FRIDAY, APRIL 11, 2025

Hello and welcome to this Friday's Dividend Cafe. It has been another historical week, and I'm gonna get right into it because there's a lot to talk about and what I really wanted to do today was just get into a refresher of how we handle severe market volatility, how to think about these moments in which markets are very quickly, very violently and very uncertainly changed in terms of the ending downside volatility. Last Thursday, April the third, last Friday, April the fourth, you saw a significant four digit declines in markets in the aftermath of the Trump administration's trade announcements. And then on Monday we went down further. It wasn't four digits, so it was a few hundred points, Tuesday, again, a few hundred points. The overnight action Tuesday going into Wednesday looked like another four digit decline. So I wanted to do a Dividend Cafe about that moment of a bottomless feeling in markets. And when, you know, the S&P was down over 20%, the Nasdaq down over 25% in a reasonably short period of time.

It wasn't like it was a, a multi month, multi quarter, let alone couple year recession, then markets go down that amount, but it's over a longer period of time. You think about 2000 to 2002, you think about 1973, ‘74, think about 2007 and ’08, there are these periods of economic decline where markets drop a lot over a long period of time. But this was more like the week after 9/11, the week of tarp failing the week of, the, well, the month of the covid moment five years ago, where you have significant double digit decline in a matter of days, not months, quarters, years. And those moments, I have a lot to say about.

I'm gonna address some of it today and let me just get this part outta the way. Things like the VIX. You say what is a, what's the VIX? Well, it's a real thing. It's a term that they call the fear index. That measures the level of volatility that is bought in the options market on a real exchange. And it represents, you know, a very significant amount, highly liquid financial price mechanism.

And it may be a complicated product to people, but it is a very real simple measurement of elevated fear in the market. And we can look forward to how markets have done a year after the VIX gets this high. To five years, you know, of all the periods where the VIX ever closed a week above 45, going back, you know, 30 something years, there's no period where five years later the market wasn't up over a hundred percent.

And one year later, the market's being up, 18% or more. So that doesn't mean it will happen this time. It does mean that that elevated level of fear goes in hand with a very low level of, market pricing would effectively, with the gift of hindsight, ends up having represented a very attractive entry point.

Now, that doesn't mean. That feels good at the time, but history should inform us about what is really playing out. When things get this bad in the present tense, they're bad and in the future tense, they're not. And you say, well, that asses it won't be different this time. And you're right, it does everything that you can think of that it makes sense of your life.

And this world all depends on it not being different this time. So, I don't mean to go on and on about the reality of how it isn't different this time and the Sur John Templeton's words still apply, that those are the most expensive words in investor history, to believe that it will be different this time.

I recognize that we do not know when this whole situation is exactly gonna end. I think we got a little more clarity this week. We very candidly, very candidly got affirmation this week of what I alluded to last week, and I'm gonna unpack all that for you here today in the Dividend Cafe.

The downside extreme volatility continued into Wednesday of this week, and after those four days I just mentioned of sell off, we were down a thousand points in futures. We were down in the real life market, after trading, actually outside futures in the cash market we're down 700 points. When President Trump announced that lo and behold we're gonna do a 90 day pause on all those tariffs he'd announced with all those other countries that were not named China.

So from Switzerland to Vietnam, to South Korea, to India, to et cetera, et cetera, all over the world. Many of the tariffs that just shocked markets 'cause they were not reciprocal, they were not based on what those countries were, taring us, that , all of that threat was now being sidelined. And that they were gonna be on hold for 90 days and markets rallied, 3,400 points from down 700 to up 2700, 1 of the most violent.

And it was all, it was about 10:30 Pacific Times in about two and a half hours. You saw this kind of, upside in prices. What exactly caused the president to reverse course? Well, I don't think it's particularly profound, it was not planned, it was not part of the premeditated strategic thinking. He was very clear about that, that, you know, he, he saw how yippy were his, was his word. I don't know exactly what, what that adjective means. Queasy. I do know what that word means. And those were a couple of the words he used to describe what was happening. You know, what I will tell you is it's not entirely about the stock market. I've written before about the, the Trump market put, but I think that, the bond market and the dollar are very important factors here.

