

FRIDAY, NOVEMBER 8, 2024

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Well, hello and welcome to this week's Dividend Cafe. I am your host, David Bahnsen, the managing partner here at The Bahnsen Group, and we are bringing you this post election edition a week ago at this time, we did not know if we would know here today the results of the election, and yet, as fate would have it by, if you were up as late as I was Tuesday night, you knew results Tuesday night going on Wednesday morning, and certainly for the rest of the world, you knew bright and early Wednesday morning. I kind of want to just spend our time today going through some of the ramifications of the election. Some of the results that we expect into markets and into some elements of policy that are relevant for investors the written dividend cafe, I'm really happy with this week.

There's a lot that went into it, but even as I'm sitting here talking, I recognize I'm doing this again next week because there is a lot to say and a lot of different topics. And I do think that this week we're going to cover a lot of the low hanging fruit and certainly some of the broader and more and more relevant, universally relevant subjects that are on people's mind around the election. But there's room to go even more granular, and we're going to do that into next week too. I also think that there will continue to be a greater flow of more information. You know, as I'm sitting

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here recording, for example last night, Thursday night President Wiles, who was his campaign chairwoman, has been selected to be the White House Chief of Staff.

That's pretty much the only major appointment that has been announced so far. And I'm going to go through in a moment some of the discussions on some of the other key figures, but I do suspect by the time I'm recording with you next Friday, there will be even more to say in the personnel category. And since so much of the way I have positioned my own thoughts about what this election means into certain matters of policy, into the economy, into markets, is centered around this,

I have to stay on top of that and want to continually update you as to what is happening with personnel, and what I'm anticipating happening with personnel, and that doesn't mean always to cheerlead some of the people that come out because I am quite frankly, confident this is going to be something that I don't really care for or who worked, who I would have selected.

I think he made a great choice for chief of staff with Susie. I think she is a competent and respected administrator and executive and has the temperament to do what I think most of us could imagine would be a very difficult job. And she's been doing what most of us could imagine would be a very difficult job for the last, you know, couple of years, especially this last year. But, you know, there's a lot of wood to chop here in terms of treasury, National Economic Council, the SEC the, not to mention the other elements of the administration that are outside of the direct

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relation to financial markets the FDA and other cabinet positions, national securities, a whole nother ball of wax, et cetera.

So there's a lot more to say on it. You know, on a political level, I say this a lot. I am very transparent about what I believe politically. I am not writing The Dividend Cafe, though, ever, to promote my political belief. So, because I take seriously this idea that none of us have the luxury of hiding or pretending we don't have influence from our own belief system, when I'm talking about markets, when I'm talking about economic policy, I all at once want to make sure what I believe is on the table.

acknowledge the fact that what my beliefs are influences the way I view real life issues that includes in markets, but then do my best to present these things in a manner that is first of all civil and charitable. With, but also objective. This is a tough political cycle for somebody like myself where I was not exactly an enthusiast for either candidate and there are others in the country that felt the same.

There are some who felt passionately against one, passionately against the other, some passionately against both. Some not passionate either way, but one who has admitted to y'all in the past of being a more traditional Reaganite conservative. This isn't a political time where my school of thought is well represented very candidly, and that's not a big secret.

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It was a divisive election, and it's been a divisive time in our country. I have no interest at all in adding to divisiveness. There's a lot of things I'm excited about for the new administration from a policy standpoint and Lord willing a personnel standpoint There's big concerns as well But I also do feel a lot of empathy for those who disagree You know This is eight or nine years now that I've tried to understand the way others feel and I wish that others would understand The way that I do I get why some people really don't like Donald Trump and I get why some people really do And I get that many people in the country don't feel heard and I get, you know, that there are the different things that drive different people's votes and so forth.

And of course, there's times people have to just disagree with one another. And I hope that they can do so without hating each other. That's a newer thing, like it has never been, something that I felt automatically flowed from disagreement was hatred and yet right now the temperature can be pretty high.

I'm a little relieved in the last couple days it doesn't feel that high. I'm here in Manhattan. I'm walking to work every day and walking home every day and I don't see anyone acting crazy. There's no incidents of violence or vandalism or whatnot. I know there's a lot of people that are very upset about the election.

I know a lot of people are very excited. But everyone seems to be behaving. People are openly comfortable expressing how they feel out in a city like New York. So, you know, maybe we've

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come a long way. But all that to say, I know from the bottom of my heart that some people feel a lot of motion around the way the election went on both sides.

And my Dividend Cafe is not necessarily here to address that. It's to address objectively what it means for clients and secondarily non clients in the ramifications of markets and investing. That's what I'm going to do. The immediate response on Wednesday told you that markets were anticipating this in a context of growth. They're anticipating a new Trump administration as something that will deliver better nominal economic growth and I want to start by saying that some of it is just the immediate rally of they're not being ambiguity.

