

FRIDAY, MARCH 13, 2026

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Hello and welcome to the Friday edition of Dividend Cafe. I'm your host, David Bahnsen. A wild week as things continue in Iran and market volatility remains enhanced, and yet with all of the talk about oil prices and the military operation in Iran and the enhanced market volatility, it occurs to me that there's more than just one thing to talk about.

So what I wanted to do in today's Dividend Cafe is, yes, review Iran, review oil prices and the impact that is taking place for investors from all of those events in the Middle East, but also as we kind of get into the 10th week of the year—we're sitting here in the middle of March of 2026—I'm not going to say anything going on is unprecedented because it is incredibly rare that the things that happen in asset markets or the economy are ever unprecedented. The vast majority of what happens is unprecedented and yet at the same time, shall we say, eventful right now. I am going to today suggest that there are five different things that play into that right now as we look at the kind of year-to-date activity in markets and just throughout the economy.

Those five things that we're going to review and discuss are indeed: the Iran war; the state of the economy, particularly in the aftermath of tariffs, tariff changes, and the Supreme Court; where things stand with jobs and prices across the economy; number three, the private credit story and what's happening in the financial sector getting an awful lot of oxygen in the media; number four, the AI story—what that has done so far this year for good and for bad in markets and what it has meant for investors and where we stand in the current state of AI's contribution to markets; and then number five, the theme of a market rotation—the rather profound change in market leadership as we, thus far anyway, have seen a shift from various high-growth sectors to what I will call real-economy sectors.

So let's take it up first with the Iran war. A week ago I was in Nashville and I talked about that first week after the military operations ensued, the enhanced volatility, and that because you have unpredictable circumstances you get exacerbated volatility. That's the way markets work. For as much as some investors don't like it, markets do a remarkable job pricing in bad news and then beginning to discount whatever the future out of bad news may be. What markets mostly dislike is unpredictable outcomes, and it leads to a certain uncertainty that just creates a lot of up-and-down movements—first of all, bad behavior, but also a lot of erratic behavior. This week on Monday there was a 1,200-point difference between the high and low price of the day, 800 on Tuesday, 600 Wednesday and Thursday. And as I'm sitting here now, Friday, markets are up, but who knows where that goes? So my point being that we've seen this enhanced volatility and we'd seen it each day of the prior week.

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It is understandable because there is a certain unpredictability, but I don't want to just leave where we stand now at "things are unpredictable, therefore volatile." That is true and it will remain true until it isn't. It also is somewhat immaterial for an investor. But when you look at 3,200 points of up-and-down volatility in four days this week, but only 800 points of actual directional movement, 1.6% barely registers in the grand scheme of things. That volatility story is really pretty irrelevant to investors who have no intention of acting stupid.

The issue I want to point out in the real economy is this Strait of Hormuz story, which first of all I think is becoming increasingly clear that it was not anticipated. Of all the various things that were thought about, addressed, and preemptively dealt with from the military and geopolitical strategic aspect, right now what you have is a situation where economic actors understandably are afraid to act. The backwardation of oil prices still indicates that markets expect this to get resolved, and I most certainly do too. But the four-day resolution is off the table; four weeks increasingly looks off the table. We're not talking about significant explosions or military escalations in the Strait of Hormuz. You're talking about commercial actors that in their own rational self-interest do not feel like operating—the insurance companies, the shippers, there's a lot of folks in the supply chain—and it affects more than just oil but a lot of cargo movement. Those with commercial interest don't want to operate in that waterway at this time, and on the margin that does lead to significant economic impact.

Short term, you get oil prices spiking above \$100, then dropping to \$83, then coming back up near \$100 or sitting in the nineties. Low eighties is higher than oil prices were before this began, but the low eighties would have a pretty minimal economic impact in my opinion. Nineties becomes real. Over \$100 becomes very real—not for a day, not for an hour, not for a minute, but for a month. There is a compression on consumer activity and on investment activity that becomes real. So the ability right now for markets to get an idea of what exactly is going to end up happening out of the Strait of Hormuz is very important. I'll put a chart up right now that just shows you oil prices this week.

If this were a chart over an extended period, you could form some opinions on it, but this is a few days and that big spike up, big spike down, then coming back up again—not back to \$115 but still sitting in the nineties—means if markets decide to recalibrate and reset for an extended period, we could be \$30 higher than a few weeks ago. With the Strait of Hormuz news and activity frozen the way it is, that tail risk cannot be eliminated at this time. I don't encourage anyone to try to predict exactly what will happen, and I really don't encourage anyone to bet against the U.S. military in this.

