

FRIDAY, NOVEMBER 15, 2024

Please note that this podcast transcript was machine generated. As a result, it may not always read smoothly, as it reflects unedited spoken content. For the clearest understanding of the podcast's content, we recommend listening to the podcast itself. For complete clarity on the topics addressed, we encourage you to always read the related Dividend Cafe missive and related communications at dividendcafe.com.

Well, hello and welcome to a very special Dividend Cafe. I am David Bahnsen. I'm the managing partner here at The Bahnsen Group, and today, I have the privilege of bringing you a very comprehensive post election recap. You know, last week, in the 48, 72 hours after the results, I tried to pack in what I could, but there was a lot less known. We knew the results of the election. We even knew the results of the Senate, although not the exact final numbers and so forth. But I'm not really here today to just talk about, you know, the final electoral and political outcomes. We're, even now, we don't know exactly what the Republican majority in the House is going to be. But my point being, last week we were kind of absorbing the immediate aftermath and now I've really tried. I think, I'm not exaggerating to say that I may have read 500 pages of research, commentary, bulletins, analysis. I most certainly had over 50 phone calls and meetings and things this week with various people that I think are in the know, people's perspective, I respect, sometimes, you know, folks that are kind of insiders to a lot of the transition and administration and other times various commentators and people that are just opining on, on their own opinions.

Either way, I've really wanted to assemble for you. something valuable to think about the new administration coming in. And

FRIDAY, NOVEMBER 15, 2024

again, I'm going to give the same caveat. I did last week that this is not really a political exercise. I believe most people that listen to the Dividend Cafe or watch this video and certainly the readership of dividendcafe.com, I hope all cards are on the table. It's an interesting position to be in where I think there are people that think I'm too friendly to the Trump side of things because I'm a lifetime conservative and there's people that think I'm not nearly friendly enough because I'm often very critical.

And I want to say that I kind of wear that as a badge of honor. I mean, I really do believe both in my capacity as a citizen, voter, and just interested, you know, patriotic member of this country, but particularly as an investment professional writing with this fiduciary duty and managing client capital.

With the need for objective analysis, I really don't see this and in talking about today in a political lens, I have opinions on policies and I have opinions about people, and I'll share some of that, but to the extent that you could hear certain things I say and go, well, that's really against the way I feel on the issue on something.

And then other people could feel it, you know, on others. I think that's inevitable. I don't know how to avoid that and nor do I think I ought to avoid it. So that's where we are. I'm going to get into this and first and foremost, just say that in the midst of what a lot of other people have already done on the political you know, analysis post mortem of the election and people talking about what constituencies moved in their vote and what the

FRIDAY, NOVEMBER 15, 2024

electoral college did and the campaigning and the candidates and the way the whole complexity of the democratic nomination went down and so forth.

The fundamental theme I would hold out is that this was an anti incumbency election. And on the Senate side, when you look at a John Tester, a Sherrod Brown, and a Bob Casey in Montana, Ohio, and Pennsylvania respectively, these are Democrats that have been there forever, in their states, losing out to Republican challengers.

And I think that this incumbency theme is highlighted in history by the fact that there is right now in the American political system, every four years. For three elections in a row, we changed out the incumbent party. So, President Obama was re elected. When his second term ended in 16, the Democratic White House was replaced with Trump.

He did four years, it was replaced with Biden. He did four years, it's been replaced with Trump again. So you go, okay, well, yeah, that happens a lot. Well, no, it doesn't. It hasn't happened since 1884. Having the incumbent party go out after four years three times in a row has not happened in nearly 150 years.

Incidentally, and this just more of a factoid, but I think it's relevant to the challenges the candidate VP Harris had, you know, that we have only had one sitting vice president get elected president since Martin Van Buren in 1836. Bush senior was Reagan's sitting VP at the end of his second term, ran for

FRIDAY, NOVEMBER 15, 2024

president, handily beat Mike Dukakis. That's the last time. Now you go, well, no. There's been other VPs in president. That's true. But with Biden, with Nixon, they were not elected till later, after having served VP, and then the majority of the ones you may be thinking of became VP as a result of a death, and in the case of Ford, a resignation. But you look at LBJ replacing JFK, Calvin Coolidge, and even going back to Andrew Johnson replacing Abraham Lincoln. There, there's a lot of history. A VP is becoming president, but very little of incumbent VPs getting elected president. Incumbency can be hard, and this was a change election in a lot of ways.

That's where things stand. So my assessment now, if I keep using the term, which I was doing. Pre election over and over the personnel is policy for me to properly analyze this election. I have to analyze the personnel that president Trump's bringing in. And a lot of that personnel started to come now, as I'm sitting here, recording in the middle of the market day on friday. I waited as long as I could to record because I was just waiting for some more appointments to come, but the ones that want most have not come yet. Meeting Treasury Department, meaning the National Economic Council director to a lesser degree, the Chairman of the Council of Economic Advisers.

