FRIDAY, MARCH 14, 2025

Hello and welcome to the Dividend Cafe where I am recording actually from my hotel in Palm Beach. Joleen and I have been here at our Palm Beach office last several days and are really in the midst of a wild market week as it was last week, as it was the week before. So nothing particularly new, but more of the same and definitely necessitating some discussion this week in the Dividend Cafe with a particular focus on not just what's happening in markets, not just more talks about tariffs, that's all part of it though, but specifically asking the question, is the Trump market put over? Meaning this sort of belief that there was a backstop in markets because President Trump was fundamentally concerned with financial markets, cared how financial markets were behaving and therefore was unlikely to do anything that would undermine financial markets if it was going to undermine his own legacy reputation, good favor, in the way it reflects upon him.

I think this has been an assumption that's been somewhat embedded in markets since the beginning of his first administration, and it's a fair question for investors and financial actors to revisit now, and I have a few thoughts on it that I think will be useful and hopefully help frame the larger question in the right way to get to a good, actionable place as to how to be thinking about this current tumult that we're living through.

I don't think it's new to think of President Trump as unpredictable and unconventional the fact that he's controversial, unorthodox. The problem with those terms is there are some. That are huge supporters of president that take it as an insult. I do not mean 'em as an insult.

There are some that are huge critics of the president that believe those terms are far too benign and don't capture what they see as some of the underlying, problem or concern that they have. Yet here I am not really talking about either of those things. I'm not assessing what president Trump is or isn't as a person or even as a president.

I'm assessing what markets believe and what he wants markets to believe about him. In other words, this is very intentionally a much more. Pragmatic conversation for investors that I don't believe is helped by bringing our own priors or our own strongly held views about the president, whether good ones or bad ones to the conversation, some objectivity is helpful.

And that doesn't mean that anyone can do it without opinions. I can't do it without opinions. I'm not going to try, but I am going to clarify what it is I'm seeking to do, which is not provide a comprehensive assessment of all the things I like and don't like about the president. I'm not going to say I like tariff policy because I don't.

And because in critiquing what is specifically problematic about tariffs, it enables me to have a more fully formed and comprehensive assessment about the policy as it pertains to investors, markets, economic activity, corporate profits, things that do matter. Overall, though I don't believe you have to like or dislike President Trump to grant that the market assumption has always been that underneath the various elements of President Trump, good or bad, that are out there, he has had a fundamental belief in markets, a fundamental appreciation for deregulation.

That his instinct has been to eliminate impediments to economic growth and that he gauges himself utilizing economic data like GDP growth, the stock market et cetera and how he wants to be thought of and remembered. That's, I think, a fair assumption, and I wanna evaluate if that assumption is being abandoned by markets and if that assumption should be abandoned by markets, that's what's in front of us here today. And that requires it is politically adjacent, but it is not a straightforward political commentary. I've given these types of caveats before. Sometimes I do it because I hope it'll cause people to not go forward sending some of the emails that they send and sometimes that doesn't work.

And I don't really mind getting a whole lot of emails from people, but I do think when I'm get an email saying. You're an idiot. You hate the president for no reason. And other like the same time a note goes to my inbox saying, you're an idiot. You don't realize why we should hate the president. I can't believe you don't hate the president. And I get both those emails at the same time. I don't share that to say, therefore I must be doing exactly right. I share it to say that, the feedback that I'm getting you, if you feel that I'm doing one of those two things, you have to understand other people disagree with you 'cause I promise you, I get mail from both sides. I am real critical of the president right now and I don't worry if fans of the President are upset me about that. I am called to be a truth teller, but I'm also in this capacity an investment manager trying to call balls and strikes and make decisions on behalf of clients and their capital to facilitate the successful achieving of their goals.

And I definitely believe this subject in front of us today is relevant and causes us to question certain things. And along the way, I have no doubt that there's some that would wish I would be more critical and some that wish I'd be less critical. But you can see I why I am. Approaching it the way I am.

I don't think it's controversial to say that the president viewed the stock market as a report card on his presidency. I don't think it's an opinion or conjecture. There is a lot of public support of him saying things like that. Him publicly appealing to stock market performance, to validate and affirm elements measurable elements of his track record.

