FRIDAY, APRIL 18, 2025

Hello and welcome to this Good Friday Dividend Cafe. Markets are closed on Good Friday. Both stock and bond and banking markets all set for the Easter weekend. I wanted to keep this Dividend Cafe a little shorter than it's been lately. I think it is shorter than it's been lately, but it still ended up being a little longer than I intended. But that's just 'cause there's a lot going on out there. And rather than have a kind of single Dividend Cafe going exhaustively through one topic, I'm gonna jump around a little bit to cover some of the different aspects of where I think. We stand right now and it's not that it's disconnected from tariffs.

All of these things are essentially tariff oriented or tariff adjacent, but where the bond market stands as a result of things. This the update of where things are with China the US dollar. I just want to cover all these different things 'cause there's a lot of talk, there's a lot of chatter in the media, and investors understandably have questions and I want to address some of those things.

Give the right perspective as we come through another. A volatile week in markets to get a feel for where we stand. First and foremost I wanna address this issue. I talked about it a little bit last Monday, and I think we got much more validation as to where I'm coming from on the issue related to the US bond market.

A week ago, the big buzz was around this idea that the foreign countries, particularly China, were likely weaponizing their holdings. Of the bond market to affect their own kind of policy retaliation. And the theory was they own so much of our debt that they're using it to drive up interest rates and create all kinds of problems.

I put a chart in Dividend Cafe just showing you how for several years the window of where the 10 year bond yield has been is very, really quite tight. It's been a couple times it got up near 5%. There's been a couple times it got right below 4%, but it's really spent the lion's share of the last three years, almost between four and 4.5%. A reasonably tight range that has a pretty good connectivity. Two nominal GDP expectations where inflation was, and then real growth. And that's about the math, the where you'd expect the 10 year yield to be. And it can fluctuate 20 basis points here, 50 basis points there. But what happened is. Last week, the 10 year jumped all the way to 4.5, right in the range.

It was a few weeks ago, let alone over from most of the time over the last several years. But because it had been down a little that in the immediate aftermath of the trade war the idea that it moved higher. Started all this chatter. One of the things that I did is not only look at the historical bandwidth and provide all that chart for you, but my friends at Strategas research went through and evaluated the treasury the long bond and its price movements all year over the last several months.

The fact of matter is that it is up, meaning yields down, prices up 3.9% in overnight market activity. It's down, meaning yields up prices down during US market hours. So 3.9% up overnight, 2.7% down in market hours. I'm sorry, but that's not foreign actors. Driving bond prices lower in bond yields higher, and then again, in fact, we had a couple days of bond yields up last week, but since then, it's moderated and in fact come lower.

And as we sit here now it's closed at 4.3%. And that's with the bond market closing a little early today on Monday, Thursday, and closed all day tomorrow. So you have some traders that put certain positions on that might be unconventional going into long weekend. I would get this idea outta your mind.

China owns about a trillion dollars of 36 trillion of us sovereign debt. We have a lot of issues. That affect our bond yields economic growth inflation. There's nobody on earth that hurts more than China by trying to weaken our bond market. It has the exact opposite effect of what they need for their own currency.

And so the irony of, Steve Morran, treasury Secretary Bessent, and other policy makers saying we need to do something about China weakening their currency, strengthening dollar, which is they're accusing them of currency manipulation, and I'm not even saying they're not doing it. What I'm saying is by them trying to weaken our bond market, it strengthens their currency, weakens US dollar.

So they'd be operating in that scenario in the exact opposite of what they're being accused of. So this just, for whatever reason, this incoherence bothers me, but what is most important to me, besides my own little pet peeves about coherent narratives of economic matters is I want investors, and especially clients of ours to understand what's going on.

I wanna talk for a moment about the the human nature of tariffs and particularly. The announcement over the last weekend from the Trump administration that they were gonna put a waiver on the computer industry, the smartphone industry semiconductors as it pertains to these Chinese imports. And that maybe something would change later, but right now they're carved out.

A lot of people have said this is outrageous. It's benefiting the big Tim Cook was the CEO of Apple had been at the White House. There was concern that there were these biases and whatnot. And look, I don't have a lot of good things to say about it, but I do wanna make very clear it's total human nature that people in a policy like this would want to receive waivers, carve outs, exemptions.

The difference is, most policy, you can't do that because it's been congressionally passed. This is, we've given a carte blanche discretionary policy to the executive branch, so the executive branch, without specificity, without binding, force, without clarity, there's wiggle room. So naturally people operating their own self-interest want that wiggle room.

And it just so happens that there's a lot more resources with multi-trillion dollar mega cap tech companies. But every small business I've talked to that's getting pummeled by these tariffs. So the threats to tariffs or uncertainty or tariffs, they would like exemptions and carve outs too.

They just lack the resources to know how to do it or to be able to do it. They lack that reach, and that's just a byproduct of why some of us favor tax policies that are much broad based and less discretionary. But what you can't change is human nature and this is a policy approach that lends itself to extracting this type of response.

