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Hello, and welcome to this week's Dividend Cafe. I am your host, David Bahnsen, and today we are going to talk about the state of the bull market.

We are resisting the temptation, again, to make everything about what is happening with Iran. It goes without saying—there are up days and down days in markets. The overall trend for four or five weeks now has been to the downside. It has not been that much to the downside, but the volatility has indeed been that much, meaning intraday movements.

I believe this topic of what's going on with the overall—and I mean structural, not this month versus last month, or this quarter versus next quarter, not cyclical, but a secular state of the market in which the overall general trend of both profit growth and market price expansion is to the upside—is that state of market intact? And I do not ask that question in the context of the Iran war, but the factors that existed before, during, and after.

And I do not ask it because I think I have the answer. I want to rather look at what the factors are that drive it, what the things are that will end up being determinative on the other side of this, and then, most importantly, offer up some portfolio applications—portfolio conclusions—that I think will take a lot of this pressure off.

Let's first start with a really important question: when did this bull market that I'm asking about start? I actually would suggest that that question is itself unanswerable and somewhat irrelevant.

No one should really deny that we're in some form of a pretty robust bull market. We've been in for some time, and I would be perfectly happy if someone said, "Look, the market dropped about 20% in 2022, and somewhere near the end of '22 it began this major move higher, and here we are now after a few years of pretty significant returns—between 15 and 25% per year—up about 100%, and especially at the highs of about a month ago."

That would count as a bull market, and I would agree.

Now, the fact of the matter is, if you look at the beginning of 2019, then you're almost looking at a tripling of the market. Not quite, but very close. We were below 2,500 in early 2019. We got to 7,000 at the end of January, and yet along the way, people would be right to point out, "Well, you had over a 30% drop during COVID. You had a 20% drop in 2022. You had a 20% drop in 'Liberation Day,' and that's all fair enough."

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But nevertheless, that 2019 to 2025—early '26 move—has been very robust and perhaps allows for a longer term to call this a bull market than just the 2022 through current state.

But if you're going to do that, then why not go all the way back to where the real secular bull market began after the financial crisis? We actually just celebrated the anniversary of that earlier this month. I was in the city this week where I was when that generational market bottom took place on March 6th, 2009, and rebounded on Monday, March 9th, 2009.

I was in Palm Beach, Florida then, where I was at The Bahnsen Group office in Palm Beach this week. But why would I start there? That was obviously the end of what would have been a secular bear market. And then we began what you could argue has been a kind of a 17—coming up on 18-year—period of massive market compounding along the way, and very little interruption.

But if someone wanted to say, “Well, what do you mean very little interruption? We had almost 20% in the summer of 2011 with the European crisis and so forth. We had other periods of significant decline, including in the fourth quarter of 2018, and then we had the other ones I've already mentioned in these shorter periods of time with COVID, with Liberation Day, et cetera.”

Once you start qualifying things, then anything can be a definition. Does it have to have been 20%, or does 19.8 count? Because I think that's what summer of '11 was. Does it have to be a closing day drop or intraday? These are semantic things that I just don't care about, and neither should you.

But my point is, we've been in a bull market. And you can call this one a start of '22, a start of 2019, or a start of 2009, and all three have some plausible acceptability to that start.

But what I think I'm asking here is not from interruptions and volatility with the Iran war, but just on a basic level of secular, structural robustness—what are the things that could undermine it?

And generally, bull markets are interrupted by exhaustion—of getting ahead of themselves. That's why I've been so focused on the valuation concerns, particularly for highly concentrated index investors.

And you say “concentrated” and “index” are the opposite of one another—you buy the index, so you're very well diversified and avoid concentration risk of a portfolio that is largely five, seven, ten stocks all in one or two sectors. Unfortunately, that is, to a certain degree, where the index has itself become. Obviously not entirely, but it's moved substantially in its overall concentration composition in the last several years.

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But here's what I would say: corporate profits drive stock prices, and there is an economic reality behind corporate profits. And, of course, the sentiment—which is also influenced by economic reality—drives what people will pay for stock prices, what they'll pay for a future stream of these corporate profits to which I'm referring.

So a stock price is always and forever: A) the corporate profits of the company, plus B) the sentiment around those corporate profits. And both profits and sentiment are ultimately influenced by economic reality—profits sometimes longer in the way that correlation comes to be, sentiment shorter term.