Privately there is also a significant amount of support and things that have been shared with me and firsthand information. So between the public record and the private testimony, I don't think this is a controversial statement, but again, the question is not reading his mind or asking, does he still care about markets or is there a deeper strategy?

If we wanna evaluate where things stand in case, something that has been the case before is different now and maybe one of the biggest points I want to make as we deal with the reality of significant market of volatility in the last couple weeks, that seems to have a high degree of rapidity to it.

Is the difference between now and the first term as it pertains to a sequence of strategy? That not only did the general consensus feel that President Trump entered his first term as a kind of pro-market guy, not a philosophical supply sider, but an instinctive supply sider that just impulsively viewed tax cuts, deregulation as better than higher taxes and higher regulation.

Markets thought that much, even if they didn't necessarily believe he had read a lot of Robert Bartley or Robert Mandell. They at least viewed him to have that instinct and that DNA and I believe markets are right about that, and I think that was reflected in his first term.

But I bring this up because. There are those who will say president Trump initiated a lot of trade and tariff talk in his first term too, and yet I wanna point out that he began that in

February of 2018, going into the second year in office. And in the first year you not only had a 20 something percent up year in markets and with absolutely unprecedented low volatility.

But he did it as they passed one of the most substantive tax bills in history. The corporate tax rate went from 35% to 21%, and they basically went from being a non-competitive global corporate tax rate to a competitive one. And this. I, it was not done through Doge. It was not done through executive order.

It was not done with a tweet. It was a legislative bill signed into law. And by the way, that piece of it, the corporate tax law doesn't sunset. We know that there are some of the tax cuts from that 2017 bill that are set to expire the end of this year, and we're having a discussion about them extending those things, but he made permanent in law.

A significant tax cut, along with rather thoughtful and well executed deregulation, and then went in to stir the pot with tariff talk, but was playing with house money. The economy had grown, the economy was gonna grow even further from the positivity of the tax bill. Markets were up, financial markets were positive.

And then when people say there was some volatility in 2018 and it's, the market was only down 5% that year, but it had been down at one point 19%. But I don't even know there that we can say the, president got reckless with trade talk then too. I think he did advocate for policies.

I don't believe in, he didn't follow up on most of them. He threatened certain things and didn't go a lot of places, and I talked last week or two weeks ago about some of the personnel that was around him holding a lot of the things in line. But to the extent people say, yeah, but there was this volatility then.

We, we have to remember that The Fed was raising rates. The Fed was quantitative tightening. The Fed had gone from 0% to 2.25%, nine rate hikes in a couple years. And so being able to assess causation in 2018 is difficult because I wrote all the time about the twin dangers between Fed tightening and trade war.

I'm sorry, but the, it's non falsifiable. Nobody can say exactly what was creating market angst. The most reasonable explanation was a little bit of both, but that's the point is it was a little bit of both. Where right now. You have a Fed cutting rates. You have what was low unemployment positive GDP growth, and really a very easy environment.

High double digit corporate profits growth last year and projected this year. So you have a very easy environment in which you can say. There's questions on President Trump's tax policies for this year, and then there's the reality of President Trump's tariff policies. And so wrapping our arms around where he stands there is obviously a very prima facie acceptable thing to do and understanding current market angst.

Now the sequencing matters in the sense that if. What we were talking about and forget me trying to give the president or his team political advice, that's not what this is about. I wanna talk about the market impact. If in the first year of Trump 2.0, he comes in and says, I'm extending the my own tax cuts to be permanent.

I'm giving markets clarity on that. He we're gonna do all this doge stuff behind the scenes, and in six months I'm gonna announce. Whatever, the different report card of savings and effective cuts, some stuff was gonna leak out, some stuff would've gotten loud. But you announce a form of government efficiency results that are deemed successful.

And then you, through budget reconciliation, pass a tax bill that is linked to some spending cuts and reforms and controlling cost of Medicaid growth or what have you. And then most importantly. Whatever the tax cuts are that we're gonna end up getting on or we, that the president wants to get on top of extending his own prior tax cuts that gets done and maybe it gets done by April, maybe it gets done by June.

