DIVIDENDCAFE | PODCAST TRANSCRIPTION

FRIDAY, MAY 2, 2025

Well, hello and welcome to this week's Dividend Cafe. I am your host, David Bahnsen. I serve as the managing partner and chief investment officer at The Bahnsen Group, and I'm recording this week's Dividend Cafe on Thursday night. I literally just walked into my apartment in New York City, having phone in from Denver.

And I'm having to record Thursday night instead of Friday morning because I'll be on a train to Boston in the morning. And I'm saying all that, not 'cause you care about my schedule or travel adventures, but because I'm gonna talk about some data points today. Not to mention, as I always do, markets that obviously are subject to change by the time you're listening reading or watching whatever your medium is because.

Tomorrow in particular, which you know as you're listening to this Friday, the BLS Labor data, the Bureau of Labor Statistics, the monthly job support, that is a rather significant monthly event that comes out Friday morning. And I'm purposely recording on Thursday night because of these logistical issues.

And I'm gonna still be talking here in a moment about some of the jobs data, but I just wanted to set the table for what context I have at the point of recording, which could very well be. Differently contextualized by the time you're listening. But the entire point of what I have for you today in the Dividend Cafe is not gonna change no matter what does happen in the jobs data.

What I really want to talk about today is the economy. And we're so used to talking about markets, and I've been doing quite a bit of that lately for very good reason. The month of April came to an end last night. And it was a wild month. When I tell you that the S&P 500 was down at 0.8% in the month of April, that is one of the most misleading or incomplete, yet fully accurate A to Z data points from end-to-end data points I could ever share.

It was down 0.8% if you went to bed and the morning of April 1st and woke up the nighttime of April 30th, then that's what happened to 0.8%. Now, that doesn't capture the fact that the market was already down about four and a half percent on the year going into. The month of April, and in fact, because it had been up for the first half of Q1, the drawdown in the second half of Q1 was closer to 10%, and it doesn't capture the fact that in four market days April 3rd, fourth, and then seventh, eighth, the Thursday, Friday, Monday, Tuesday, after.

Wednesday, April 2nd announcement of President Trump's initial tariff plans that the market dropped on the DOW side, 5,000 points in four days, that the S&P would drop 11% in four days. And in fact, if you count the intraday movement of Wednesday, April 9th before what was a over 10%. Midday reversal, the DOW 3,400 points from down 700 to up 2,700 and that one day alone at one point the S&P was down about 22% from its high Nasdaq, about 30%.

And then even after that reversal. When President Trump walked back on his initial April 2nd tariff announcement the fact of the matter is that even since then we've had plenty of big violent gyrations around uncertainty of the China deal, uncertainty of what's going on with the president's intentions, with The Fed relief when certain things are not as bad as they could have been.

Fear when maybe they are getting bad again. General volatility 'cause we're only talk, we're only paying attention for a lot of people. Only paying attention to a thousand point up or down days. But there's still three and 400 point up and down days just based on the reality of what's going on. So you've had an amazing amount of volatility in the month of April and I would argue that there is a very continued.

Uncertainty in markets, but now it's not about what the president announced today or tomorrow. It isn't about all the things that we could talk about with markets, stock markets, certain companies, earnings valuation, event driven headlines. It's right now, I think really good time for the Dividend Cafe to talk about the economy.

And so I am in the camp and there is nothing I hate more than when I feel like I'm overly nuancing things. I like simplicity as much as the next person I. I would like to give you a simple summary of what happened in the Q1 GDP report this week. People saying, is the economy shrinking?

Are we already going in recession? And yet I have this answer that I'm positive is accurate, or at least I'm positive, is objectively true from the vantage point. I'm gonna share that I'm sharing with you my very honest convictions, but. It's this bizarre issue where my conclusion is I actually believe we are very likely to go into recession.

I have a very negative view as to where the economy is in Q2, but then when I look at the data of Q1, I don't think that it's the premise to my conclusion. I think it's a counter premise. In other words, I think that though the Q1 number this week lent to the narrative of, oh boy, the economy's really slowing down.

And I happen to believe it is, I don't believe the Q1 data, provides that support. So that's what I mean by nuanced. And yet I wanna unpack that for you. We're gonna talk about China, the whole thing. So yeah, the buzz this week on Q1, let me just get into it. First of all, a quick reminder.

GDP Gross Domestic product, the way in which we generally analyze economic growth, you can do it nominally, which is before you factor in inflation, and then you have real GDP growth where you take out the impact of inflation. But the basic formula for GDP growth, economic growth, the way it's measured in gross domestic product is consumption plus business investment plus government expenditures, plus net exports.

And net exports is exports, minus imports. And so. There is not going to be a discussion right now. What I like and don't like about the formula, because I find all of that discussion to be somewhat misguided, I'm totally open to the idea that there's certain things in the formula that can lend themselves to lumpy things or a little inaccurate a little skew.