Those are meaningful. The Treasury department's meaningful and a lot of people know Scott Bessent, who has been a very successful hedge fund manager, is a known guy within capital markets, both in currency and global macro. I consider him to be a very intelligent, thoughtful, and philosophically minded guy.

FRIDAY, NOVEMBER 15, 2024

And I would have guessed a week ago that it was imminent that he was going to get named. The word is, now that part I know, in terms of how inside Bessent's proximity and eminence of likely selection has been. This other thing I'm about to say, I only know from media accounts, nobody internally has told me this, but the word is that the president elects, Chairman of his transition team, Howard Lutnick, who's the CEO of Cantor Fitzgerald, that he is jockeying for the position himself.

And Howard's, you know, a well known guy on Wall Street. And so, there's other reports starting to surface. I would love David Malpass, who is the President of the World Bank, under in President Trump's first term. He has served as a Deputy Treasury. But I also believe he is being considered for a later federal reserve position.

So, again, I think until we hear otherwise, the two man race, Bessent vs Lutnick is what's being reported. We'll see where it goes. I would have said from sources and other things a few days ago that Bessent's appointment was imminent, but it hasn't happened. So that matters a lot. It matters to markets.

It matters to kind of get a direction of how some of these things are going to go. And with Treasury, I'm going to skip ahead real quick because it's a point I make later in my kind of flow off of what I wrote about in dividendcafe.com. He has ways he's going to want to deal with China later.

FRIDAY, NOVEMBER 15, 2024

And if the tariff noise is going to prove very difficult, I do believe that he may scratch some of the itches he wants to by getting China to agree to allow their currency to appreciate, to revalue relative to the dollar. And Bessent has been a big proponent of this idea that he has called, it plays very much to President Trump's vanity, if you will, the Mar a Lago Accord.

Some of you are familiar with the very famous 1985 Plaza Accord. Japan and a lot of major Western European nations agreeing. To again, similar thing, allow their currencies to strengthen and the dollar to weaken and the name of the improved global competitiveness for the US and the other factors at play.

I don't know that China would agree to that. I do know that outcome would be very favorable to president Trump. And Besant, if he's named Treasury, I think it makes that path more likely. So I want to hold that out there as just an example of where personnel is policy. Now, this week, I'm not going to spend a lot of time on it, because it's all there, anyone's talking about the news.

I mean, I think, honestly, there were some just awful picks this week, and there were some really surprisingly great picks. And everyone can have their own opinions about who those people are. And who's going to get elected, but because who's going to get confirmed because this is not here to do political handicapping, and I don't really see it as a directly market or economic sensitive thing.

FRIDAY, NOVEMBER 15, 2024

I won't get into whether or not the Senate is going to confirm Matt Gaetz as Attorney General or Tulsi Gabbard at DNI, the domestic national intelligence. Pete Hegseth at Department of Defense. There, there are a few nominations that are going to be difficult. And then late Thursday night Robert F. Kennedy at Health and Human Services. I'm going to talk about that in a second pertinence to some sectors in, in terms of equity investing. But what we do know is that Lee Zeldin was named a head, the EPA. I think that's a indicator of more of what you saw in his first term in terms of energy policy.

From our standpoint, that's bullish for the energy sector. What are the other ones? Oh Governor Burgum at the Department of Interior was named. He'll certainly coast to approval. And then on the National Defense side, Marco Rubio Secretary of State he should coast to approval and then the CIA Director, John Ratcliffe.

So, there's been a lot named, and like I said, you can guess which ones in that list I don't like and which ones I do but it's sort of inventory for our purposes. The stuff that I, that we'll get into more and I'll be as absolutely forthcoming and transparent as I can is when he names NEC. And Treasury, you know, with the National Economic Council for one year, he had Gary Cohn, who was the president of Goldman Sachs, who came in and really drove the passage with Congress coordinating with Kevin Brady at House Ways and Means and Paul Ryan, Speaker of

FRIDAY, NOVEMBER 15, 2024

the House at the time to get President Trump's signature legislative achievement done.

But then my dear friend, Larry Kudlow, became National Economic Council Director for the final three years of the administration, and I think did an outstanding job, and I do believe it's possible that Larry returns to administration this time. Maybe in the same role, maybe a different role, but again, we're going to hold off speculating just to, for a lot of reasons, okay?

