FRIDAY, APRIL 4, 2025

Hello and welcome to the Dividend Cafe on this Friday moment in which we are absorbing an utterly insane. Week in markets. I'll tell you what my intention was, and I may have even said this last week. This week we celebrated the 10 year anniversary of us starting The Bahnsen Group, leaving Morgan Stanley 10 years ago.

It was April 2nd, 2015, and we. Did some social media posts throughout the week and we, had lunch events at all of our offices celebrating, and we wanted to talk in the Dividend Cafe this week about our liberation 10 years ago and starting this practice , which we're so proud of and so many wonderful things with clients and navigating so many market moments and all kinds of just blessings that The Bahnsen Group has its own entity, has meant.

in the lives of our people. That was what I wanna talk about this week, and now I can't because we really have more pressing issues to address. And what was heralded is a very different kind of liberation day. I joked of April 2nd being our liberation in the sense that I left my position as managing director Morgan Stanley 10 years ago and brought my team with me to start this new practice and there was this liberation and do better opportunity and all these things.

And instead, April 2nd was called Liberation Day by the president and was we were told it was gonna make America wealthy again. And it was all this, a lot of it's the kind of political and rhetoric or whatever. The hyperbole of it is not really my point, but it's a very different use of the term.

And indeed what I would suggest is that. We're in the midst of some things that are not only challenging in markets as we saw in the hyper volatility of Thursday, but challenging the kind of economic premise behind this administration. And really, where America's standing in the world will be.

I have a lot to say about it. But I wanted you to know why Dividend Cafe is necessarily talking about a very different liberation day than the one I wanted to talk about. What happened on Wednesday? First, let's make sure we're clear on something. I'm recording on Thursday afternoon after the market is closed.

So, whatever point you're listening to this right now and whatever happens in markets Friday, if it's further downside or if it's any kind of a rebound off of the violence of yesterday. I can't speak to it because it hasn't happened yet. As I'm sitting here in real time, I will tell you futures have opened and they're down a tiny bit more.

So there is no big rebound in Friday's market currently in the positioning, but anything can happen in the next, 12 hours, let alone 18 hours, 24 hours, et cetera. The violence in the sell off on Thursday , the Dow basically down 4%. The S&P basically down 5%, and the Nasdaq basically down 6% worst day in market since I believe June of 2020, almost five years.

And that is quite a statement. You may recall that there were a lot of bad days in the market in 2022. And so what is really going on? What was announced? I wanna walk through those things very quickly and then I want to tell you where I think some of the issues are. We go from here, just trying to quickly expedite, it was announced that there'd be a 10% baseline on all imports, a tariff on everything, not related to fairness, not related to reciprocity, just a rather brutal cost to the economy of any imports coming in.

They're gonna get 10 no matter what. And Mexico and Canada are excluded, but for now, but there's a 25% tariff on them for anything outside the U-S-M-C-A trade deal. The so-called NAFTA 2.0 that was done in the first Trump administration. And then there is a another change from that 10% baseline tariff, which is 25% on all automobiles.

That covers basically half of all cars sold in the United States. Any country imports of autos or auto parts at 25%. Then 25% on steel and aluminum from all countries. And then the part that really got to markets is what they positioned as a reciprocal tariff. If you're taring us, we're gonna tariff you.

And that the, that basically it was trying to build fairness that other countries are ripping us off and now we're gonna do the same thing to them. President Trump actually said, in fact, we're gonna be nice and only do 50% of the amount. But then they held up a poster board and published on the USTR government website and sent to the media what the breakdowns were.

It took about five minutes for us to calculate that it was not in any way, shape or form based on what other countries were taring us. They said, here's the tariff rate they have, and then put in parentheses that it was also including currency manipulation and trade barriers. Okay, well that's not very easily measurable, but what was measurable is how they did it.

Which is they just took the size of their trade deficit in goods and divided it by how much we import from them, which is another way of saying how much they export to us. So more or less, it wasn't based at all on the fairness of the trade deals or alleged fairness of trade deals. It was on the assumption that any country who is selling us more than buying from us must be ripping us off.

And that led to some utterly stunning results, like countries with very, very low tariffs on us, if any, like Switzerland has virtually no tariffs on us now all of a sudden getting a higher tariff rate than the rest of the European Union just because they happen to sell us a lot of things. South Korea has less than a 1% tariff rate for us getting pummeled.