And I think that the bond market, we're gonna talk about in a moment what was going on there, but overall financial markets, and just essentially some advisors saying this disruption in financial markets is going to be a severe. Tension into the economy. And that was the advice that a few folks were giving different than the advice a couple other folks were giving, which was a, it won't be that bad.

Well, it turned out to be that bad, and B, who cares if it is? Well, it turns out the president cares. So in a sense, you could argue that this was Treasury Secretary Bessent. Winning out over trade advisor Pete Navarro. Now Pete Navarro is still there. I think he does appear he is been marginalized. Secretary Beson had been marginalized in the couple weeks before and he seems to be given a higher profile right now, I do not find myself in agreement with everything Secretary Bessent is saying these days, but I very much understand that he has a really, really weird job right now. I give him grace and some of the things that need to be said in this moment, whether you think I should give him grace or not, I guess that that's your, your, you know, right. But I will tell you that for the vantage point of investors in financial markets, secretary Bessent's View is more market friendly, and him being in a position of enhanced portfolio with the president versus trade advisor, Pete Navarro, and for that matter, Commerce Secretary Lutnick, Howard Lutnick, I think is a good thing and that was not the case until this week. And so I don't wanna overstate it. I think a lot of the media is overstating this because what I think people sometimes forget is it can reverse very quickly. I've observed these things in Trump world personnel for 10 years, going back to the 2015 campaign all the way through the first term.

Subsequent campaigns and, and, and advisors and people around that there is a certain uncertainty that is always present. So I don't wanna overthink or overstate any of it, but right now I believe there's been at least a downward tick in the stock of Pete Navarro. I think that's a clever little play there and an upward tick in the stock of Secretary Beseent. Now, when I mentioned the bond market playing into it this week, treasury yields originally had collapsed, last late last week because the expectations for economic growth were catastrophic. So as growth expectations dropped, bond yields dropped. That reversed Monday and Tuesday, especially Tuesday night, going into Wednesday where all of a sudden, while the tenure had gone from about 4.2 to 3.8, it was now back up at four, five, and even, even as I'm sitting here recording now, it's spent most of the day to day right around four five, which is exactly where it is right now. I. mortgage rates have surged higher as a result of bond yields moving higher.

But you say, why in the world with expectations of economic growth, deteriorating all the data, all the metrics, all the forecast, our downward growth, why would bond yields be moving higher? There are two explanations, and the first one is what is largely missed, which is, is absolutely a part of global de-leveraging that just as higher quality stocks started selling off, at the later portion of this market route, because you get done, you've sold off as much of the, the high valuation as you can. There's still margin calls, there's still a need to raise cash. There's overly levered players, whether it's hedge funds, risk parity, you know, sovereign wealth, needing to raise money, sovereign wealth, looking to to sell off US-based assets.

All of those things are factors, but I think margin de-leveraging is the low hanging fruit. And, and that was the first 20 to 30 basis points. But then right now, when you look at the Canadian dollar, the yen, the euro all rallying against the US dollar. I don't have any doubt that foreigners are selling treasuries.

I don't know how long that will continue. I don't believe it is totally weaponized, but I think it speaks to a certain instability in financial markets. And I don't know very many people. That understand this dynamic better than Secretary Bessent, and I do suspect he got through to President Trump about this being a very unacceptable outcome, if this disruption goes just not just from the stock market, which is still bad enough, but into the bond market, into, the foreign exchange markets, and, and you're not really supposed to see in a risk off route, the dollar. Go down, people fled, flee to the dollar. So there is other activity that I think next week is gonna be far more important than this week in giving us more clarity, let me just set up this issue so we can move on. The, the bond market activity this week was a de-levering activity that was taking place globally. there is risk that is picked up, the preliminary indicators. That indicates something else stewing. And I think we're gonna need more time because when growth expectations are dropping, bond yields rising, we're gonna want more clarity as to what's causing that contradiction.