In other words, there's an uncertainty component that holds markets back. And when that uncertainty is removed, two to three days later, or two to three weeks later, or two to three months later, you get a rally, a relief. And in this case, it took two to three hours. And not only, by the way, with the White House results, but the United States Senate, which obviously I was very confident going in that the Republicans are going to end up flipping from being with a minority position of 49 to a majority of 51 and maybe 52, well, as we sit 53, which was on the far outlier of what we thought would be possible. There is still a chance of 54 55, but it looks very unlikely that either the candidate in Arizona or the candidate in Nevada, who wasn't even supposed to be close, are gonna prevail. The candidate in Nevada was the one who was lagging in the polls the most, the

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Republican candidate, Sam Brown, with the race against Jackie Rosen, the incumbent Democrat senator.

And that ended up being one of the closest races of all. So that kind of gives you a feel for how the whole night really went. That president elect Trump carried seven out of seven battleground states, you know, was not expected, but if it was going to happen, it was going to mean an electoral landslide and even a popular vote prevailing and all that.

So there, you know, that, that's just, that's the way this thing went. But with 53 senators and the White House, there is a certain expectation and let's immediately price some of this stuff in. Just off the top, always remember that profits, the word profits, the word earnings, by definition means everything.

After tax. If someone says, well, pre tax profits are blah, blah, blah. Then all they've done is ask you to do a little more math because profits don't become profits. Earnings are not earnings. Net dollars are not net dollars to you until they are calculated after tax. And pre tax means you got one more thing to subtract out still until you get to the real number.

Okay. And there were a fair amount, not all, but a fair amount of the 2017 Trump tax cuts that were going to sunset at the end of 2025, at the end of 2025. And now the belief of 53 Republican senators and a re election of Donald Trump, the belief is that those things are not going to be allowed to sunset, they're all going to, you know, stay.

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And so that basically means what? Profits go higher because if taxes are not going higher, bringing earnings lower than you, you basically now have to price in the known and known of additional after tax profits. Then there's another piece that I think is a little bit more aspirational. It's not as definable and quantifiable as the 2017 tax cuts not expiring is new tax cuts.

Now, we don't know exactly what those are going to be, and we're going to need to see more personnel information and more policy meat on the bone in the weeks and maybe months ahead. But the market is at least trying to get ahead of the idea that, yeah, there may very well be now, through a budget reconciliation bill, a Senate majority, and Trump back in the White House.

further downward pressure on the corporate income rate. I don't know what to make of a lot of the spot proposals he threw out there about no tax on tips and no tax on overtime and this and that. But yeah, some form of a tax bill that I think will have a lot of things in it I'm going to like and a lot of things in it I'm not going to like.

Now I'm just going to get the tariff thing out of the way. Now people can say, yeah, but what about the tariff issue? Why is it market more worried about that? I already addressed it. The markets like me don't know what to make of it. When you have, on one hand, this threat of tariffs out there, which absolutely put

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downward pressure on American importers and American consumers.

But then the declaration that tariffs are a negotiating tactic. Okay. And so you don't know exactly what to make of it. So I promise you personnel is going to matter on that front as well. If he were to come out and announce Bob Lighthizer, who was his trade representative in the first term is his choice for treasury secretary.

I think that would. Indicate a certain seriousness with tariffs that would be very concerning to markets. I don't believe that's what's going to happen. There's talk that Lighthizer could be in running in commerce. There's some other names in Treasury that I think are more likely from what I'm hearing, but nobody knows.

I'm not going to sit here and pretend I know. I'm blessed to be part of certain conversations, but I don't know, no. And nor does anyone else, and anyone who does know. wouldn't be saying, and anyone who says, doesn't know, which is a lifetime principle of mine. But yeah. I mean the tariff thing, we just can't fully unpack.

I'm going to do a whole dividend cafe dedicated to the subject. But it's a little early here, as to where some of that stuff is going. So, growth expectations, pushed markets a lot higher. Hope for bigger known profits with the tax cuts, being able to Sustain.



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They're already on the books. And then new tax cuts, additional ones coming.

And then finally a more nominal growth expectation, not merely from tax cuts, but from deregulation. And when you have a lesser regulatory burden less, you know, government intervention on mergers and acquisitions, less red tape, less environmental imposition, whatever the case may be, financial regulation, the big beneficiary Wednesday was in the financial sector, then those things tend to also remove impediments to growth.

And push nominal top line economic activity higher. So that's where the expectations are so far. What about drill baby drill? What about energy? Do we really have a situation now where the president who has said he, he wants to get day one in office and turn on the spigots and undo a lot of what the Biden administration did to de incentivize energy growth.