So I believe it was a piece my friends at Strategas Research put out this week suggesting that the way we think about the sustainability of this 2022 or 2019 or 2009 bull market is largely a byproduct of: where are things in the labor market, where are things in the financial conditions—our overall financial conditions that influence markets—and then where are things with corporate profits?

Before I go into that, let me have them put a chart up on the screen that indicates why this is so actionably irrelevant to me.

The answer to “are we in a bull market or not?”—with the right timeline and the right definition of a bull market—is always yes.

And you see here this chart on the screen: there's a lot. Every one of those little notes up along the way are negatives, are down periods. There are recessions, there are bear markets, there are geopolitical events, and yet you can barely see them with enough history, because the arc of history has been one large bull market.

Why is that? Because governments always get things right? No, that's not true. Because policy is good? Because fiscal policy is good? Because government indebtedness is good? Because monetary policy has been good and prudent? Because we've been in a country filled with peace and prosperity all the time?

No, no, no, and no.

The reality is that bull markets exist—and the arc of history is a bull market—because human ingenuity exists. The ability of human action to overcome the negatives of a fallen world and create an improving economic condition, evidenced in corporate profits, whereby we get the ability to buy that in the form of public and liquid stocks—that's what the chart on the screen was measuring.

So I am a person who believes that the long-term thing is called a bull market. But along the way, there are things that you can call bull markets, and there are things you can call bear

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markets, and there are things called range-bound markets that we find ourselves in—and that is the clear testimony of history.

I think that we very well may decide in a few years, “Oh look, the period of 2022 to 2028 or ’29 or ’30 or whatever was a sort of range-bound market—muted, below-market-average returns—as a byproduct of having to reprice the high valuation of stocks.”

But I don’t know that to be the case. And if I did know it to be the case, I don’t know how to time it.

But what I know is that bear markets exist within the long-term reality of a bull market, and I invest in the context of a long-term bull market.

Now, with that said, the 2009 or 2019 or 2022 bull market that we’re describing here could very well be interrupted if you had declining labor conditions, tightening financial conditions, and some deterioration of corporate profits.

Where do things stand across all three of those?

I want to suggest that, of the three—all of which I think contain a measure of ambiguity—the most ambiguous category is labor markets.

The weekly jobless claims now for last month are averaging 210,000 a week. That is very benign. It is really encouraging. It indicates that companies do not seem to be firing a lot of employees.

But when you look at NFIB small business optimism, when you look at the PMI data and ISM manufacturing and services—all stating not very robust intentions for hiring—when you look at the last 12 months in both BLS and ADP, not very high hiring, I just don’t know how anyone can deny...

You can have any belief about the future you want. I just don’t know how anyone can deny that where we have been indicates mixed signals.

There is very, let’s say, downward pressure on job openings—but still a fair amount. There is significant downward pressure on quits, meaning the quits rate—those willing to quit.

Why do people sometimes get more willing to quit a job than other times? Because they have a high confidence that they will go replace it.

Those quitting jobs—that is on a significant decline. But all at once, that’s juxtaposed across the reality that we’re not seeing a ton of firings yet.

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So the labor market does not indicate, “Hey, stop the horses, this bull market’s over.” But no one should say the labor market looks rosy and say things like, “We’re in the best economy we’ve ever been in.” That is nonsense.

What we have is a real purgatory of data in the labor market, and that is objectively true and undeniable.

Now, it will not necessarily stay true. It may worsen, or it may get better. But as a description of where we are, that’s the state of the labor market.

So let’s look at financial conditions. You’re going to see something very similar, in my mind.

What we’re dealing with now is more data purgatory.

I do not believe that credit spreads are brutally high—recessionary high—but they’ve obviously widened, indicating greater risk and greater tightening in financial conditions.

When you look at the spread between the overnight lending rate and the rate that banks receive from the Fed on their reserves, that spread has clearly moved to a place that is considered tightening.

It had been in really financially easy conditions for several years. It’s since now gone the other way, with that spread being reversed and indicating some degree of tightening.

Now, I could look at excess bank reserves, whereby banks are holding on—they’re being cautious. So when excess reserves go higher, it means they’re lending less. That’s financial condition tightening. It’s actually financial condition tightening by definition.