I certainly agree that government expenditures could theoretically goose GDP for a short period of time and then make the economy look better than it is for a quarter. But where that argument always falls short, my friends on the right, and these are my friends, I don't believe government expenditures is a solution to economic growth.

But what they miss is that. Those government expenditures have to be counted in the o overall totality of the economy. But if you say, yeah, but it's an unproductive use, I say, of course it is. But that's gonna then come out of one of the other variables. So in other words the measurement of GDP is factoring in the way resources are allocated or misallocate because one.

Integers addition is another integer subtraction, if that theory is correct, which I believe it basically is. So I do think you usually get to the right place. But what happened in Q1 is that we had a massive amount of imports as people were getting in front of fears of the tariffs. So you basically had a high number of imports, which counts as a negative number in the formula because the final integer, the final contributor, the final variable, if you will, to GDP is net exports, which means imports are being subtracted out of exports.

So this big boost caused a real substantial decrease in GDP. But the fact of the matter is that consumption was up 1.8%. Business expenditures were up 22%, which is massive. But even that is skewed 'cause it was a lot of pulled forward capital investment of people trying to get in front of what they were thinking about the tariffs in Q2.

So the big detractor was to some degree a decline in government expenditures. I don't have a big problem with that, but then it was this big increase in imports. So that's very likely going to then help in Q2 because imports are gonna be substantially lower in Q2, which is then going to be a boost.

Now it's not gonna be that big of a boost, and I could be wrong about this by the way, but I suspect it won't be. As much of a skew in the data. 'cause I think exports are gonna be weighed down too. All this to say. We were expecting 0.3% positive GDP, we got 0.3% negative, but I don't think that's because Q1 is pointing to the recessionary slowdown.

I think that it's separate from what I'm thinking about in Q2, which is just the very apparent. Slow down in economic activity that I think will then start to pull through in the date of Q2 and very much likely into Q3 as well. So is GDPA bad measurement because of this point I'm making? I don't believe so.

I think that what we're talking about is just that it, it is a measurement that is consistently upheld over time. So it gives you a apples to apples to apples this year, last year, year before, year before, decade before goes back a long time. And if we were to change the formula now, we would then create an apples to oranges.

So you're at least getting a relatively consistent measurement of economic growth. But I'm a big believer in gross output as well. And this is something I learned from my old friend, mark s Scen economist. I is now located in Orange County. He is been all over the years, but he talked a lot about gross output, which is measuring, it's larger than GDP 'cause it double counts certain things, but it's a way of capturing the totality of output in the economy.

'cause it's measuring the process of production and then the final sales to consumer. But it's measuring each level along the way in the supply chain of intermediate goods becoming finished goods. So that is a way of really capturing a holistic summary of production into the final, end run of consumption, distribution, et cetera.

I look at gross output. I look at GDP, nominal and real GDP. Then there's a thing called Core real, GGDP. My friends at First Trust use this measurement where they're just saying, yeah, we understand what GDP is doing, but we're just gonna take out government expenditures. We're gonna take out inventory, we're gonna take out international trade.

Now, I don't wanna take it out because those are, I don't know, kind of important ingredients in assessing the economic reality. But I think that what their point is, is it takes out the lumpies things or the most, hot, cold up, down components and gives you a better isolation of consumption and business investment or productive activity housing, capital investment, et cetera.

To me, I view this very similar. I've talked about this a lot in Dividend Cafe over the years. I view it very similarly to the way I look. At the labor data, the BLS jobs data, the one that's gonna be coming on Friday morning, that's already come by the time you're listening to this, that I unfortunately have to record before it comes.

I think it's a very, very useful monthly number, but it has a lot of adjustments and seasonal factors and just fallibility. But then I couple that with weekly jobless claims, which are data reported by the states. I couple that. With the household survey, you can couple it with the labor participation force.

So when all said and done, there's a multitude of data points and when they're all affirming the same thing, it helps you craft a certain narrative. You can't get to an objective firm point from one dataset, but you can capture in economics. The general trend or indication that you're trying to get to with multiple ways of assessing, and that's the same way we ought to be doing with economic growth.

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Q1 GDP, it was not a good number on a headline level. It was much better beneath the surface. So if you go back to this core real GDP that my friends at First Trust use Brian Wesbury and his team, GDP was up 3% in Q1. If you use the traditional GDP, with the impact of this pulled forward, import acceleration, it was down 0.3%.

At the end of the day, I stand by my belief that Q2 is going to be very problematic and how problematic this ends up being in terms of recession or not recession deep or mild. Quick or long that is unknown based on how long some of these trade uncertainties are going to last. The a DP jobs number, which I should have mentioned is one of the other data points we can use in assessing labor markets is a private payroll that was expected to be about 150,000 jobs created this week, and it came in at 62,000.

