

FRIDAY, DECEMBER 6, 2024

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Hello and welcome to another weekly edition of The Dividend Cafe. I am your host, David Bahnsen, managing partner of The Bahnsen Group and I am excited to be presenting this week's Dividend Cafe from San Francisco, where I am on Friday and Saturday at an annual conference at which I speak. And then I will be spending all of next week in our Newport Beach office. Before returning to New York City where it is about 26 degrees. This week's Dividend Cafe, I started off writing believing I was just going to go all over the map and cover some things about valuations and small cap and oil and markets and France and everything. And some of that's still there. But it really did end up being a little bit more election centric again, as the transition of this presidential administration continues.

We ended up getting some newsworthy things that kind of inspired me. And so I'm going to get into tariffs a little bit, get into trade a little bit, tease up some tax reform stuff a little bit and then start off with some of these new appointments that are economic oriented as we get really close to the kind of conclusion of this transition, the announcements, the appointments you know, there's still plenty that are going to have a little bit of a confirmation fight. I'm kind of staying out of

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the fray, you know, the news cycle right now is mostly around Pete Hegseth and the defense secretary position.

But just staying more in the economic lane, there's a lot less controversy expected and a lot less opposition you know, a pretty cleaner path to confirmation for most of the folks that President elect Trump has put into some of these economic positions. So just let me go through a quick little list of what came out this week, because the stuff that's come out in prior weeks, we've already extensively covered from Scott Bessent to Treasury, to Howard Lutnick at Commerce, to Kevin Hassett at National Economic Council.

But this week Paul Atkins was named to be the commissioner, the head of the Securities Exchange Commission. It's a big deal inside my business. Cause of course we're regulated by the SEC. And it may seem like less relevant to market actors and participants like all of you. And yet Because of the way in which the SEC regulatory environment affects financial sector, and many investors are of course exposed to the financial sector, not to mention some of the kind of crypto adjacent stuff, which I care about a lot less, but just the overall regulatory atmosphere with private equity, with hedge funds, with Investment Banks with M&A you with commercial banks.

There is a very important relevance and Paul Atkins is no question. I mean, he was on the SEC commission before. He's been a commissioner, but he's never been the chairman. And he has a reputation of being a very deregulatory, light touch

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approach who has a lot of respect for financial markets and a lot of financial, shall we say market groups were really quite enthusiastic this week about the pick.

We're going to be talking about him more in a moment, but Pete Navarro did end up resurfacing this week as a White House trade advisor, which is not a real role, but it's a kind of informal advisory role, like the name suggests. Won't require Senate confirmation, is not a cabinet position, does not have official negotiating authority, but will certainly have the ear of the president, which matters.

And so I'm going to speak. in a moment to whether or not some of us who feel that Pete Navarro is a malignant contributor to the discussions of trade tariff and economic growth. Is this a good thing or bad thing? Cause there's kind of two schools of thought. Him coming back around, getting a position could be viewed negatively for those of us that are not a big fan of his thinking and work.

And it could also be thought of as a positive that he ended up getting a kind of more marginal position and one that doesn't have quite a official sense of empowerment. Kelly Loeffler, who was the the senator in the great state of Georgia up until 2020 was named as the head of the SBA, the Small Business Administration.

This is not an insignificant role either. Kelly is a very talented businesswoman and seasoned executive. Linda McMahon had

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this role in the first term and now has been named President Trump's Secretary of Education, but she's also the co chair of the whole transition, Linda McMahon. So there's been a lot of gravitas and recognition around this SBA role.

And I would remind everyone in 2020, the SBA was the governmental agency that was administering the paycheck protection facility, the PPP. And so, SBA has quite a bit of authority, budget empowerment around elements of small business in our country. Frank Bisignano was named a Social Security Administrator. I don't know why Frank wants this job, but he's a good patriot. He's been chairman of Fiserv. They had merged with First Data where he had been CEO. Frank has been at Morgan Stanley City, JPMorgan Senior Roles, been around Wall Street for a long time, has is just a very serious finance guy, great reputation, and he'll be now running Social Security.

