FRIDAY, AUGUST 1, 2025

Well, hello and welcome to the Dividend Cafe. My name's David Bahnsen. I am the managing partner and chief investment officer of The Bahnsen Group, and today's Dividend Cafe is going to delve into the Trump tariffs, something we've never talked about before. Okay. Despite the fact that we've talked about it dozens of times, today's Dividend Cafe is very different because we are at a point now of, peak insanity on one hand in terms of the desire to start telling us how it's all gone before we even know what it is. And this is very much a bipartisan issue. But we also are at a point where there is certain levels of clarity, certain levels of understanding, not 100% levels, far more than we've had where I believe it's a good time to tell ourselves what it is. We want to be looking for what it is that in six months or 12 months or 18 months, will serve as a good standard for how all of this has gone.

What do I mean by all of this? Over the last several months when I talk about the various past issues where in fact, yes, contrary to my joke, I have addressed the tariff issue. The media has extensively covered the tariff issue. The White House has extensively covered the tariff issue. This has been the prominent economic story of 2025. It resulted in a lot of questions and ambiguity and buildup in the first quarter of the year. And then at the very beginning of the second quarter, it resulted in free fall in markets as the White House announced something called Liberation Day, where there was an extraordinarily aggressive announcement about.

Proposed tariffs on other countries formalized around the level of things they sold us. Essentially, the more they sold us the more they would be penalized. And of course the penalty when I say they has to do with the sellers to us and the buyers, which is us. And so that caused markets to say, this is not what we are expecting.

And this seems. Somewhat unhinged and there was a multi-day spiral that led to a major reversal of policy and delays and revver and exceptions and changes. That then now led to a bit of uncertainty and helped me to be able to avoid having to write about it for a little while because there wasn't anything to write about because the White House's policy was, right now we're in this interim period.

We're gonna go get deals cut. So we're gonna then announce a new deal with Japan, announce a new deal with the uk, announce a new deal with China et cetera. And a lot of countries the US has now announced a framework of a deal. There are some countries that no deal's been reached yet, and probably the most significant.

Of which is India, then you you can say, well, Mexico and Canada don't have a deal yet either, but remember they do in the terms of the U-S-M-C-A from the first Trump term. But there are other things that are in flux that are still in negotiations. And the president did grant further time this week with Mexico.

The talks seemed to be going a little worse with Canada. But anyways, my point being. That when you just look at a framework of a lot of the stuff with China, there's still more to go. And then certainly things like

Vietnam, South Korea uk, European Union, you know, major trading partners, there's frameworks of deals.

Now what you get along the way, then. It has been the subject of incredible media coverage, which is economic data through an interim period, and so there are job hirings and firings happening or not happening. While there are trade deals, not known there is economic investment happening or not happening, decision making.

To do or not do or wait all in real time. Like what people lived out in real life in Q2 as all of these things were unknown and the attempt to now say, Hey, look things are better than expected, or, Hey, look, things are worse than expected. I am critical of that politically, but I don't. Get surprised by it politically.

It's the way it works. I don't care for it. It's why I have absolutely no future in politics. I just can't stand that aspect of people. The spin of people basically celebrating something they know is not worth celebrating yet, and yet that's their job. Or people pretending something is horrible when they know it isn't.

They don't know yet. And again, that being their job, political opposition's job. It's just outside of my interest, but from a real economic analysis standpoint, what the Divinity Cafe has to do is objectively analyze economic impact, objectively analyze market impact. And I want to do this in a way that provides real information, but also real expectations for what it is we ought to be looking for.

And that is tricky when you're talking about something that is intertwined with the political for reasons I'm gonna get into here in a moment. So what I hope I will do in our time together today is essentially bring you a a summary that says, okay, this is what the questions are, and we'll have answers later.

I don't think there are answers available right now, and I'm not sure that many people are asking the right questions. That's basically our job today in Dividend Cafe. What you won't get outta me is some revisionism. I'm not gonna sit here now and say, okay. I've I've always been kind of supportive of the tariffs.
I've never been supportive. I'm not supportive now, and I'm particularly unsupportive. Of the notion of a tariff being anything other than a tax on the productive part of the US economy. Now, there are arguments for where taxes are necessary. And where some taxes could be better than others. I do not believe in a tax free system.

We have to fund government, but I don't believe in equivocating that all of a sudden what we have always referred to as a tax now becomes called an investment or people giving us money. There's a cost. Tariffs are a cost to the economy, and then the question, you know, becomes whether or not we find those trade-offs worthwhile.