I do think that there are military and geopolitical actions that can be done that help with the overall conflict that don't necessarily force commercial actors to reopen the Strait of Hormuz right away. So this becomes an ongoing story that, until there is greater clarity, probably enhances and maintains the unknowns for a period of time.

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Now, speaking of the unknowns, the second issue I want to address is the state of the economy. We came into the year with many people holding very bearish views and many holding very bullish views. I could give examples of economists in both camps who are dear friends of mine, influential in my life and study, and who are polar opposites on this. I landed on humility and agnosticism: there is no way to really know. Ten weeks in, though, there is bigger evidence of a drag.

The GDP number for Q4 was way less than a lot of the optimists expected, and it got revised down again this morning. Weekly jobless claims are still staying low—that's good—but the BLS data continues to show we are not seeing robust job growth. Price indicators—CPI and PPI—are hard to dispute in showing disinflation where you need it, with shelter and services to some degree bringing inflation down from the high twos to the low twos. But goods inflation, particularly where there are tariffs, is pushed higher. Home goods, certain food items, appliances, electronics, furniture: those have been impacted by additional price inputs on imported items. Goods are offsetting services in the data, and that remains an important issue where capital expenditure and business investment remain a push-pull. There are tax advantages this year to greater business investment, but we're not seeing it yet outside of AI, and I believe that remains the economic issue of the year.

The private credit story—I dedicated an entire Dividend Cafe to it two weeks ago—and there isn't anything in that I would walk back or change two weeks later. It's going to age very well. But what you have going on is not only the conflation of two totally separate stories—the fear of defaults in private credit and the issue of liquidity or semi-liquidity being treated as a bug rather than a feature—but also flat-out inaccuracy in parts. Defaults could pick up, but the analogy I used in DividendCafe.com was this: if you took every single private loan classified as private credit and direct lending, middle markets, stirred them up in one bowl and somehow knew exactly what that default rate was, that would be utterly worthless information because it wouldn't tell you the default rate for your fund or your strategy. These funds are nonmonolithic and incredibly idiosyncratic; there has to be bifurcation between the good and the bad.

Even if you knew the default rate exactly for your holdings, you then have to know the recovery rate, and that varies a lot by operator. I'm talking to private credit people, distressed credit folks, and hedge funds every day. Many would love to buy dislocation. When sentiment gets like this, you don't want to pick a bottom too early, but when the separation of wheat from chaff becomes viable, then clarity comes in. I don't know if that's days, weeks, or months. These are textbook situations where weak hands will make strong hands rich.

The fourth issue is AI. I've talked about it a lot. I'll be dedicating a full Dividend Cafe to it; probably not next week but likely two weeks from now. People could be forgiven for seeing incoherence in the year-to-date AI story. I don't question why NVIDIA has been dead money for about seven months. I don't question why companies like Oracle, CoreWeave, and Palantir are down a lot. There are valuation issues and fatigue. The Magnificent Seven is not monolithic.

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Many of those names are down or flat—valuation, overstretch, fatigue. On the other hand, some people argue AI is so massive it will ruin certain things; those two claims can't both be true in the extreme. I think you're dealing more with fatigue in the story and inadequate appreciation for hyperscaler spending risk and circularity of funding, which affects both pick-and-shovel and scalars. Be careful treating private credit, AI, and software as all the same story—opportunity will come where things are differentiated.

Finally: rotating, not hyperventilating. We've seen phenomenal returns this year in some sectors. Energy is the top-performing sector, up over 23%—and it was up the most before the Iran war began. Utilities, consumer staples, industrials—real economy sectors that were laggards last year—are leading the pack. Leaders from last year like financials, real estate, consumer discretionary, and some technology names are down. The whole S&P has come down a little, but rotation into other sectors has created good opportunity. That's our narrative, and we'll continue to watch where it goes.

Let's put up the chart of the week and show the impact on the Strait of Hormuz. This is almost visual—the categories of activity that come in and out of that particular waterway, commercial activity that has now gone to virtually nothing. So that remains a big macro story and it will get resolved. I don't know when or how, and nor does anybody else. If someone on TV tells you when or how it's going to get resolved, believe me, they don't know; and if they did, they wouldn't be telling you because they'd be working in the Pentagon. Actually, I could argue many people in the Pentagon don't know either.

A lot is going on. We're very engaged in markets. We do what we do 24/7, 365 at The Bahnsen Group. It is the life we chose and we're here for you if you have any questions. If you are a listener, reader, or subscriber of Dividend Cafe and you have questions, please reach out. Happy to have you talk with an advisor or engage with you by email. If you are a client of ours and have any questions, you know we will literally go to the ends of the earth to make sure you have the confidence you ought to have in what we're doing in these adventurous times.

Thank you, as always, for listening, watching, and reading the Dividend Cafe. Have a wonderful weekend.