And of course maybe it doesn't get under near later in the year. But my point is, let's just assume we're now going into the second year of Trump 2.0 and that got done in year one and the year one was spent. Focusing on tax reform and legislation that gets is fait accompli. Then you go in and start waving saber rattling about tariffs, and maybe you do go much more severe this time than you did last time because this is just exponentially more extreme than what was threatened back in 2018.

At that point, you're likely playing with house money, and it's not just that the stock market would've been up, and so you have gains with which you can go up and down and you're willing to lose some of your gains in the market. That's maybe part of it, but that's not what I'm getting at.

What I mean is that there would not be second guessing of the intent and the priorities and the Ideological Foundation from which he was operating, it would've felt okay, he has a desire to get a better deal, to get some more equitable trade arrangements. He has a desire to accomplish some reordering of international trade and he knows some things have to get broken to get there, and you could think that's a good thing to do or a bad thing to do, or unnecessary thing to do.

The point is if you believe he's gonna do it and he does it in that order, in that sequence, having banked certain successes, are we then looking at a Nasdaq down 15% in less than three weeks? Are we looking at S&P down 10% in three weeks? And of course it could get much worse. I don't think so. So not only do I think that you in sequencing in this way, lose the political capital, but you lose the financial markets capital, the financial markets, credibility and trust to see it all the way through.

That to me is an important part of it. But what are we really talking about? As of right now the S&P is down, give or take 10% from where it was. This has happened basically every year now, tens worse than seven and six, there are a couple years it hasn't there at 10.

You're talking about more than a couple now, but not much. But it's pretty normal. It's pretty normal. It's pretty average. You get up to 20, that's much less common. But why would I write about the impact of markets if so far the market downside has been mostly par for the course? A lot of it is.

This questioning of the mentality, the thinking, the ramifications around the why of what it is. If it wasn't President Trump to talking about tariffs and markets are down nine because Nvidia had a bad quarter, or if they had a bad quarter, that would be something different. When the administration starts saying, oh, we believe a 10% correction is just a short-term pain, but we're gonna get a long-term gain of recapture American manufacturing.

If they really believe that, then 10% is the beginning of a drawdown, not the end. Now I do. They want to believe it. I think so. But if you got to a pain point of 20%, do they pivot at that point? I think that's the big question we're trying to answer right now. Does administration not believe it at all that they have to say it to sell it, but they don't really believe short-term pain is necessary or they don't really believe short-term pain is gonna happen?

The problem is that it's very difficult to assess what the administration itself believes and doesn't believe, let alone what it should and shouldn't believe. And the reason it's difficult is because markets are responding to very conflicting activities, as we've talked about on again, off again, reciprocal, not reciprocal, 20 30, 25, 50.

There's been so much, and then again, the rationale behind them has been schizophrenic in terms of this is about fentanyl, or this is about national security, or this is about good trade fairness. So many different rationales have put out markets are understandably having to second guess where it's all coming from. But markets have historically with this President Trump won 0.0 and Trump 2.0 had this belief in a put that, that fundamentally he just cared so much about what markets would do. And I gotta say that term was first coined in the context of what they called the Greenspan put. And I've written about it in the past.

It was a very real thing, and it came from a philosophical belief of Fed longtime Federal Reserve Chairman Al Greenspan, that I actually happen to not believe in, but I most certainly believed that he believed it, and I certainly believe it was a part of the Greenspan put that he was there. To use central bank activities as a backstop to risk assets is undeniable.

FRIDAY, MARCH 14, 2025

And one of the big economic stories of my adult life and something I've studied and covered immensely, but him being right or wrong about it as a material, he had the belief and that put came from. This sort of wealth effect doctrine that Greenspan believed in for right or for wrong, that as risk assets deteriorated below a certain level, it would bleed over into consumer activity.

It would bleed over into the real economy and whatnot. The Trump put doesn't stem from a belief philosophical economic understanding and even greenspan's that, again, I'm not saying it was a right one, I'm saying it existed. Trump's put more comes from his need to backstop markets believing. Not so much in their interconnectivity to jobs and wages, but rather markets interconnectivity to assessing his own performance, being a reflection on him.