And my position on trade and my positions against central planning against government, hands in, in the picking of winners and losers in the economy those positions I've held for a pretty long time and intend to hold for a very, very long time. They stem from deep convictions. I'm a supporter free exchange.

I'm a supporter of mutual cooperation and the idea of comparative advantage. And I believe that those things help drive the creation of wealth in our society now when I have my high level views on tariffs and then offer commentary as to what could happen or could not happen. It that's juxtaposed with this reality of a very mo let's say a football that gets moved around on us a lot as we're trying to kick it.

There the people could say, do you like tariffs? I say, no. And they go, don't you understand? They're just a negotiating tactic. And I go, oh, okay. Well if what you're asking me is. Do I like tariffs that don't happen more than tariffs that do happen? I think the answer to that's generally probably yes, but that's a different question.

And if we're talking about, do you like the idea of US ally shoring or onshoring items of critical national security, I say, yeah, not only do I like it, I insist on it. I insist on it so much that I don't even wanna get paid to do the opposite. I just want to not do the opposite. But I'd make a distinction between allies and I make a distinction between allies and adversaries.

And I make a distinction between tariffs. As attacks on elements of trade versus national security policy, which are very different things. So there's been a lot of moving targets, but I also think some could say, okay, well the analyst, including a market commentator like David have moved around a bit.

'Cause on one hand they'd said, oh, we could go into recession if these things happen. And then now they're saying the economy has certain things that look good. But that is not me moving the football. That's the thing. I'm commenting on being something that has itself moved on. I'm quoting from a couple press pieces that quoted me back in early April.

I didn't bring my, okay, while we have made it past Trump's Liberation Day, there is still no clarity on tariffs. For a stock market that was craving certainty. There's now even more ambiguity than before this announcement said, David Bahnsen, Chief Investment Officer of The Bahnsen Group, this is, that's me.

If the current slate of tariffs holds a recession in the second or third quarter, 2025 is very possible, as is the bear market in US stocks, which by the way did happen for about five minutes. The question is, does President Trump seek some sort of off ramp for these policies if and when we see a bear market?

Well, he obviously did, and not only did he veer, he veered a lot. And those announced tariffs of April 2nd were never implemented. The threats were delayed. There were carve outs, exemptions, waivers and all that. Now, some tariffs did happen and the tariff levels of Q2 were higher than they have been, but the expectations for certain economic things.

Based on those announcements. And then those things changing requires the forecast around it to change. And so I think that there's a lot of dis ingenuity about people saying, all the experts were wrong. The experts commented on one thing and then another thing happened. And so the experts then have to, I'm not referring to myself as an expert, whatever you want, people use the term pejoratively.

It's this cute little thing we do these days. My point being. That there has been a moving target that now I would like to say. Okay. Regardless of what they do end up doing, what will the standard be? What will the, the benchmark would be in the future for how we can evaluate how some of these things have played out.

And I wanna point out that I believe the administration's own list of objectives has substantially changed and I believe changed for the better. I maintain my same policy criticism about protectionism and about tariffs, but. What I call the Pete Navarro list just for shorthand, was that primarily the administration rationale had been elimination of the trade deficit.

That somehow there was something wrong going on by us buying more from others than we were selling to others. Number two, the you know, basically bringing back all these US manufacturing jobs. There was gonna be this massive restoration of American manufacturing jobs, and number three, some form of revenue to the treasury that we were gonna get rich off tariffs.

I heard those things a lot and I'm referring to it for simplicity's sake and contrasts sake as a Navarro list. Now the secretary best list, I think is a bit different in that Scott has more and more talked about, number one being opening markets to the United States. Two foreign direct investment in the United States, and yes, number three, still this revenue to treasury, much less about the trade deficit per se, much less about trade protectionism per se.

I understand that there are comments made that still borrow from the rhetoric of those, but the basic, primacy of rationale on those two different lists are quite different, and I would argue different in a beneficial way. The issue before us is, first of all, politically. People can decide in six months, 12 months, 18 months, whenever they want, did America all of a sudden go back to 30% of its workforce?

Being in manufacturing? Did all the jobs that have been being done for various manufacturing of low price goods in China, Taiwan, South Korea, Mexico, did all that come back to the Rust Belt or not? If people think that is gonna be a good thing to evaluate in a little while. Then they can do that. I don't think it's going to be material to economic rationale, and I don't think people are gonna like the answer, but I'll stay outta that one because it really is done more as a political issue than economic as far as the trade deficit.

