FRIDAY, FEBRUARY 14, 2025

Hello and welcome to another episode of The Dividend Cafe. I am your host, David Bahnsen. I am recording from beautiful Phoenix, Arizona. where I have been for the last two and a half days with quite a fair number of people from our team. It has been a little bit of a wild week first of all, last weekend was one of the first times I had kind of been sick in a long time. And so I was down and out trying to get, recovered from all of that. And then Monday, very full day in New York and then a very late flight Monday night, getting back to California in the middle of the night for a real busy day and a half there. To then come out to Phoenix with, about half a dozen people from the California office, different advisors and, and team members, and then meeting up with our whole Phoenix operation. We're, getting ready to expand to a larger office here in Phoenix. We had a number of, of client meetings and team meetings. And then, I have another speaking engagement here in Phoenix, tonight, before, flying really early tomorrow morning back to New York.

So all of this has been going on and, and lots happening in markets and, and different things with clients and our team and all that kind of fun stuff. While, quite a bit is played out this week on the double T framework, which is the tariffs and the taxes. And these are two of the themes that we had as kind of key issues to be monitoring and following in markets and in the economy in 2025.

And so I want to first kind of do a brief update on where we stand in the lay of the land on the tariff side, and then unpack more of what came out of the House Budget Committee. Last night, Thursday night, as it pertains to plans in 25 for Trump 2. 0, and the tax agenda I'll hold all my fire on the tax side so I can get through the tariff thing first.

Okay, here, here's what I'll tell you. On Monday of this week, we were going to be dealing with the aftermath of President Trump over the weekend stating, that he was implementing 25 percent tariffs on steel and alin tariffs, steel and alin imports that come, coming into the country and markets were up about 167 points on Monday.

Then, Thursday was branded as Tariff Thursday, and it was promised that it would be the final announcement that had been waiting since the election, since the inauguration. From the campaign promise that there were going to be sweeping, reciprocal tariffs, not targeted at Mexico, not targeted at Canada, not targeted at steel and alin not being used for negotiations, but broad tariffs across what could be a lot of countries, covering a lot of sectors And companies, as a sort of retaliation against any, countries that had tariffs on us, meant to establish this long discussed concept of reciprocity.

And what, happened on Thursday is the Dow was up 350 points and both the S&P and NASDAQ were up over 1%, big rally, so what happened to Terrible Tariff Thursday? Well, here was the announcement that came from the Trump administration. It was a memo asking, asking federal agencies, not Congress, to study the idea of reciprocal tariffs so that they could provide some details later, about what some of the options may be.

In other words, it was just punted to a committee to come back and say some things later on. Now, maybe that was a good thing to do, maybe, you know, maybe, It was just a, a step in the process of trying to, you know, put some leverage together and, and there's another play coming But my point was that behind a lot of the committee bureaucracy and, and sort of evasive, elusive, you know, avoidance.

Markets had no interest in responding whatsoever. And I really believe the events of both Monday and Thursday around these tariffs reiterate the theme that we had last week in The Dividend Cafe where we had come into markets on Monday with this idea that there was a big sweeping 25 percent tariff coming on all imports from Mexico and Canada.

And by 10 in the morning on Monday, that had kind of fallen apart. In that case, as a by product of, negotiation to try to get a better arrangement around border security and, and drug trafficking. Okay, this is all part and parcel of the same theme. Now, it is different manifestations, different specifics, different countries, different particular, threats of tariffs, but the similar theme that you're seeing across these different conversations and, and all these news stories being kind of threaded together.

The commonality is that there is not a big appetite to be actually implementing tariffs. There is a huge appetite to be talking about tariffs, both from the administration and the media. A huge appetite to be dangling the notion, to be threatening, to be tweeting, but really, whether we're talking about the negotiated issues with Mexico, Canada, we talked about last week, whether we're talking about, steel and alin and carve outs and exceptions and trade offs and subsidies and things like that, and then whether we're talking about a committee to study potential tariffs, aimed at reciprocity, We don't have a bunch of tariffs going on and markets, are in a position right now to be highly resilient again, totally aware of the fact that any of this could change at any time, but for the time being, markets are not responding to things that are not happening markets cannot respond to threats of tariffs. They can only respond to real tariffs and we simply haven't had those at any time. scale and universality that would require a market response.

