FRIDAY, MAY 9, 2025

Well, hello and welcome to this Friday's Dividend Cafe. I am back in New York City where it is storming outside. But it wasn't really storming in markets this week. It was actually, as far as these things go compared to past weeks, a reasonably boring week, which is not to say it was boring in terms of new cycle and events and things that are definitely relevant to markets, but just the markets have not had huge up and down movements and certainly not compared to what we've been used to.

So some may take that as a welcome reprieve. We'll conclude today's Dividend Cafe with some thoughts on why I think the tug of war between a better outcome for markets and a worse outcome for markets as distinct possibilities continues. But what I really wanna do is just jump around a little bit across some of the bigger events that are relevant this week in markets and, then, tee up what I'm planning on doing in next week's Dividend Cafe, which I'm already kind of excited about as far as this week goes.

On Thursday, the president via speaker phone announcement, basically announced that the, deal with UK, this trade deal with the United Kingdom is done. And so it's a framework of a deal, the question is whether or not it's a sneak preview of more things to come. What we do know, allegedly is that the 25% tariff on steel and aluminum imports is going away. The 25% tariff on auto is going down to 10%. They're agreeing to buy a bunch of agricultural, chemical industrial products, and we're agreeing to buy a fair amount of, automotive, imports, particularly from one, major British company.

And so the question I guess we have is whether or not, I mean I think that that framework probably is going to be somewhat applicable. Not really big needle moving things, but some, you know, the issues that will kind of make a press release. When all said and done, the challenge though in saying like, okay, this is what we're going to get with India.

This is what we're gonna get with Korea, South Korea is we run a trade surplus with the UK and President Trump has been saying for a long time that all these countries that run a trade surplus with us are ripping us off, that we have a trade deficit with them and we're getting ripped off. And so in the case of the UK, I doubt any that they would follow the logic through of that and say, oh, we're ripping the UK off.

But the point being that the kind of starting point is different enough that I'm not sure that whole issue makes for a very good model on how the rest of it is going to play out with other countries. But we're gonna see, I still would like to understand this deal itself better, and unfortunately a couple tweets and a speaker phone call.

Don't really give me the meat on the bone I'm looking for. So I'll have more details when they announce more details, which may not be for a couple weeks. Here's where there is a bit more detail coming, although it's still most certainly not announced 'cause it's not even close to being legislation ready.

But I do want to share as it pertains to this budget reconciliation, tax bill potential. That while the size of the tax cuts, the nature of the extension of the original Trump tax cuts, the amount of spending, cuts that have to go therein with this whole thing to make it reconcile to a budget, that while all of those things are still, to be determined, the fact of the matter is that they can get a hundred percent expensing for capital equipment, no depreciation schedules, you know, just I think a very big story in terms of the incentive it produces for, supply side growth, r and d expensing, dollar for dollar at the time of the expenditure. Interest expense deductibility up to 30% of EBITDA and more favorable rules around small business expensing.

I'll get way into the weeds if I get into that. Well, I am hearing that this is teed up to be part of things, and you go, okay, well wait a second. How are they fitting this into budget reconciliation? When all these other bigger issues that are more important to President Trump and bigger campaign promises and much more substantive, in terms of their size and expense are not necessarily yet fitting in salt cap increase, obviously no tax on tips, not to mention the 2017 tax cut extensions. The reason is everything I just said, which are actually things I most care about. I have already been scored by the Congressional Budget Office. I. They've already been scored at a $0 impact over 10 years. The house passed this bill in 2024.

The Senate never took it up, so it didn't become law. But those components I just, listed with the various pay fors that are included came out to actually a slight reduction in deficit over 10 years. That part is not that politically problematic, and yet I think much more on the supply side as far as pro-growth, a more, substantial part of what could be in the cards. Okay. So we know that Treasury Secretary Bess and US Trade Representative Jameson Greer are in. Switzerland this weekend and are scheduled to meet with Chinese Vice Premier, he, the thing who is their sort of delegated trade and economic representative for the, the matters at hand, obviously an eventual meeting with President Trump himself and President Xi. Is the highest level. But what I had been concerned about is that the initial meetings would be with such junior level people on both sides, that they'd be almost meaningless in being able to extract anything. I don't know what's gonna come of the meeting.

I don't know if it's gonna be a handshake where we say, let's agree that we're gonna have a conversation later on about having a conversation where we can agree to further on to pursue agreement about a conversation in which we will one day agree. If, if that's all that comes of it, it's a five minute handshake, photo op, water cooler thing, then obviously it's gonna be, very underwhelming.

But if they do start to say, here's some substantive things we can do, deescalate. We're not close to a deal. We have 53 things we gotta work out, but while we're at it, let's immediately take the heat off with this, this, and this. If that were to be an outcome this weekend, I think that would be favorable and I think it'd be a good sign of both sides.