If people believe that we're head to a place where all of a sudden we're gonna start substantially exporting more than we import. Then they can believe that we will see how that one goes. But in fairness to Secretary Bessette, that's not. The criteria he has really been offering here. And I would suggest that for our purposes of objective economic commentary, it's much less material than those political objectives.

And we get to the issue of fundamental economic growth. And when people talk about how are corporate profits, how is job creation, how is wage growth, how is productivity, how are we expanding the American economic pie? Or contracting it as a result of these policies. I think we're gonna have a way to measure that.

And much of the discussion about whether or not the tariff stuff is good or bad is focused on inflation. And there's a mistake already off the bat. And the way that's talked about is people talk about items being tariffed. As going up or down in price and then calling that inflation. And there's a little category confusion between monetary inflation and just price impact.

But then beyond that, I think that they miss the point that there's always the possibility that a tariff doesn't increase the price of something, but does lower corporate profits. If that's the goal, and they say, see, there was an inflation in the sense of these prices didn't go up. It's not necessarily a prediction I recommend making, but if that is the outcome and that the, the cost is born in declining corporate profits. I can't even comprehend how someone thinks that would be pro-growth or beneficial to the overall US economy or not lead to the negative feedback loop of further decline in factors of production, including labor, including capital. So the issue that we have to start with, okay, is some basic economics.

Around what it is that we're talking about. When a item is tariffed, there's a new cost and either it becomes more expensive or profits decline. Or the demand curve begins to move because the price has moved higher. And this is where you know, Lacey Hunt refers to this as a price elasticity issue.
And I don't wanna get overly complicated here, but there is just a reality in economics that some things are more price elastic than others. And that is always a byproduct. Of their replaceability can, how easily something can be substituted. If you cannot substitute it easily, then the demand doesn't go down, but the price does go up.

And if it can be substituted easily, then in theory the demand may not, the price may not be affected, but the demand is so how substantial the decline in demand. Around the tariffs is, will determine an effect on prices, but also on total growth because this is the major issue that we are trying to deal with is what the magnitude of impact to demand would be as a result of the tariffs, the items being tariffed.

And then out of those issues of this interaction, this interplay, this complexity. Of availability of substitutes and what that does to prices and what it does to profits. The longer a tariff product will take to substitute the greater, the impact to demand, but less impact to price, the greater the options to replace the product, the less impact to demand, but the greater impact to price.

So there's a conundrum there that's gonna take months and months to play out. Now you say, okay, that's kind of interesting. Let me think on that for a little bit. But what the issue here is if in this total process of different trade deals, different arrangements, and now new price inputs that are meant to be impediments, if in all of this you get declining total trade volume, international trade volume declines.

That pushes the demand curve, the wrong way, and it that would mean that new markets, that intention of opening up new markets didn't succeed. If it does succeed, then the demand curve and total trade will push higher. But if the downward pressure on demand happens, then by definition, foreign investment decreases.

If we are buying less imports, then there is less dollars going to foreign sources and there is less foreign savings. Our total investment equals total savings. Our total sources of savings include, of course, private savings, you and me, companies, investors here in the us, governmental, they run a negative savings 'cause of debt, as you know.

And then foreign, there are foreign savings sources. When money is brought into the United States. There's about $30 trillion of foreign savings in our country. Right now. We have $18 trillion of public stocks owned by foreigners, 7.6 trillion of treasury bonds, 1.3 trillion of Fannie Freddie bonds, and about 5 trillion of corporate debt.

Foreign investment was 9 trillion of US stock market in 2019. Not very long ago, right before COVID. 9 trillion. It is now almost doubled. It is 17 and a half trillion now, if you saw a foreign investment decline because of downward pressure on demand, that then created this mathematical reality of declining foreign investment, that puts significant pressure on liquidity in the financial system that is anti-growth.

Declining liquidity, declining capital flows, all resulting from declining foreign investment that would be a significant negative. If the result of these deals is more trade, then this will not happen. If new markets mean more trade, then the downside I'm describing will be averted, but if the end result is declining trade, the data will bear that out over time. The results will be empirically visible, and I think that in will impact savings. And then as a matter of basic tology, that impacts investment, which impacts growth. So this is the chain of events I'm looking to. That savings equals investment, which equals growth, declining trade impacts demand, and that creates this negative feedback loop to the extent.