And so he desired a more market friendly posture because he viewed it as validation for himself. And again, people could think that's a good thing or a bad thing. I'm just simply saying I think it was a thing. And so now the question is not just as he pivoted away from that, is that put gone. Does that mean something even bigger than markets itself?

And that's where I have some data in at DividendCafe.com in charts where, I talked a couple months ago about how small business optimism the NFIB index had flown higher after he was reelected and it had flown higher when he was elected the first time. And a lot of that small business optimism is measured across an index of various measures and surveys.

And it was, based on hopes and aspirations and beliefs that the president was gonna be friendly in areas of energy and tax and regulation and all that kind of stuff. Right now we're dealing with an MFIB, small Business Uncertainty Index at record levels. Now uncertainty and optimism are different. I'm not saying it was a high optimism index, now it's a low optimism index.

The uncertainty index is measuring something a little different. In theory you could be certain about a very bad outcome. I. So you'd have low uncertainty, but still low optimism too. But in this case, you went from a high optimism to a high uncertainty because of a very negative situation, and that is uncertainty undermining.

Hopes for better conditions across small business. And, that's a big deal. You say the S&P 500, fortune 500 the larger elements of corporate America matter more. But I just wanna remind people, 131 million people do not work for Fortune 500 companies. 28 million people do. That's a lot.

You're talking about five more than five times more. Right around five times more that work in sometimes mom and pops small business, family owned a hundred employees, 20 employees. That is a massive element of where jobs and wages and pro productive economic activity are housed in our economy.

So this matters and I think that it is a really tall order to expect small businesses in this environment of potentially massive higher input cost retaliatory tariffs. If they export higher prices, if they import uncertainty of what the rule may be, a bad news one week, but then it comes off the next, and so do you want to just wait to place an order till you think things go away?

That uncertainty to me leads to compressed it's small business economic activity and so when we're talking about things that can be seen and visible, we have to look at the invisible components. And this is where, when I see small business uncertainty skyrocketing, I have no doubt it leads to invisible effects that become very detrimental.

One of the focuses that exist right now is well. These tariff concerns are gonna lead to consumer spending less, and maybe it's true, maybe it's not. You know how I feel on this subject. There's not a lot, in my opinion that is useful in making Americans spend less money. But let's just say that word true, is that the biggest threat?

Do we really think it's a worse idea for tariffs to impact consumption than we do production? What are people supposed to consume? If there isn't production, this is a very fundamentally important issue about economic philosophy, which is why I am a production first or supply side economist because I do not believe I.

The worst effects can ever be measured in consumers because I think consumers are fundamentally wired to consume, but producers can be impeded from production, and that's what the supply side is about, is removing impediment to produce incentive and driving economic growth that way. And that is, I think, the issue that we have to question from a small business standpoint, big business.

Are we going to impede productive activity through some of these tariff and trade policies, ideas, aspirations? And when an administration says yeah, there might be short term gain, but we think I'll turn out in the end, and there isn't really a plan for that. There's a cavalier approach to what the short-term pain may be.

And there's other adjacent things shared that cause people to wonder if those fundamental commitments too. Prosperity, productivity, economic growth are still there. I think it is causing an underlying uncertainty in markets that goes beyond just tariffs. And when, Secretary Gutnick says something an in fairness administration.

I didn't hear anything from President Trump on this. I didn't see a paper from the White House. I didn't see even the Commerce Department follow up with enough meat on the bone. There may be some more things going on, but when I hear the secretary say, we are gonna create 5 million government guaranteed jobs at 125,000 a piece or something.

You're talking about a command control vision of economy that you can understand why markets would be very concerned about anti-competitive risks there, it's more than just tariffs and it's more than just Wall Street. It's more than just consumption. And all of these underlying issues lead us to, a conclusion.

The Trump put is not necessarily gone yet, but it is definitely being called into question for legitimate reasons. The issue is that thus far, a 10% drawdown is not enough to create clarity. Like I said, the 10 percent's normal par for the course. If it wasn't this, it could have happened anyways.