And so I think that the subtext continues to be an administration. I say this, by the way, as someone who is very opposed to the implementation of tariffs and the cost of what they represent to American economic actors, I say this as a compliment, but We have an administration very, very fond of talking about tariffs, but not an administration at this point, very fond of charging tariffs.

And markets are not worried about talking about tariffs, they're worried about charging tariffs. So, that has been, the lay of the land through a couple of the iterations since the inauguration of this conversation, albeit in different geographies, different venues and with different specifics around them.

That's where things stand. Now, one question that came up after last week's Dividend Cafe, where I did a more comprehensive and elaborate discussion about tariffs, was whether or not it's true that The notion of free trade is kind of, fair trade is kind of impossible when two countries have different standards of living.

And this is a fair question because it's an argent that comes up more and more, largely from people that I think are aware that they're, this, this rhetoric lends itself to sounding like it's a real argent. without actually making an argent at all. But I love to deconstruct this economically because all of us are in a vantage point of being qualified to answer this question because all of us Trade with people all the time that have different standards of living, whether it is because the counterparty to a transaction we do as a much higher standard of living or a lower one, when it comes to the transaction itself, Can a fair transaction take place, theoretically, when two parties have a different standard of living?

Of course it can, because it happens trillions of times a day There is no sense In which we are going to a barber to get a haircut and we call into quite the barber wants and needs a certain dollar amount to provide the service. That amount is an agreed to the counterparty. In this case, you or me, the customer pays, it is agreed to it.

It is worthwhile to us. We are getting out of this transaction, our haircut The counterparty is getting out of this transaction, the agreed upon wage it has been freely negotiated, it has been fairly negotiated, and if in theory the person receiving the haircut has a much higher standard of living than the person providing it, there is no area, no semblance of unfairness to the trade.

Nor does anybody think there is. In fact, it would be horrifically unfair to impede that transaction, to get in the way of something that is in the best interest of the barber and the best interest of the person in need of a haircut. And all of us intuitively know this and all of us go about doing this with baristas.

And with merchants and with private parties on eBay or Etsy or Craigslist or whatever it is we're doing, day by day And so the notion that, fair trade transaction cannot take place when you cross border and it's happening at scale. is all the more so absurd what makes the transaction fair is the freeness of it and the benefit it is giving to both parties, which is by definition a different benefit.

One party is getting rid of something, often money, to gain something else while the other party is getting rid of something, the something else, the counterparty's getting in order to receive something. The money the counterparty is giving this is the definition of a transaction and it is immaterial what the standard of living is, other than the fact that at scale, poor countries get richer by providing goods and services to richer countries in a competitive manner It is inerrantly fair for countries of lower standards of living to be providing products and services to other countries. And again, if it were unfair, if there was not a benefit to each party, and this were in the context of freedom and voluntariness, the transaction would not happen.

So it is really important that one never assert in a macroeconomic decision making that the rules of engagement in microeconomic transactions are different. The fact that we go from you and your barber to a large quantity of people across borders doesn't change any. of the ad hoc reality of what's taking place.

I think this is very important to go through. Okay, we're going to spend the rest of our time on the tax bill and I purposely had to wait until Friday morning, to write Dividend Cafe this week because I was aware that it looked like the budget finance committee in the house was going to finally be acting upon a lot of the back and forth that had been going on basically for about three days this week.

And, and in fact, they did late Thursday night, approve on, on, you know, a partisan, line vote to go forward. So here is the way the table is set right now. There is a 4. 5 trillion package that has gotten out of the Budget Finance Committee of the House that now needs to go to the whole house And assing that it gets out there, which is not a foregone conclusion, Then, and the Senate is in the meantime, still trying to go forward on a two bill approach where they do a kind of layup of a bill now with border and immigration stuff covered, and then look to push taxes into a second bill later.