Vietnam was listed as one of the highest. In the White House chart. And yet, because they sell us so much more than they buy from us for such obvious reasons, it shows them as having a 90% tariff rate on us. But again, that wasn't based on their actual tariff rate, it's just based on dividing the trade deficit.

And I wanna be clear, this trade deficit's only on goods. So you, we say, why does that matter? That's what we're talking about. They sell us stuff, we sell them stuff, we sell more services to the rest of the world than anybody in the world, and they're not including services in the equation, only goods.

And so it's very, very distorted and led to what looks like will be a violent level of tariff, impositions far worse than the market could have expected. So the quote that is from the White House, the tariffs by Country number has been calculated by the Council of Economic Advisors.

The model they use is based on the concept that the trade deficit that we have with any given country is the sum of all unfair trade practices, the sum of all cheating. It's, it's just factually untrue. So this is equating to, according to the White House intention, to put a 34% tariff on Chinese imports.

A 24% tariff on Japanese imports, 20% on European. So what really happened at tank markets is a worse than expected outcome, combined with no real clarity that there continues to be, and I quote full presidential discretion for modification, exactly what I predicted at Dividend Cafe last week, that we weren't gonna know anything.

We know they intend to do something worse than expected, and we don't even really know where they're gonna go from there. Now you say, okay, but it seems pretty clear. Let's just take it all at face value. Secretary Besson, treasury, secretary United States, just met in treasury department two weeks ago. He said, today in the news, let's see where this goes.

Does, let's see where it goes. Sound like specific clarity does not. Let's assume all these tariffs went through. Based on current trade levels, it equates to over $400 billion. The number could be based on certain variables and other I'm trying to be generous. Other knob turning 600 billion at 400 billion.

That is 1.3% of GDP 600 billion. You're obviously now looking into something close to 2% of GDP. Absolute recession. If this were to go through at that level, that kind of a cost to the economy, this is more than 10 times what the 2018 tariffs were. Therefore, anytime you hear comparisons around inflation or interest rates or what happened to the stock market or what happened to economic growth, it's insane to compare 2018 levels to what they're talking about here.

Just as a matter of basic taxation, this would be the largest tax increase since 1968. The economic implications more than just where that we are at a base level, a very, very high imposition of cost, not really rooted to reciprocity and the ongoing uncertainty of everything. That's the market concerns economically.

The most obvious thing I've been talking about it for some time is that global trade is going to certainly contract substantially, if not freeze, and out of that capital goods and investments will. Be significantly hampered. The dollar trade weighted DXY against a basket currencies was down 1.6% on Thursday.

Today as I'm sitting here recording you see significant depreciation in US dollar, and then I would add the way it's being done. Where as you know, the constitution says Congress gets to impose taxes and pass legislation for tax. Having this done from the executive branch, it adds a risk. Premia in, in the legal side.

This sort of imperialistic imposition of a tax be it adds uncertainty 'cause it will get challenged in the court system. And then you have to question where else they would look to supersede. The constitutional limit. So the thing I want to read to you real quick about economic impact came from someone, I'm not going to share their name, but I'm reading word for word.

An email I got after our daily blurb from Dividend Cafe yesterday. As a business owner and a majority US manufacturer who is an exporter at that, our estimate right now is a direct cost of about 10% of revenue only taking into account direct cost, not run on effect of suppression of the industry economy as a whole, loss sales due to retaliatory tariffs, other things that are already happening.

We run 15% net margins on a good year. Devastating does not begin to describe the effect we will mitigate, but it will be very expensive in its own right. When I asked if I had permission to read some of what he said, but not giving any name attribution, he responded, of course. And then he said, I employ 40 people is a small business.

We 60% export and about 60% of our cost of goods sold. We manufacture in-house or purchased domestically. This is a small business talking about a devastating impact. I will tell you that I'm hearing this all day from businesses different sizes. There is and if you think I'm hearing it from the amount of people in my orbit, you can't even imagine what they're hearing at the White House.

So you have a significant economic impact. You have the market impact around all the things we talked about. And then the question is, where is this going? And all I can say to you about that is not, don't worry, he's just bluffing. As I've said to begin with, there was always left tail risk that this goes to full trade war.