A quick comment on valuation, which you might recall before the trade war began, was probably the biggest theme I had in markets in the first couple months of 2025 and something I talked about plenty in 2024. And now all the talk is tariff all the time. This week we got a little Fed talk, so that's always fun to bring that animal back around a little.

You never wanna be totally monolithic, like why? I have one hobby horse, and you can have two, but the valuation story is hardly gone either. Look, the largest cap companies are the largest valuation. They have come down in the market, sell off from 31 times forward earnings blended to 26 times.

The overall S&P 500 went from 22 times forward earnings to 19 and a half times. So nothing exactly got cheap, but everything got a tiny bit cheaper. The biggest drops were in the most expensive things, which is an argument I've made forever and same as it ever was. That the most vulnerable are the things that are most overpriced.

That's not rocket science. But the only thing I wanna say is when people say has it gotten cheaper? We're now 26 times forward on a PTE basis, a price to earnings ratio. The problem is your E that is all still using the same forward expectation for earnings. And maybe those things will hold.

There is a lot of vulnerability around where those earnings will go going forward, and I'm not sure that right now we have a PE because I'm not sure we have a lot of clarity on the E, so I want to continue making that point on valuation. We can spend the bulk of our time today talking about China.

I'll make a few comments. There hasn't been a phone call yet between President Xi, president Trump. I believe a call will end up taking place. There's G7and G20 things out there, and there's, already the exceptions, aforementioned exemption exceptions that have been done on a lot of the export products that matter most to Americans.

But there's a lot of companies that are getting hammered. China has a certain ability to reroute some of their exports through Vietnam and other countries and try to work around the tariffs that way. And it's not clear to me that the US has anywhere near an enforcement mechanism or the resources to deal with that.

So that may be part of how China tries to get around it, but there's just a general lack of clarity as to where this is gonna go, and I'm very skeptical. Anyone that's telling me. Where it's gonna go. And I want you to be skeptical of anyone telling you where it's gonna go. I am quite confident that nobody knows.

I continue to believe the most likely outcome without me putting a timeline on it, as they'll end up being some sort of a deal. And that deal will be a little while out. And that deal will be probably in substance much less than people think it'll be. But when I hear people say. Look, the stuff with China, at least now we've isolated it.

I think that the 70 other countries or 90 other countries, whatever it is, that's gonna be a part of that other trade deals going on. I think we have to remember that it's very possible that the US weakened its own hand by the problems with the other countries that are now allegedly in discussions.

And certain things are gonna get announced and other deals will get worked out. But had that been done first and then the escalation with China it would've probably created a little bit more leverage. But the issue right now is that there doesn't seem to be a straight answer, both in my own inbox from folks, but just in terms of within the administration from folks, but just workers is our goal to defend us is our goal.

Human rights. I still don't really understand why a tariff would be an acceptable way to deal with human rights. If we get paid, then violations of human rights become okay. Or if we have critical infrastructure needs that we're reliant on China and our supply chain for, and then, but if we get paid a tariff on the import, then it's okay.

My view would be having a quick and accelerated and aggressive policy to take control of our own national security pertinent supply chain, and not along the way putting. Chocolate from Switzerland or coffee from South America, or t-shirts from Vietnam, or widgets from China in the same bucket as national security.

And so I still think that we can't really speculate where things are gonna go with China because it's not real clear what the actual policy objective is. My pragmatic view, meaning speaking for what I think the pragmatic objective of the administration is to get to point of a deal. But all this discussion on who has more leverage.

I really suspect it's asking the wrong question. Both countries desperately need this to end. China we are something in the range of 13 or 14% of China's exports. That's a big number, and especially when you put a dollar on it around $500 billion. That's a lot. It's not existential. You, most companies could survive without eight, with 86% of their business.

You don't want to. But it's not something China wants to happen, and certainly the US does not want to go without $500 billion of these goods or does not want the cost increases that would come about from getting 'em from other places or having to go stand up new facilities, many of which just simply can't be stood up for a long time.

So both countries are in a position of this hurting, but I don't think the question is who needs who more as who has a higher pain tolerance? And I don't really think most Americans wanna hear the answer to that. I do not think the answer is, America ha having a higher pain tolerance than China on this.

We'll see, China is a very vulnerable position. They're in a deflationary economic position. You'll see in my chart of the week at DividendCafe.com that the property sector continues to be collapsing, and that's offsetting a lot of what's happening. But with exports, imports, other categories in their economy.

Their retail sales, their overall infrastructure, all those things are positively growing, but it's being offset by the deflationary, implosion of the property sector and asset bubble bursting. No one's in a great position with all this. But as far as where I think it's gonna go I have no idea.

And I think that a currency deal. Along with various trade protections is still probably the administration's objective. I just, I don't see it being able to happen very quickly. Okay. What else do we wanna talk about today? I think when you look at the uncertainty of where things stand with these other countries, we're negotiating with the upside possibility.