David Sacks was just named as the, again, kind of a made up role, White House, AI, Artificial Intelligence, and Crypto Czar, again, kind of advisory position that will not require Senate confirmation, and David's a big VC guy, a billionaire here in Silicon Valley was part of the PayPal group with Elon Musk and Pete Thiel back in the 90s, and has had some other major liquidity events since. An outspoken advocate for deregulation in VC, for deregulation in AI and deregulation in crypto. And so it's probably meaningful that he's there and we'll see how long he wants to be there. And then finally, David Perdue, who is also a former senator in the great state of Georgia. But was also the

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CEO of Reebok, CEO of Dollar General was named as the U.S. ambassador to China. The only reason I bring this one up is while David has definitely become a very big Trump loyalist and so forth over the last, let's say four years. He also was a very big advocate of trade with China over the years and certainly did a lot in that role as CEO of Reebok. So him serving in an ambassador, ambassadorial role with China is interesting.

All right. So what we know is that some of the big tariff hawks from the first Trump administration, Pete Navarro and Bob Lighthizer are either in the case of Lighthizer, not around right now. Or in the case of Pete Navarro in a very marginal role. And that there's a bit more nuanced, still very friendly to President Trump's economic agenda, but a different posture and experience and rhetoric and approach and philosophy and history with tariffs, trade, and whatnot from Scott Besson at Treasury, Kevin Hassett at NEC.

Do I think this means something? Well, look, whether Navarro, Lighthizer were there or not, I believe that the idea of a universal tariff that Lighthizer advocated for, and Navarro certainly has advocated for, and President Trump at times would talk about and other times would not, was always going to be a big uphill climb.

First of all, markets, I think, would have revolted, and that would have impacted the President's thinking. But also they're not like legal without Congress and there's certain little things you can do to get around stuff, but that's a lot harder than a targeted

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tariff where the president has a lot more authority or different post talk rationalizations they can use to get there, you know, aimed at a specific country, like say China.

That's really what I'm expecting now, is basically I'm in the middle of the road here where there's market actors that think everything's fine, they're not really going to do anything, he's going to negotiate, get great trade deals, we're not going to see any real volatility or impact or pain from tariffs, and then others are saying like, oh my gosh, it's going to be smooth sailing, great depression, it's going to ruin the whole country, where my view is, You will see more volatility than we've seen.

You will see the threats of tariffs and discussions and uncertainties surface more than they have yet not go all the way to very malignant n negative, uncertain endings and yet the kind of Pollyanna approach that everything is just gonna be totally fine. There won't be any pain along the way.

I am skeptical of as well. I do believe. that with Canada, Mexico, and most of the ally nations, there's unlikely to be significant tariff extractions and actually implemented, and that there will end up being other things like border crime, drugs, that are used, those policy objectives that tariff and threats of tariff are used to gain a lot of concessions, and those, Domestic policy categories and that where there might be actual tariffs implemented is more likely marginally increasing some with China.

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It's a little red meat to the base. There's more leverage for the Trump administration to do so. China has less ability to push back, but all of it is really more geared towards setting the stage for something more grandiose. That is a more us centric policy outcome that could lead to a dollar.

China currency exchange rate change. It could lead to China opening up the market for rare earth minerals for the U S getting more, you recall this phase one deal from 2019, that just called for them to buy more oil, gas, and soybeans from us. But all of these things in the end I do believe we will not end up facing the worst case tariff scenarios, but I don't think we're going to get there without some volatility and uncertainty and moments, we call them scary tweet moments along the way that go beyond just a mere tweet.

And that's what I think you're seeing on the policy side that Lighthizer not being there, but his old chief of staff being there, Navarro being there, but in a different role, guys that are probably a little more traditionalist in some of their approach to these things that like Bessent and Hasset It all speaks to a kind of middle ground lay of the land on these issues, and that's where I would summarize things here now.