Declining demand or company decisions to take declining margins to avoid price impact. That puts downward pressure on corporate profits, which then leads to negative factors such as capital investment and labor. I believe that will end up being the major issue that is in front of us.

Now, it also explains. Why foreign direct investments a huge priority in the deals that they are going for. Why trying to open up new markets, which is very different than trade deficits and trade protectionism. But by doing that, it would avert if it is successful, and if it is real much of what they're describing now, it would undermine some of the other policy objectives they had.

But that's not really my concern. I, I don't much care about that. I do believe. That if the fundamental result ends up being more trade, more market opening, then the kind of feedback loop I'm describing that puts downward pressure on growth could be avoided, and this could be a very, very good thing. Now along the way, while we wait to see how this plays out, how these deals go, what the impact to trade is having a higher tariff level, even though it's way lower than had been threatened, higher than what we've been used to.

All the while there are new prog growth. Components of the new tax bill that are offsetting, which one is winning out in there, there's basically a sort of supply side benefit in the beautiful bill business expensing and r and d deductions that we talked about versus the, the cost of the tariffs.

But while those things are playing out, you're gonna get jobs reports each month. You're gonna get GDP reports each quarter. You're gonna get CPI numbers each month and then you're gonna get all the normal cast of characters that come out to go, oh, see we told you so. And the See, I told you so crowd can be wearing red or blue.

'Cause it can be people saying, see look. GDP is really good. Where in fact it was just simply a bounce back in the import numbers that had been front run in Q1 that caused a big decline and then that normalized in Q2 creating a bigger impact and they largely offset and we're still running it very subpar growth year to date on an annualized basis. Then you can get the, see I told you so crowd. Because the June and July, excuse me the May and June job reports were really good. Now, the July job report came out this month. It was really bad. And they revised down the June jobs report from 147,000 to 14,000. So the whole narrative of how good the jobs market has been all summer is now undermined in one second.

But does that mean it's really bad or are there statistical anomalies? The And is that even pertinent? Because is the jobs data reflecting in Q2 real time? The pro forma of what I'm describing, of these new trade deals that has to play out over the next six, 12, and 18 months. So I don't think that the real time data is measuring where we're headed, and I think where we're headed has to be evaluated on the basis.

Whether or not total trade declines along the demand curve, if and what that does to corporate profits, and therefore the impact it would have to overall economic growth. Foreign capital, declining total trade declining can't end well. But that's not the way it's gonna be politically measured. Short term, it will be the way it is economically measured.

Long term, my convictions on all of this haven't moved. My principles remain the same. The economic way to evaluate this does not lend itself to week by week attempts to spike a football. Now do I have a prediction? You know why I can't give you one? It's not 'cause I'm playing this safe. It, I am a pretty humble economic.

Commentator, generally speaking, so I guess I do favor playing things safe for good reasons. But the reason why I can't offer the prediction is because we don't really know exactly what the deals are. There is such headline ambigu, there's headlines followed by detail ambiguity. But to the extent that there is a new cost in the system and a new challenge to maintain and grow corporate profits.

And that people are all focused on prices and not focused on the demand curve. I just want us at The Bahnsen Group to keep our eye on the right ball. And there is absolutely no way to be able to predict right now where some of those things will go as politically advantageous as it may be for some to say, oh, look how bad it's all gonna be.

Or others say, look how good it's all gonna be. I believe that I have a good feel for how this will be measured in the end. I believe that the end is a ways off. I'm looking forward to at least having some clarity as to what the policy is that's getting measured. We're getting closer there, and markets always like some level of certainty, more than uncertainty, but there's a lot of wood to chop as my dear friend Rene Aninao now says.

I'm gonna leave it there in the Dividend Cafe. Open it up to your questions. Encourage you to go to DividendCafe.com to look at the chart of the week. I would love it for you to forward this message to anyone you like, hit like and subscribe on YouTube and subscribe for the feed of your choice on podcast as we try to work on all those fun numbers. In the meantime, have a wonderful weekend. I will be in the beautiful state of California. For the whole month of August, leaving here in New York City this weekend, and look forward to being with you in the Dividend Cafe from Newport Beach next week as we go into the new month of August, the eighth month of this year, 2025 year of our Lord. Thanks for listening, watching, and reading. The Dividend Cafe.