So are they gonna take the next 90 days to do years of work with 70, 75 countries? Look, I am gonna be very happy. At any announcements of improved trade deals, of any reduction of impairment impediment to trade. So if we get lower tariffs from other countries and we lower our tariffs, that's what I like. Do I think a lot of these announcements are gonna be just simply renouncing low tariffs that already existed, that there's gonna be other commitments of purchases and things that are not totally enforceable or worked out or have all the clarity and and sophistication behind them because those things take a long time to do so.

In other words, do I think some of these announcements are gonna be hyperbole? Some of 'em substantive. That's kind of what I think. I don't, I don't say that critically because politicians do hyperbole. They do exaggeration. This one does it a lot, and that's not a big surprise. But my point is that the separation of these things politically is very important because there's a lot more political acceptability to go have a hard line process with China than there was with Switzerland and Korea. Countries from South America that sell us coffee. Now, why they poison that well by polluting it all together is not the focus on Dividend Cafe. I save those important, comments for other fors. I suppose. I do not lack opinions on the matter, but my point is that from a investor standpoint, I think you got a lot of clarity this week on the fact.

That there will be these off ramps on these other trade deals, but there could certainly be spikes in volatility along the way. Some country gets a little mouthy and and has to be announced. Okay, we're going back to other tariffs there. I I, I wouldn't rule any of that stuff out, but we know that the general direction here is to extract some positives and wins in some cases substantive, in other cases, cosmetic.

With all these countries not named China, and that puts the big focus on China where all the talk about, well, they need us or we need them, is just simply ridiculous. They both need each other. This the, you could say a hundred percent, 150%, I think we're right now 150 and they're at 125 or so or something, 145 and 125. All of it's the same as zero. 'cause no one's gonna trade at tariff prices that high. So they have to go, now hammer this stuff out and they have to do it quickly. Because when you're at zero trade, it's not that prices are gonna go higher, it's that you're not gonna have product on shelves.

And there is not gonna be like, okay, well we gotta start building all this stuff in the next two weeks. Okay, not going to happen. So what exactly is going to be the negotiated process of China? I have absolutely no idea. Therefore, I expect an ongoing elevated volatility. the longer term is the administration's objective, some form of incremental decoupling.

Well, I think it ought to be some form of incremental decoupling it, it should be urgent decoupling around matters of national security. It's just the, the well is so poisoned right now from the other trade processes that were threatened that it's very difficult to say how it's gonna play out.

China's dug in their heels. They do not believe that they need the US one. US needs them in the sense that they are not a democratic form of government. They don't have reelections and they have a history of putting their people through a lot of economic pain. Americans have absolutely no tolerance for economic pain.

And so that's the issue we have to deal with through this uncertainty, through this volatility, what to expect of tariffs, what to expect, of, of dividends, from tariffs, impact. This is where I want to close up with a very important statement about dividend growth investing. I do not believe that the global financial crisis was a smaller event.

To the cash flows and earnings of companies than this trade war. I think this trade war is a huge deal, and I happen to believe most of it's a largely unforced error, the Covid moment, 9/11, and you can go back a lot longer. If your portfolio of growing dividends has persevered through those aforementioned incidents, this trade war is not going to impact your ability to sustainably grow dividends, to give you a raise, to give you sustainability of needed cash flow as an income investor, and to give you opportunities to buy more shares and reinvest dividends at lower prices.

If you're an acculator, there are two types of investors and both benefit. With dividend growth in down markets, it just doesn't always feel like it's psychologically, and that psychological term is what I'm encouraging us to do in our understanding of what's driving the president, why he wants off-ramps, why he wants victories, why he wants announcements, versus some of the things you hear out of the mouth of, let's say his advisor, Pete Navarro, and to understand the psychology of you as an investor.

The psychology of markets, which is a collection of millions and billions of investors, and dollars and capital, and decisions and risk reward trade-offs. In this underlying psychology, there is fear that forces prices lower. There's opportunity that buys those lower prices, and they're dividend growth investors.

Trying to mute the edges of that process as much as they can. To that end, we work at The Bahnsen Group. Thank you for listening. Thank you for watching. And thank you for reading the Dividend Cafe in this historical week, and we'll be right there with you, our hands on the wheel next week. Thanks again for watching and listening to the Dividend Cafe.