Is it extreme? Do we see a total collapse of lending? No.

Do we see, for example, in the senior loan officer survey last month, tightening qualifications for lending in both commercial and industrial loans? We absolutely do.

Where it goes, we shall see. Financial conditions are not excessively tight, but they have tightened.

Then there is the issue of corporate profits, which is probably the best argument the “bull market will continue” camp would have.

Corporate profit growth is likely to come in at double-digit growth again. Will it hit the 14 to 16% mid-teen double-digit growth that’s projected? I’m not sure.

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Twelve percent last year—going again, getting three to four years in a row of double-digit profit growth—that's pretty tough to do.

Is it a bullish sign if you get it? Well, sure. It's bullish in that it's defining a very profitable corporate environment.

Is it bearish, though, if you get it—or if it's being expected—because the expectations are too high, and the risk then becomes more to the downside than upside?

It's very hard to outperform expectations of 14–15% profit growth. It's pretty easy to underperform.

Margins seem to have sort of peaked or are staying in place. Any number of things could bring that down. Does it bring it down to a negative number? Of course, that is highly unlikely.

But deterioration of profit growth strikes me as a very possible thing that people have to look at. Not assured, but nevertheless, in this three-pronged criteria about the state of the bull market, I would suggest it's all at once the most optimistic one currently, but perhaps the one that is most vulnerable on a future basis.

So let me wrap this up by saying that with labor market, financial conditions, and profits, I think those are the three best factors to determine where we sit.

And I think that all of them right now are allowing us to believe this bull market can continue.

The bull market will end when the valuations get too high and tip over, and markets have to reprice. That is a fine thing to have happen in the grand scheme of things, and in the long, long, long-term bull market in which we all live and have lived for decades.

Will it be painful for some? Of course.

Will it be less painful for others? Well, that's true too.

Does the very reality of bull and bear markets change the way we invest public equity money at The Bahnsen Group? It does not.

Why do I feel the way I do about this? Because dividend growth investing inherently is—I would say—built for this reality: to benefit, to become more anti-fragile, to be robust, and even create positive returns through dividend reinvestment for accumulators in such things.

Because it is inherently more defensive—the nature of the companies that pay dividends—when markets do go into those secular negative periods.

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And then it becomes totally irrelevant to withdrawers of capital, who are not having to withdraw from their principal base during periods of secular market declines. They can live off of the continually growing dividend stream the portfolio creates.

The bull/bear market debate is a big deal for index investors. It's a big deal for people withdrawing from the prices of index investors. It's a really, really fatal deal for people that don't know that indexes can go down.

All kinds of good financial planning can help people accommodate these realities, even for index investors. I just don't think there's a lot of great people doing it.

But for us, with dividend growth, we think there is an inherently defensive and inherently offensive structure in place that benefits.

It does not make us insulated from the reality of market price declines.

I do not know what those three things will do next. I do believe that those three things are the things we're going to look at and, when we get 20/20 hindsight, be able to say, "Oh, that's why it happened."

I'm not making a prediction on any of the three. I'm giving you an analysis of them so you can understand for yourself the lay of the land.

There are others who will give firm predictions of what they think will happen, and they will be wrong, and then they will not apologize, and then they will go on to another thing that they will also be wrong about.

And what I want to do is consistently say that the economy, the market, and other unpredictable things are not the nature of how a portfolio ought to be positioned.

That in what we're doing with dividend growth, we are reasonably—and as much as is humanly possible—insulated from those risks that go therewith.

What I do believe is that we have purgatory data with labor, with financial conditions, and with corporate profits.

We live in a very interesting time, and there are all sorts of things that are going to zig and zag in the days, weeks, and months ahead. And then, of course, that includes the Iran war in which we currently find ourselves.

The last four weeks—we're about to go into the fifth week in a row of negative market action. It's not been the fifth week in a row of negative dividend growth action.

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But three weeks, five weeks—those things are all irrelevant in the grand scheme of things.

What we do care about is the right portfolio positioning in what is an interesting time and very possibly years of a range-bound market.

That is the way we view these things.

Reach out with questions. Thank you for listening, thank you for watching, and thank you for reading the Dividend Cafe.

I am going to give a speech here in Florida, and then I am headed back to New York City. We'll be with you next week on Monday in the Dividend Cafe.

Have a good weekend.