But assing the house is able to put all the things they want into one bill. Then, it is entirely possible that the Senate would abandon their two bill approach. In the meantime, they're still going forward that way, in case things fall apart in the House, which is 50/50 probability Then, in conference, the House and Senate bill would have to be reconciled together, and assing that it passes the Senate, passes the House, and then gets through for, it to become the budget, that can all be done by a simple majority, Then, at that point, tax cuts can be reconciled to the budget bill and only require 50 votes to get through the House.

The 4.5 trillion window is a little complicated because it's essentially saying, well, we need a trillion and a half dollars of discretionary spending cuts. We need 2 trillion of budget cuts mandatory spending cuts and cuts to mandatory spending, rather, it's a better way to put it. And that if those cuts don't happen for every dollar of that 2 trillion of spending cuts, it doesn't happen.

A dollar of the tax cuts don't happen. Now, if they end up getting 3 trillion of cuts to mandatory spending, which is not going to happen, then they would actually have an additional trillion to spend. So they could get up to a five and a half trillion dollar window of tax cuts, but. It's going to be very hard to get to the four and a half trillion.

And the four and a half trillion is not going to cover everything president Trump wants to do. It basically gives them the limit. to extend the 2017 Trump tax cuts, which would be the nero uno priority. And then assing the political cloud is still, cause there's no margin of air to lose house Republican votes that there, there are some in New York and California that have said they will submarine the whole thing.

If there isn't a lift of the state and local tax, deduction cap, depending on how much they do with that. That might leave a little room for the no tax on tips. It would not leave any room for no tax on overtime, and we're not even in a remote stratosphere being able to touch no tax on Social Security.

And all of this requires the needle being threaded perfectly along the way. It's gotten out of the finance committee. It needs to get through the house. They need to come up with the tax cuts in a way that is politically palatable. And even then that's all to go through with a tax cut package that is less than what the president has asked for and if all of this gets done and the Senate is willing to come back around and play ball, if the house can get all that done, I think the Senate will decide, okay, we won't go forward with the two bill approach. We'll get on board with your one bill. But the Senate's going forward with two bills because they're very skeptical that the House will get this done with one bill.

But that's where, where the table is set right now. And there's no margin of error to do much differently because if it has to extend, expand the deficit more, then there are Republicans willing to not vote for it there, there's just a lot, that we have to see how it's going to play out, but I would say it's pretty safe to say that right now the ambition of the overall thing has come down, now that there's still a sense that the extension of Trump tax cuts and some degree of additional tax reform might get done in one bill sooner than later. That at least eliminates some uncertainty but the high aspiration for a more aggressive tax package seems to be, right now precarious because of the political reality.

And then even the idea of doing a lot of this stuff sooner than later, I think we're at a 50/50 jump ball. for how they're going to thread these things politically to get done. But I hope that gives you the lay of the land of where things stand. What was done that could have just killed all of it right away.

Like we'd be immediately going to a two bill approach and getting, giving up on the idea of getting anything done in the short term on tax reform. including the extension of the Trump tax cuts, if they had not been able to get this bill out of the House Budget Committee. They did. So the Finance Committee has gone forward, I think it was a 21 to 16 vote. And now we see where the House goes with it. And then there's more wood to chop. from there. That's the lay of the land. I know these things are a lot of fun. Can you imagine from what you all know, whether you really don't like them or do like them or somewhere in between about President Trump, can you imagine how frustrating all the details are to him?

He's not a big detail guy and a lot of this stuff is, is, you know, frustrating and yet that's the kind of sausage making political reality of where things stand and it matters to markets both in terms of what gets done. When it gets done and what we know is going to be done when because of that certainty factor.

That's why I keep Talking about this. I'm going to leave it there for now. The tariffs and taxes were my big priority in The Dividend Cafe this week. I hope we've scratched some of these itches I will be back in New York first part of next week in Florida the second half of next week and look forward to recording another Dividend Cafe for you next week. In the meantime, reach out with questions, share this Dividend Cafe far and wide, but certainly let us know what else is on your mind as we try to approach those key issues in markets that matter to you. And we thank you so much for listening, watching, and reading The Dividend Cafe.
