it, but my point is, I thought maybe I'll find a couple things of common ground.

And sure enough, I think one of the most significant investment aspects of the election is the Federal Trade Commission. It's a regulatory, a federal regulatory body that is given a significant amount of power. I don't think that's a great thing, but who manages and mans the various regulatory agencies, but particularly one that has so much influence over corporate America, over business activity as the Federal Trade

Commission. It's important. And the Biden administration put in somebody named Alina Kahn, who sort of got famous writing a paper as a very young woman advocating for the breakup of certain big tech companies on the basis of their mere size, not on some anti competitive allegation. Which was formerly at the core of what was known as the Bork Doctrine that antitrust existed when there were monopolistic illegalities in place that were damaging consumers.

And she wrote a paper that really suggested a much milder version of the criteria applied specifically to the technology sector. And I'm not really saying it tongue in cheek, like I think this is an area where on one hand I'd be very critical. Conn and the Biden administration's, the Biden Harris administration's implementation of her in FTC but then, Vice President Candidate, J.D. Vance, the sitting senator in the great state of Ohio and I quote said, I don't agree with Line of Conn on every issue, but to be clear, I think she's been very smart about trying to go after big tech companies that monopolize we're allowed to say in our own country, I look at Khan as one of the few people in the Biden administration who's not that I think is doing a pretty good job. Would Vice President Harris keep her? I mean, she's part of the administration that put her in to begin with. She hasn't said anything to indicate she's critical of her. If she does try to remove her, the progressives are going to lose it. So I don't imagine Harris would move her.

And then would Trump Vance look to remove her? I don't know that they would you can make an argument they're more likely to than a successful Harris would, but this is just interesting to me, because there's a lot of blockage of M& A, there's a lot of threats to break up incumbent companies, there's a lot of aspects like that out there, and I see Khan And the FTC is very relevant where I see so many other things in the political aftermath that's irrelevant to markets.

I see this as relevant and it's possible that there's not that much daylight between the two. Another element where there is daylight, but maybe for different reasons than people think is the subject of what will happen with the Fed. Whether Harris or Trump is elected, current chairman Powell's term ends in May of 2026.

I'd be very surprised if he wanted another term. And I think you can make an argument. He may not even want to finish this term. If things were to get ugly enough, because president Trump was quite aggressive with him in president Trump's prior term in office, in which he at one point suggested on Twitter that Powell was a bigger enemy of the United States than president Xi of the Chinese communist party.

I don't know. Where they will be in terms of their friendship I believe it's very unlikely, here's my little summary, I think it's very unlikely that the Fed is going to change the course of monetary policy regardless of whether, like, if it were Trump presidency or Harris presidency, I think it will end up being the same path regardless.

very much. And what I think that entails, by the way, is 100 150 basis points coming out of the Fed funds rate in the next year or so. They've taken out 50 so far, they take another 50 out by the end of the year, do I think they get another 100 next year? I do. So, that, that is likely true regardless of who ends up winning prevailing on Tuesday.

I do expect Powell will finish his term, which ends May the 26th, certainly if Harris is elected, and almost certainly if Trump is elected. And the, I don't think that Powell would respond to Trump's threats about Fed independence and wanting the executive branch to have some sort of oversight of what the Fed does.

Congress would have to act and you could argue there could even have to be constitutional amendment in place to see something that would replace, I mean, certainly legislation that would alter the embedded independence at, as it currently stands between the Fed and, The executive branch, the White House, the Treasury Department.

I've always said there is an accord between the two and it's tightened a lot since the financial crisis. So nobody should be acting as if there is this pretend total independence, but there is at least a pretense of independence that has some walls. And I don't believe Powell would accommodate the attempt to break those walls down further, regardless of what political job owning might take place.

But no, I don't think Powell would be around after May 26th. And then I would expect there is finally the difference. All four of those things I just said, I think are true regardless of whether Trump or Harris wins. I think that Harris would nominate a replacement that would be someone out of the Progressive's Desired Playbook, Elizabeth Warren would be involved.

I, you know, I would like to say she may want to go to the Larry Summers and Jason Furman's for counsel on this, but I, and maybe she would. I certainly know that Barack Obama would have, but I don't know. I don't know. I think it may end up not being in that more neo Keynesian, center left, Clintonian type of central banker.

The Bob Rubin, Larry Summers mold, I don't think it would be but it's possible. But then with President Trump, I really don't know what direction he would go. And there's a number of names out there that I think could be possible one being Kevin Walsh that I would absolutely love and another.

Being others and other names that I won't get into now that may not be so it's hard to say But they what I'm getting at is a Harris and Trump pick would be different for one another One and a half trillion dollars of commercial real estate loans Have the rate reset over the next 15 months from the end of 24 through the full year 25 There is not even a hundred billion dollars of investment grade bonds maturing this year, but there's near nearly a trillion dollars maturing over the next three years, high yield debt has almost nothing maturing over the next year, but in 2026 through ‘28, a significant pickup levered loans really high in 2026.

It, and then absolutely parabolic in 28, current maturity schedule. So from 2022 to 2024 and the Fed tightening cycle to really ended, you could argue in mid 23, but then they left it there until mid 24. You had very, few borrowers in commercial real estate, corporate credit, bank loans.

that saw rates reset, and now there's a significant amount that resets in the next several years, especially front loaded with commercial real estate, and then it gets even heavier in diverse aspect of bank loans with a lot of corporate credit in between. I think, my friends, that's why the Fed is cutting rates, and will continue to be cutting rates.