The weekly job was claims were, I believe, expected at 2 23. They came in at 2 42, so you had two on Wednesday and Thursday. Two bad job prints in a row. And then we'll see what happens with BBL s tomorrow. But there have been plenty of times where the a DP number says one thing, and the BOS has another.

So again, because of the different methodology, one month isn't going to authoritatively tell us a story, but it gives some indications. The weekly Java claim, same thing. They can be lumpy one particular week, two weeks. So we like to use three week averages. So. But there's preliminary reason to believe the jobs data showing some economic slowdown, and then there is absolutely unequivocal indications of containers in transit being delayed, canceled deliveries at the ports, and there's a lag to this.

So we didn't see it April 5th. Yeah, I mean, some of those tariffs didn't, weren't even gonna go into effect until April 9th, and then he delayed a bunch of 'em and put carve outs on some. So we're really primarily talking about China, but the process to which the deliveries get canceled to which trucking demand collapses to which store shelves start not receiving product to which layoffs begin, whether it's in ports or trucking or transit, or retail.

Then from the layoffs, a recession kicks in because jobs are down and it impacts wages and activity. There's this sort of cyclical reality or sequence to things that we're still watching the data come in, but I'm reasonably confident it's not gonna be great. And so the first domino that will soften or reverse all these other dominoes is a resumption of trade.

Some deals have to get announced and there has to be progress with China, which we're gonna talk about in a second. But in the meantime, the ISM manufacturing came out and it was not good Production had fallen. I think that new orders are very likely to continue contracting and accelerating in their contraction.

So where we go depends on how quickly a deal gets done. And then do I think that if they announce a beautiful big deal tomorrow that everything is fine? I still think there's gonna be an economic impact that's already been assured, but the magnitude. How deep of a problem and then how long of a problem it lasts.

Both are what's up for grabs right now around trade and tariff policy. In the meantime. There's a school of thought that says we have the better cards with China because this impacts them worse than us. And I've been slowly indicating my belief that I'm not convinced that's true.

I certainly agree. China needs to sell to us and we need to be buying from them and selling and having this open trade and that because of the unfinished goods that we import from China. American manufacturers are really suffering by this. I've made all those points already and yet my theory of the case has been that culturally and politically, America has way less tolerance for economic pain than China does.

Therefore, China has a bit more leverage. The one thing I will say is that some of the data that China themselves released, which means if anything, it's worse than this. Their purchasing manager's index for manufacturing went substantially negative activity at factories is in very serious decline. New order new export orders, plunge to 44.7.

That's the lowest level in three years. I do believe as well that this argument that US is only about 14 to 15% of Chinese exports is likely inaccurate. Because it doesn't necessarily accurately capture the portion of exports that go to another country before they come to the us. So I read a couple studies this week that indicate that could be as much as another five or 6%.

So if you start on a 20, 21% of Chinese exports, that's a very big deal. I don't know that the exact numbers matter. If exports are 13% of China's GDP and we're basically gonna be down 10%, that's 1.3% impact. You could be looking, if China was supposed to grow at 4%, you could be looking at them growing at 2.7.

In other words, a third of their economic growth being impacted. So I wouldn't get carried away in my own forecast, let alone anybody else's as to exactly how it will play out, because both sides are getting hit hard. From this activity, I would still stand by my belief that net net China has the ability to just hurt their own people more than the US does.

But, and then I've talked already about the psychology of our own president around not wanting the unpopularity that comes from economic and market and financial distress. But at the end of the day. We can't assess where the economic issue is going until there's more clarity on where US China trade deals are going.

There's more indications the president realizing this himself, carving out more exceptions, carving out exceptions this week on the auto import side, going back on some of the prior more draconian things he had implemented, I think those walk backs are a good thing. But it really does show a very different public posture.

That had been the case before about saying these tariffs are gonna raise a bunch of money, and they're big and beautiful. The White House is aware that this is doing damage. China's aware it's doing damage where it goes, I don't know, but that's my lay of the land of the economy. I. I'm gonna leave it there for now.

I encourage you, as always, there's some charts and other good things at Dividend Cafe dot com. Please do check that out. Feel free to share this far and wide and reach out to us with questions. That's where we are in the state of the economy. I hope that explanation of how GDP works with somewhat helpful and I certainly look forward to continuing to cover other topics besides trade and tariffs.

But it is front and center for a reason. I'm gonna keep saying that. But nevertheless. We have a multitude of things we'll be continuing to address as we go into the month of May, one of the great months of the year. Very, very busy right now, but absolutely no complaints. I am very grateful for the chance to do Dividend Cafe every week.

Very grateful for the chance to be the advisor to our clients whom we are so deeply appreciative of, and look forward to continuing to serve you to the best of our ability. To that end, we work. Thank you for listening, watching and reading. The Dividend Cafe.