It's an important role because it does sit, the NEC sits at the juxtaposition of policy, Legislation working with Capitol Hill and with the business community. And so that kind of brings us to our next point. The other thing he announced this week was a department of government efficiency that he was asking Elon Musk who needs no introduction and Vivek Ramaswamy to head up.

This should not be confused with the department of homeland security, the department of health and human services, the department of education that have been instituted by Congress. There's no such thing as a department of government efficiency. It will not have Senate approval. It will not have a budget.

It will not have appropriation. It will not have authority other than executive branch. They can go be advisory, poke around and try to, you know, generate ideas. It could be very effective and they could end up doing an outstanding job, but I just want to make sure we're clear that the nomenclature can be

FRIDAY, NOVEMBER 15, 2024

confusing, but there's as a matter of technicality, it's very important.

They, when people say they're going to go cut costs, the department of government efficiency and to advisory positions in Musk and Ramaswamy don't have any control over budget, but what they can do is identify fraud, waste and corruption. And this is a harder thing because for example, the government accountability office has already told us they're admitting that they believe there's over 200 billion a year.

That's been wrongly paid out the bulk of which is Medicare reimbursements. It's sometimes to states with Medicaid reimbursements and funding and unemployment funding. Again, both those latter two being to states. Then the third is largely with income tax credits. And then you had a bunch of stuff out of COVID.

These are not easy to identify the specifics of, to unwind. Some of these are, if you'll pardon the expression, They're popular mistakes. You know, people like getting money that they're not supposed to get. So I am not bearish on the idea. I love what could come of it, but I don't believe it's as low hanging fruit as people think.

Nor, you know, they're unempowered. And so it's going to require a lot of savvy. Now these are two very savvy people and Ramaswamy is a very articulate communicator. If they find something that is a real embarrassment to government. I think

FRIDAY, NOVEMBER 15, 2024

they have the ability with their platforms to really shine a light on it and then kind of force congress to act or force other agencies and regulatory bodies to act.

So there is A TBD around this that could very well prove to be very interesting. And add to a deregulatory climate that is beneficial to markets. What do I expect in terms of sequence? I want to bring people back to 2017. President Trump gets elected, and he had talked a lot about tariffs, and a lot about trade, and a lot about NAFTA, and a lot about unfair trade deals with China and Mexico.

And his primary legislative priority was basically tax reform. They tried Obamacare appeal, the ACA appeal. It didn't go work. They went into tax reform, and he scored a major victory into the, you know, early second half of 2017 and then, focused on certain border initiatives and really dug into energy early on.

Most of these things were popular with the base and many of them were quite popular with the whole American people. Then in 2018, he did pivot to tariffs and did so already with the kind of shall we say, support of the American people that were happy with what he had gotten done with some of these other areas.

I very much expect a similar playbook. Now, I don't believe he's going to ignore tariffs for his first year, but I expect an executive order early on to demand people look at tariffs or to demand different agencies look at where they can or what they're allowed to do. Some sort of reporting executive order will buy

FRIDAY, NOVEMBER 15, 2024

him time, pacify the base, but then turn to what will be very likely legislative victory popular with making some of the 2017 tax cuts that are set to sunset permanent, potentially new tax cuts, and some of the government efficiency, deregulatory efforts, etc.

You know, during the campaign he promised about five different tax cuts. No tax on tips, no tax on overtime wages, no tax on social security income An expanded child tax credit that he never really elaborated specifics on, but Vice President Vance talked about 5,000 and then an increase in the SALT deduction limit that he had brought down to 10,000 that he wanted to expand that.

So to go into a new bill now, And you're not going to get 60 votes in the Senate, so you need to do it through budget reconciliation, which is filibuster proof, and you're only going to need about 50 votes. At that point, basically, I think you want this to not really add a whole lot to the deficit based on the budget window that gets set and the 10 year mark, the way the budget reconciliation process is structured.

So, what are they going to be able to get through? What are some of the offsets going to be? What are things they can get rid of that pay for the new things they want to add? He's talked about getting rid of the EV credit that new EV buyers new auto buyers get with the electric vehicles. That's, a lot of that has to get scored.

FRIDAY, NOVEMBER 15, 2024

I'm gonna know a ton of what they're planning to do when we know who some of these policy advisors are gonna be. That's what I keep saying about personnel's policy because the devil be in the details. They will put a tax package forward. There will be votes in the House. They'll probably get some Democrat votes when all is said and done, but that bill is not going to look like exactly what he said in the campaign, because it never does.

And then, because of budget reconciliation, a bunch of stuff's got to get paid for, so it's going to have surgery done to it, and I can't predict exactly when. where that will go. But I think that will be the sequence of legislative priority. Where Bob Lighthizer will fit into this when we talk about personnel, trade, et cetera, is important.