There was always right tail risk. It all gets blown away. There's all kinds of upside. In the meantime, cyclicals are getting hammered. The financials, techno what is happening in technology and consumer discretionary is brutal. They're the most directly impacted by tariffs. But then when you see the impact in industrials, financials to lesser degree energy, that's the cyclical side of just assumptions of deteriorated economic growth.

Then where you've had relative strength is in the defensives particularly utilities, consumer staples and healthcare that are less impacted. Countries have time to negotiate that would, in a way that would give the president an off ramp. He wants to announce deals, headlines, appearances of victory.

I'll save myself and my team. The trouble of having to go it's just easier if I don't say the name of the company right now for our internal purposes. But there was a company that he announced in his presser on April 2nd that he was saying, based on what we're doing to try to do all this such and such company as announced $55 billion of domestic investment they're gonna do in the United States.

Indeed they have. That's 55 billion. It's a company we own in our portfolio that I've studied and known backwards and forwards for over 20 years, and they've done over 40 billion in domestic investment over the last four years, and they announced 55 billion over the next four. Basically the same thing they've been doing with a little add-on over four years, and that was announced as his big success of what he's referring to.

They're trying to get to. I saw that and still believe that with the pending recessionary possibilities of what's going on, the damage in markets and the vulnerabilities that are being unleashed by a lot of this chaos, that there is an opportunity to find an off ramp. And that Offramp would come in the form of saying, this country agreed to drop tariffs.

And this country agreed to do this by positioning it around reciprocity. When most of these countries aren't even doing the things that are listed on the sheet, it gives all kinds of opportunity to say, look, we got a success. Doesn't have to be real. It doesn't have to be substantial. Now, many are saying, at what point do you want to just take him at his word?

He is gonna go forward and do it. And I'm not suggesting he won't. I'm suggesting that there is a complete lack of clarity and that you also don't know what he would do if he does do it after some of the impact is seen after certain CPI numbers, if they were to indicate higher prices, things like that.

So trying to say, because this is gonna happen. I have this 30 day plan in markets, or 90 day plan, or I want to get out of investments, come back in, or the economy's gonna do this. It's utterly crazy. There's no possible way to gain that out. And again, at this point, markets have begun to significantly price in a lot of things.

So my view of it continues to be that there is absolutely no specific clarity to the left tail risk, or certainly not right tail risk. Upside or downside, bad or good. That right now the assumption baseline is for things that will be contractionary to the economy. Obviously the markets do not like that are particularly felt in a negative way in various sectors and that there is so many ways in which he could end this.

And you ask me to bet that it won't end, I won't place it. You asked me to bet that it will end, I won't place it. This is the uncertainty of markets that market investors sign up for. There the vast majority of people that are so sure he will do this or won't do that are people that are very much centering that expectation around their preconceived view of what they believe either negatively or positively.

I'm just simply not doing that. I think that this is bad economic policy. I think it's very clear. I believe that people are welcome to disagree with me. I have been unbelievably supportive of certain elements of the administration's economic policy. This is an area, a pretty big area that I'm not, but I will tell you that I also believe that I have a reasonable view.

The things that drive President Trump and what really animates him and motivates him, and it's so easy for me to see him being able to find a way to claim victory, to unwind it. That doesn't mean he will. There's downside risk from where we are. There's upside risk. And this is the most unfortunate element where we are not just that things were announced were as basically a worse outcome than expected on Wednesday, April 2nd, his version of liberation day.

But rather that the uncertainty persists along with the bad news. Bad news with certainty is better than no news, with uncertainty or even bad news. With uncertainty. We got the worst of all of it. And that's what you saw in markets on Thursday. So where we go from here is gonna be a job for us to continue navigating through.

I can most certainly assure you we're up for that task and look forward to continuing to communicate with you in the Dividend Cafe about what we're seeing in this Trump 2.0 administration and their current initial shots in global trade war. With all that said, reach out with questions.

We'll be heavily communicating with you on this subject. Happy 10 year anniversary to my team, to all the partners and employees and team members of The Bahnsen Group, and happy anniversary to all of you who have been with us on this journey as our clients and friends. I cannot possibly tell you how wonderful the last 10 years has been.

And how wonderful the next 10 are going to be. Thank you as always for watching reading and listening to the Dividend Cafe.