An election thesis that you've heard a little bit about, and I would argue warrants more discussion, is that if President Trump were to win he's talking about a lot of deregulation and a lot of tax relief in the corporate sector and that could really rally some corporate activity that increases the return on invested capital that causes companies to want to borrow more money because they're getting a great return on what they do with both borrowed and invested capital.

And that pushes the long end of the bond, of the yield curve higher, and that strengthens the U. S. dollar. And the investment thesis I'm starting to see is, well, then therefore a Trump win becomes really problematic for Europe. The euro currency, the

European bond market, particularly more deficit driven countries like France and Italy.

And I think that there's a lot in these different premises that move from one to another very logically, the form of the argument. But I would not call it a cogent argument because there's tons of premises that are not necessarily true. Each one of the premises could be true and lead, therefore, with the form being right, and if the premises end up being true, leading to that conclusion.

But is Trump seriously to be considered a strong dollar president. No, he's said over and over again. He thinks the dollar is too strong. The argument here is one, no matter what he says, he can't jawbone it. If he deregulates the way he says, or if he cuts a bunch of spending out of government, right sizes government, and then return on invested capital grows, increasing structural rate of the economy, the growth rate of the economy, that is.

That then you do see higher bond yields. But again, does, is President Trump even saying he's going to reduce the corporate tax burden a lot? It's very different and nuanced versus what was done in his first term. Which, by the way, he very much did in the first term in terms of lowering that corporate rate.

It went from 35 to 21 percent marginally. There's a lot of nuance around what he's saying now and that may not reduce the corporate rate. It may not reduce it as much as said and it may not get support legislatively. There's a lot of questions there. And then will the deregulation happen to that extent?

Will they cut spending? They obviously didn't cut it in the first term. Maybe this time is different. I'm not holding my breath. So I don't buy that premise that all of a sudden there is this structural improvement That drives return on investment capital higher, which incents more bond borrowing or borrowing in general that puts a lot of pressure into the yield curve.

I don't believe that. And even if long rates went up, it doesn't always mean the dollar rallies. The dollar most certainly can rally with long rates going higher, but it isn't, from the study of history, always connected. And there's a lot of other things that move currency besides just. The Yield Curve and Interest Rates.

So, I do not necessarily believe that knowing the outcome of the election and for example, a Trump successful result means the dollar does this and Europe does that and so forth. There's just other things involved and I, I would not jump into that. I can tell you this, I don't think Europe wants a strong dollar.

The problem with this thesis is, I don't think Trump wants a strong dollar, so there you go. The Yen trade, the Yen is up excuse me, the dollar is up to the Yen over eight and a half percent in the last six weeks. Last time it dropped a bunch, the Yen trade had unwound a bit, that is to say the Yen rallied, it unwound a lot of Yen trade, we quote this dollar Yen, not Yen dollar.

Don't ask me why they insist on doing all these things. So confusing. Some of you may have seen the skit on Saturday Night Live where Nate Bregazzi is You know, one of the founding fathers with a group of others at George Washington, kind of the night before they crossed the Delaware sitting around talking about all the things they must do.

And then he goes into a bunch of examples of their freedom will allow them. And he says all these kinds of funny, quirky, unique things about American measuring. Units and why in football it's not a game played with your foot and they call it, you know, Just quirky things and one day I want to do that because I'm sure it would be really funny for people with our currency nomenclature some of which is just incoherent and inconsistent and odd And then you get in my business long enough you just totally get used to it and you realize that they're you're used to something for that You shouldn't be used to because it doesn't make a lot of sense So when I go back and forth on this, please forgive me that Yeah, when I say went up, I mean the dollar is up against the yen in the last six weeks.

Prior to that, the yen had gone up against the dollar violently for a couple weeks, which unwound a lot of yen carry. Prior to that, the dollar had been going up a whole lot relative to yen. And this is the argument I would make that regardless of what has gone on and why the last several weeks, there is not a lot of appetite, in my opinion, to put a yen carry trade back on because of this very enhanced volatility.

Volatility is not the friend of a carry trade. It's the friend of currency traders, but it's not the friend of holding a borrowed yen as a way of carrying in a different current currency to use dollars, to trade, to yen, to buy. To get the carry of the lower yield, of the lower valued currency and whatnot.

That's the issue that I would be very skeptical of, the end carry trade coming on and then you recognize too in the last week or two a lot of political alterations out of You Japan and again, just making that whole trade much more vulnerable. The chart of the week is fascinating. We are now at 37 percent of the S&P 500 in 2 percent of the companies.

Is that right? 10 into 500. How did I do? 2 percent of the S&P 500, 10 companies, make a record all time high, 37 percent. It was around 30% when it happened in 2020, it was around 27, 28 percent at the peak going into 2000. We are now at 37 percent of the S&P. There's a chart there for your edification.

I'm gonna let you go to DividendCafe.com for anything else you want to pick up. There's a couple things that we're not getting to here in the video podcast. I've had fun going through this with you. I hope it's been of interest. Just kind of jumping around the horn here as there's a little potpourri of things worthwhile in advance of the election about markets, about the Fed, about the economy.

And I will be with you again Monday going through our normal Monday Dividend Cafe stuff and economic data, the jobs report, housing, and so forth. And then we'll go into the election and I can't really tell you what we're going to do next Friday in Dividend Cafe because I really don't know where we'll be in the country at that time.

If there's noise next week, there's noise next week. It is not going to move us. It could be a lot of noise. Could be up, could be down, could be total certainty by 8 30 p. m. Tuesday night. We could know nothing at all by this time next Friday. All outcomes are on the table. 50/50. Remember I said it. In that sense, I will close out. Thanks for listening. Thanks for watching. And thank you for reading The Dividend Cafe.