What have you seen since Bessent was named at Treasury? Well, you've seen a huge bond rally, 10 year yields that were facing around 4.5%, now down to around 4.15%. It's come down 30 to 35 basis points in just 3 to 4 weeks. It's a big rally in the longer end of the curve. And that's all happening while I

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think you're going to see More foreign ownership of bonds next year as the yield curve un inverts.

I think you're going to see downward pressure on deficits because of a declining cost of debt service as the Fed continues to lower rates and more and more of the short term debt rolls over into lower cost. and higher revenue than expected. You know, the stock market was up 20 something percent last year. It's up 20 something percent this year. I just believe the CBO estimates for capital gain tax and other income tax are going to prove on the low end. And so you get a little boost to revenue. We already know the Fed is getting ready to wind down quantitative tightening. I think it positions for a lot more liquidity in the financial markets. And Bessent and his competence and his philosophy to me are likely to be beneficial in the appetite foreign owners of treasuries will have. And when you're introducing more buyers for treasuries, then that is putting downward pressure. I need to spend a lot of time in my white paper this year on tax policy.

I had a lengthy conversation with Dan Clifton yesterday, who's the senior policy strategist at Strategas Research and one of the foremost experts in the country on a lot of these things. And I'm convinced there's a lot of nuance that people are missing and that I'm spending a lot more time.

I probably read 30 pages of research just this morning to kind of really get my, I'm there, there's a few particular topics around a hundred percent expensing around things that were not big



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campaign related issues. As to where some of the big mega tax bill that the president elect is going to be looking for in 2025 go and it's going to be a big theme in my white paper, but I want to tease it out a little now We know he campaigned on no tax on tips and we know he kind of has to do something there We know a lot of these sun setting provisions of the individual tax code at the end of 25 Are now very, unlikely to sunset, that there's very likely to be a big extension of a lot of those things.

But when you add some of the other pieces to the mix, some that were campaigned on, that I just frankly think have no chance of happening, like no tax on social security, but other things that are likely to happen around child tax credit, around business expensing, around bonus depreciation, around the SALT limit, you know, there's some Big meaningful things out there that I want to unpack more.

So this administration transition is a big deal. A lot going on this week. There was noise in France as they had a no confidence vote and the Euro took another leg down. I don't know what's going on there. OPEC plus announced. Now we're going to delay again. getting our production levels back up. They're supposedly 6 percent below where they would be in production.

To kind of affect where they want in the supply demand balance. I don't know if I believe it or not. But is the president gonna have a harder stance with Iran that takes some of their oil offline? And what, or, and then that enables us producers to produce more. Do I think we're really headed to 50 oil?

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Some analysts I love believe we are. I don't and I don't know that U. S. producers would let the drill baby drill approach get them there. I know why from a policy standpoint it's so disinflationary that I know why the president would love it, but I don't think the economics of the U. S. oil and gas industry are such that they can get to 50. But we're sitting here at 67 now, not 75 where we spent most of this year, not 80 to 85 where we spent some of this year. 65, 67 and OPEC plus is holding back. There's a lot to talk about there. So I encourage you to check out [dividendcafe.com](http://dividendcafe.com), the chart of the week, all the fun things that we love to incorporate there.

Need to run to a speech now, so I'm going to call this short. I have covered all my basic things I want to do. Trade, tax, tariffs, the three Ts, lots going on in this presidential administration and a lot of new people announced this week giving us more color to what may be expected. Nothing I really said today at all is political. I did I guess say I'm not a big fan of Pete Navarro But I think that more speaks to my pro conservative credentials not to anything being anti Trump or whatnot I just didn't I just think that there's a lot of complexity and what needs to happen around our currency policy and our tax trade tariff policy and There's a lot of folks that President Trump has named that I have a lot of confidence in you, Pete's not one of them, but that's okay, because I promise you Pete would not like me very much either.

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With all that said, thank you for listening, thank you for watching, and thank you for reading The Dividend Cafe, and we will be with you next week from Newport Beach. Take care.