This has become much more nuanced because we are now at 13.5 million barrels a day being produced, which is the all time high, and I don't really believe that if the president came in. and lifted any and all restrictions that we would go up to 14.5 million. I don't think there's another million barrels a day that our producers want to drill and produce right now.

At around 70 a barrel, give or take two bucks there isn't the screaming incentive. It's very profitable, but OPEC Plus is there on the margin. And there's reason to believe that in this new

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post COVID regime of capital discipline that you're not going to get another million barrels a day.

Now that's not to say that the president's more pro energy and energy friendly. Policy inclinations don't matter because first of all they, by deregulation you take cost out. So even if you're producing the same, at the same price, if you have less regulatory burden in your cost structure, you are likely growing earnings.

And I think that's a real a real part of this. But I also think there's more to the US energy story and the US energy infrastructure than just. oil production. There is exporting of oil and especially gas and particularly liquefied natural gas, which has a huge need with European and Asian allies.

And I think it's a real possibility that becomes a growth story. So that's different than the way we just talk about drill baby drill. So are there more pipelines will get approved? Yes. Is there a general, more friendly ecosystem for the U. S. oil and gas sector as a result of this? Yes. But I don't think it's so much going to show itself in daily production volume.

I think it's mostly going to show itself in liquefied gas export, and deregulation. The other thing I brought up before I want to mention is Ukraine. And I don't want to get into what I think should be done, or what result I want to have. I will just simply say that I think it's not implausible that there will be a situation brokered.

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That probably makes some people unhappy. It might make me unhappy. I don't know. But that nevertheless brings some form of off ramp for both Ukraine and Russia to the table that results in then the moment in which now Ukraine has to get rebuilt after what has taken on a couple years of just brutal violence and destruction on its country.

And I don't know who pays for that. I do know that there are some people who are going to receive it and there's an investable story there that we want to be very conscientious of. Foreign policy decisions that potentially lead to an ending of the day to day war with Ukraine. For good or for bad and how it gets done that then lead to a rebuild.

That's on the table, putting it out there. Personnel is policy, my own view. I am a fan of Scott Besant as I've gotten to. Become more familiar with him and he is a leading name being put out there for treasury secretary. There's other names out there. I'm not as fond of, I put a quote in dividend cafe.com. I was interviewed by pension and investments magazine and they ran a little feature and I put my thoughts all very transparently on paper. The Fed chair is not, is going to be there in May of 2026. So Jay Powell is not going anywhere. He was asked yesterday in the presser, will he resign? If president Trump asked him to, he said, no, I don't think president Trump is going to ask him to do.

President Trump could jawbone him, but he may not need to, even from his vantage point, even if president Trump, by the

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way, doesn't like rate policy. The president jawboning the Fed is a very bad idea and I'm against it. But why would he be jawboning? It's if he wanted rates to go lower and they weren't going lower, but it just so happens to be coming back into office at a time that they're in the very, very early innings of a rate cutting cycle.

So I expect that the Fed will be cutting rates and that the president will be happy with rate policy and then therefore probably decide to keep Jay Powell out of his Twitter feed or whatever. But yes the the Fed chair will have to be replaced in the 18 months. And I do think Kevin Warsh is very likely to get the nod. I'm a big fan of Kevin's. He's a former Morgan Stanley guy like myself and Kevin would be a great chairman at the Federal Reserve. And I do believe that President Trump is likely to appoint him. I also would love to see Judy Shelton back in the mix for a Fed governorship. Judy's a friend of mine, but also just a wonderful monetary economist.

And she was appointed by President Trump for an empty governorship in 2020 and lost by one vote when Senator Grassley contracted COVID and missed the vote. So I think that her name may resurface as well. So I'm going to keep an eye on Fed issues, but those aren't imminent. The SEC chair, the National Economic Council director obviously, Treasury Secretary.

These are some of the big things we're going to wait to see more about in the months ahead. So, there's a few other odds

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and ends I'll close with. I don't think a TikTok ban is going to be happening now. I don't, I think those who do believe crypto and crypto exchanges make up an asset class. I think they're going to be happy with the different regulation that is now going to be out there if there is going to be any.

But there's a lot of kind of odds and ends of policy things I'm going to get more into next week as well in addition to some other big picture things around the dollar and other economic policy. So I'm going to leave it there. There's a long quote of the week that I love in Dividend Cafe this week, and then a chart of the week about the big tech names trading at 50 times earnings, the top 10 companies in the S&P doesn't matter who won the election this week.

The market valuations, which by the way, that was before the Dow was up 2000 points this week. So, valuation is still out there no matter who's president and represents a risk. I'll be back with you Monday for our Monday Dividend Cafe. In the meantime, just enjoy your weekend. The weather is positively beautiful. Love this time of year. And we do live in the greatest nation on God's green earth. Thanks for listening. Thank you for watching. Thank you for reading The Dividend Cafe.