He was president Trump's us trade representative in the first term. He's by far the most protectionist pro, you know, tariff, anti global trade of the people being discussed. And there was some talk that he may be in the mix for treasury secretary or commerce secretary. I'm not hearing that name floated.

And Trump himself has circulated that he'd like to bring Bob back to that same position. Robert Lighthizer has said he might want something, you know, more advanced. Anything that is horizontal or diminished from before, I think might indicate that the tariff priority is not as much as some have feared.

FRIDAY, NOVEMBER 15, 2024

And anything escalated, if Robert Lighthizer was named Treasury Secretary, I think that would establish a much higher assumed prioritization of tariffs than is being expected, including by myself. I did get a client who wanted me to comment on what this may mean for Social Security, and I will say that essentially it means nothing, because there's no talk at all out of President Trump of doing anything, not only short term, With social security benefits, which pretty much no politician would do or should do, but even longer term, like even addressing the ultimate fiscal sustainability.

And some of the reform needs that are likely to be inevitable with social security and Medicare. President Trump in the primary and in the general took entitlement reform off the table. And I think he more or less said he's a final term president. He sees it as a political loser. It's inevitable someone has to do it, but he didn't want to.

And so I think entitlement reform will become a major issue in 2028, but I see nothing on the table now. And so for those worried about their own current benefits, there will absolutely be no change. I'm confident of that. And you know, the specific amount of benefit will end up just depending on the degree of COLA adjustment each year.

Drugs, Reimbursement, Pharmaceutical, Robert Kennedy at HHS Junk Food, Snacks. HHS has a huge budget HHS doesn't make law things like vaccines are entirely administered by states. Now that's, you know, federal employees can have their

FRIDAY, NOVEMBER 15, 2024

own mandates and things like that, but for the most part, there's very little jurisdiction at the federal level for some of this stuff.

Now there's a bully pulpit. I don't know if RFK is going to get confirmed. You know, I would kind of view it as a coin flip, like I wouldn't have anything better than a 50/50 odds to make. I would offer almost 100 percent odds for a lot of candidates I've discussed today. I'd offer very low odds for one or two others.

But in the RFK one, it's kind of 50/50 ish, as far as where I can see that going from the political side of it. But as far as the impact, do I believe that it's going to cut into revenue of pharmaceutical companies? I do not. Do I believe that there's going to be regulatory burdens in place? Maybe marginally?

FAD. From the Fed, there are requirements for MADD. The question was how to identify it, it didn't say, Oh, my gosh, I need to know about that item. So the email, I got it, or the email instruction. It was actually one of my royalty. That's actually the email instruction. So in order to make sure that, so I have me satisfy Richard asking, are you doing this?

Each one of them would mean the cause of the loss is if I were the one in charge of it. that doesn't happen with the debts from impact. Priorities that animate the president. And so he'll give his advisors and people any kind of niche necessary to kind of go do their own thing. But to the extent there ends up being a pushback to him, president Trump has the things that he is going to focus on.

FRIDAY, NOVEMBER 15, 2024

And I'm quite convinced that those priorities are going to be in this order, trade and immigration, tax and regulation. And ultimately energy. And I think you could argue that a lot of that's very pro market. There could be room for some anti market stuff in there, particularly around tariffs and trade.

But the major market takeaway you have to hold out is look, let's say, I believe a lot of these things have the potential for being tailwinds to markets, certain tax reforms, certain regulatory reform, certain energy reform, some, a little bit of headwind on tariff. And you price all this in. You have to price it in the context of valuation, but before you get to valuation, there's economic circumstances, which are largely tailwind.

They're not they're, it's not a neg an unconstructive backdrop for investors right now. With low unemployment, with the Fed lowering interest rates, with GDP growth better than expected, the economic backdrop is helping. These other policy potential things are helping. But then you have to weigh that up against valuation, and that's the major takeaway is that no matter who is president, you know, all things being equal, you can get a more constructive policy backdrop, but you do it up against a valuation reality that has to be factored in.

So I'm going to leave it there because that's our big conclusion. I really want you to read dividendcafe.com if you have the time and inclination because getting into China, Vietnam, Mexico, some of the global ramifications of all this, I don't, I didn't have

FRIDAY, NOVEMBER 15, 2024

time to get into and I didn't get into this idea of a Bitcoin emergency reserve and I do deal with that.

And that's one of my favorite parts of the written Dividend Cafe this week. Thanks for listening and thank you for watching. Reach out with any more questions and we will see. What next week's Dividend Cafe will have in store because I don't know at this time, a lot of it will depend on some of these things that are to be determined that have a lot to do with the policy agenda of the years to come.

Thanks again for listening, watching, and reading The Dividend Cafe. Have a wonderful weekend.