It did happen 'cause of this, but it could have happened for some other reason. If there is a point where the administration's gonna refocus, that point isn't come yet. And will they refocus before getting to that point? And by refocus, we cover a voice for the supply side agenda find an off ramp to the current and I think counterproductive protectionism that I do not believe is gonna protect anyone.

Is there a point where they're gonna try to find that off ramp, or is there gonna be a point that we get to maybe, let's just say for sake of argument, it's down 20% markets and that's where they have to pivot. I believe that it's entirely possible that they wait too long to pivot. We enter recession with a recession event.

Refocus the president to the economic priorities of his first term. Or do we really believe he doesn't care about those perceptions? And do we really believe that his market legacy, his economic legacy, being impacted that way would not cha in him to some degree you. I don't know the answer.

You don't know the answer, but I will tell you that I think that's where we are in the process that the Trump put is called into question for good reason as we've gotten to this point. And that there is either an off ramp and reversal before you get to pivot point or there is an undefined pivot point.

Whereby that those changes come, and that's been my forecast for those reading me even before the election. Right after the election, and certainly before he escalated the tariff conversation. So I'm staunchly critical of what I've seen the last few weeks in the administration, and yet I'm generally optimistic.

That the better angels will end up prevailing in the end. It's just that I don't know what will catalyze those better angels to return. And I don't just mean market. I'm talking about overall economic administration And markets are one element. Once it gets measured there's a lot of unknowns ahead and markets don't like unpredictability. Markets don't like uncertainty. Markets don't like chaos, but none of those things are new. I think what's new is that the president of the United States likes those things and it makes us assessing this all the more difficult. From investor standpoint, you wanna own higher quality things.

You wanna be in an asset allocation that exposes you to volatility that you're comfortable with. You wanna be opportunistic on the way of certain things, get severed enough or disconnected enough from a fair value price that you can go in and be buying. You don't wanna be rushing to panic, buy, and you certainly don't wanna ever be panic selling.

Your proper fortification is never something you do after a market drop. It's always something you're supposed to done before an asset allocation that properly calibrated for different things that can go wrong. And there's a lot of things that could go wrong aside from a Trump trade tariff for this happens to be what we're doing with now.

But my point is from investor standpoint, the things we're doing. Not doing and believe in doing. They're not even remotely different than they were a month ago, a year ago, a decade ago now, where is it gonna go? I think that's the question is, let's just say for sake of argument, we're down 10 and let's say for sake of argument, 20 is a place where Trump starts wanting to, to pivot back.

Does he pivot? On the way to 20, does he decide to find an off ramp that saves face, gives him ability to claim victory, get a couple good headlines, or does he wanna push this message that we're gonna blow up the international trade order? The consequences of that are beyond what I believe he could tolerate for his legacy.

Is that entire theory wrong? I don't think it is. I do believe that uncertainty is what markets are right now dealing with, and that's the story we're in regarding the Trump put, which is certainly, shall we say, had its strike price. Reset this week. Thank you very much for listening. As always, Dividend Cafe.

There are a few charts at DividendCafe.com. I encourage you to look at one of my favorites is the chart of the week of what the S&P 500 has done in this first six weeks of President Trump. Now getting close to eight weeks. This term and what it had done in the first beginning of the last term, and just getting a kind of clarity around why and what that looks like.

It reinforces that sequencing theme I talked about. Those wondering where we're gonna go next week. I happen to be recording this after the market's closed Thursday, so by the time you're listening to it Friday, markets could be up 500, they could be down another 500. I have no idea. Regardless we're in the period of more downside volatility, more downside drama.

I expect there could be more of that. That's where we are right now. Okay. And with that said, I will look forward to being with you again at the Dividend Cafe on Monday. Let's see, I am in

New York. On Monday we'll be doing Cafe from the office there, and then I'll be in Washington, DC Tuesday through Friday.

And there are a couple meetings I'll be having there that I look forward to hopefully being able to share. Some insights with you next week. We will see how all that goes. In the meantime, thank you for listening. Thank you for watching and thank you for reading the Dividend Cafe.