You get some good announcements, the upside possibility, you get some. Announcements that sound good but maybe aren't as good, the upside possibility of a currency arrangement, that put some curbs in place around currency manipulation from foreign countries. The downside risk of re poking the bear on the trade war with 70 other countries.

The upside and downside risk on a lot of these economic matters. Could we tip in recession downside? Could we avoid recession upside? I don't know answers to any of those questions. And I'm studying all of it. I'm looking for hints. I'm looking for projections. I'm doing analysis, but there's nothing that is readily available to be able to predict how those various components, all of which are somewhat important in the next six weeks, six months are known.

What I do know is that one of the lowest hanging fruits available to impact economic growth positively on the policy front. Would be the passage of the administration's tax objectives, and more than that, than just avoiding a $400 billion tax increase. Keep in mind, if you avoid it, you've done nothing stimulative.

You're still in exact status quo. These are $400 billion annually of taxes. Of taxes that are not being paid right now, but are set to kick up going into next year. If you just simply extend the Trump tax cuts. Which has to get done. Otherwise, you have significant economic contraction if nothing gets done, but that I have no reason to believe at all.

Markets respond positively because I think that's been baked in for quite some time, at least since the election results were known. In order of priority, I'd suggest that the administration would like to supplement the extension of the Trump tax cut the 2017 Trump tax cuts with no tax on tips. With a lifting of the salt deduction cap with incentives for domestic production, which was not necessarily a big campaign speech, but I do believe is a high priority for the treasury department.

Fourth, no tax on overtime. Fifth, no tax on social security. What I would say is that the fifth is just simply almost impossible to see happening from a mathematical standpoint and political economic legislative priority. No tax on overtime is gonna be difficult. Maybe something fits in there, but I think the incentive for domestic production and then some higher salt cap and then no tax on tips just because of the political necessity.

Those are more realistic things. I believe bonus depreciation will come back a hundred percent expensing on capital equipment. I think that will work its way in the final bill and I think it'll be an underappreciated part. But this all assumes we get a final bill. Just continuing to move through. The sausage making of this legislation and budget reconciliation process.

At this point, it goes to committees, then it goes to budget committee, then it goes to Final House, final Senate, and that might have to be conferenced there for ultimate reconciliation, but then if it gets passed, it goes to President's desk. All of this could happen by Memorial Day. All of it could fall apart by Memorial Day.

All of it could still be on track to happen, but not done by Memorial Day. It may take more time and push it into summer. This part I know for all the economic damage I believe is currently being done. There is economic upside on getting this through, and this is moving along. It is not a FTA accompli, but I can't emphasize enough that with all the uncertainty being fostered on the tariff side, if you do get some of these other things done, there is now, and again, they wanna try to use tariff revenue to help fund some of it.

I don't know how that's gonna work. CBO can't score it. The president suspended a bunch of the dividends, and then they say we have 600 billion coming in from tariffs, but then most of those are waived. And also they weren't passed by Congress, so they could go away at any time. So I don't know if it's going to give Congress ability to try to pencil it in or not, but it can't get scored with the CBO.

So I just think that there's a lot of work to be done there, but there is still a chance that this gets done by Memorial Day and that becomes a big boost and I need to keep that out front and center. So that's where we are right now. I encourage people to. Look at Dividend Cafe dot com for a little understanding of where our charts are this week.

Just seeing, the things we wanna highlight and also just a deeper understanding of the dollar. The DXY is basically the US dollar versus a basket of trade weighted currencies. It's down about 3%. In the last, few weeks it was up a little bit this week when people talk about the dollar crashing with all this it's up 10% from where it was for most of the last decade.

It's up much more than that from where it was for the whole decade before that. So you just get an incredible amount of melodrama around the dollar that's factually inaccurate. This is a big story to me. The notion of the dollar losing reserve status, it continues to require someone to tell you who is gonna take it, and there's no answer to that question.

Do I think there's certain sectors that are gonna benefit from a relative dollar weakness? There? There is. It's not a secret. It's those that export. So multinationals. But trying to guess where the dollar is headed. And you're talking about very marginal movements up or down. That is not something I recommend trying to incorporate into your investment thesis right now.

So I wanna leave Dividend Cafe with that and let you go, enjoy your Easter weekend. Happy Good Friday. Reach out with any questions at any time, questions@thebahnsengroup.com. I've enjoyed most of the correspondence I've gotten, and I welcome all of it. Even if you're in disagreement with me, doesn't hurt my feelings even a little bit.

I appreciate the interactions and I am here to do my very best with our Dividend Cafe format to provide useful information. And we are extremely engaged on behalf of our clients right now, the way that we ought to be. And with that, we're gonna go into Easter weekend. I will be in Dallas, first part of next week, and then Orange County at the end of the week.

And look forward to lots and lots of meetings next week. Thank you for listening. Thank you for watching. Thank you for reading the Dividend Cafe. Happy Easter.