Showing their need to get to the table. Chinese exports to the US were down 21% in April, so you would say, okay, that gives a lot of leverage to the us. China's getting killed here, but their total exports were up 8.1% in April as they were exporting more to Vietnam, Africa, India, Europe. So there's kind of enough in the data to give both sides pause as to where the leverage stands, I don't know what will come out this weekend. My general framework of what I'm expecting, which I have no chance of perfectly forecasting either the sequence, the magnitude, the timing, and without those things, what I'm about to say is basically worthless. But that the US is gonna drastically reduce the tariff levels.

They're presently charging as a good faith step to getting negotiations going. President Trump already throughout this morning, he wanted to lower to 80% from the 145. My guess is that gets down to 50 by the time they're, they're serious in, in discussion. We'll see. But number two, that the talks that they end up having do lead to China, making all the right statements and all the right rhetorical and substantive commitments on fentanyl.

Number three, that they, China agrees to purchasing a bunch of US products, likely, mostly agricultural and energy, perhaps some technological that the US then lowers tariffs further. And then, number five, that we settle. For reciprocal tariffs, various waivers and exceptions, and that there's headline announcements about other new markets and new terms, but that the trade basically goes back to what it was before or very close to it, some tweaks around the edges.

That last point I just made in my number five is so open-ended with so much variability in it that I freely acknowledge it's almost worthless, but that's the general, timeline, excuse me, sequence of events without a timeline that I expect to play out. One of the things I want to get to as we get ready to wrap up is the currency discussion.

I came into this year saying I thought that currency was a very underappreciated. Variable that could be used for some of the administration's policy goals. They believe both Secretary Besson and President Trump that a strong dollar in weaker currencies from our trading partners is being used to, hurt American competitiveness in trade.

And one of the president's main economic advisors, Miran, believes that the dollar is just, catastrophically, overvalued. Well look, the dollar is down 1.5% against the Chinese Juan over the last month, but it's up 20 basis points, 25 basis points over the last year. It's basically a flat line over a year, however, the Taiwanese dollar had its worst week, excuse me, strongest week. So the dollar dropped the most against Taiwan's currency last week in history, had its worst, the, its strongest single day and strongest single week ever. You've seen the dollar drop against all of these emerging market currencies, Southeast Asia, India, et cetera, at varying degrees.

South Korea, Taiwan, have plenty of incentive to play ball with the US on currency, China and India, less so. But my point is that what benefits with weaker dollar, weaker energy prices, central banks having this extra variability now where it's not gonna weaken currency and they can be more accommodative in their own monetary policy.

I mean, imagine being able to lower rates in your own, in your, if you're essential banker in emerging market, and it's not gonna weaken your currency. That that emerging markets are the big beneficiaries. Now they're already up 10% more than the S&P is on the year. But my point is that framework there, that's a really interesting, perfect storm across a number of particular angles.

So I still believe the currency aspect needs to be watched. Okay dry powder. Very interesting that M&A, unsurprisingly, across investment banks and public company acquisitions and whatnot. Totally collapsed in April with all the tariff uncertainty and market volatility. But I would say that private equity buyouts were up 25% year over year, and they were up about 50%, excuse me, double a hundred percent from their normal monthly average over the last three years.

Private equity has a lot of dry powder. It came into the year with over a trillion dollars of cash commitments. Private equity has private credit available to back deals, to fund deals where the bank loan market and the high yield bond market are tighter. And so private markets continue to represent an innovation in ca in corporate finance that is right now being used in what is a very slow and challenging m and a and activity environment.

You're seeing increased activity both in size and quantity in the private equity space. It's very worth, it's very much worth understanding why that is, finally, the argument says to where markets go here, I need to wrap up. You could very easily make a bearish argument that we're already at expensive valuations.

The damage done to the economy goes longer and ends up being worse than expected. And various trade discussions get worse than they are right now, there, there's plenty of possibility in that. And again, that's all on top of what's already high valuations. You could also say that the trade standoff ends.

The damage that's already done proves to be less severe than is feared already priced in that you get a little lower oil prices that stick, but you don't get deflationary force against you, that's a sort of goldilock scenario that threads the needle, I would not be betting on the worst case or best case scenario, but I never do bet on either, and I do acknowledge about a thousand points of light in between those two scenarios.

I just want to abundantly clarify that both scenarios are real and everything in between, and that nobody knows, no pundit, no analyst, no policymaker, and god knows no media, person, the, the, the, the, the headlines, the clicks, all of these things, those scenarios are all out there, but there is real uncertainty that could go in a lot of different directions, all of which lend themselves. To the folly of market timing right now.

Very good chart of the week this week on why the small business vulnerability with hiring is so severe right now. In the meantime, we chewed on a lot this week, I'm looking forward to a special Dividend Cafe next week about what we ought to really be able to learn, from the investing legacy of Warren Buffett as he gets ready to retire at the age 94 at the end of the year.

I will leave it there. Thank you so much. Thank you for watching. Thank you for listening. Thank you for reading the Dividend Cafe. Have a wonderful weekend. Particularly all of you moms on Mother's Day. Take care.