

FRIDAY – JUNE 19, 2026

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Hello, and welcome to this Friday's Dividend Cafe. I am your host, David Bahnsen. I am coming to you from the beautiful village of East Hampton, New York, and I am excited for summer. Whenever you start to see me recording out here, it means summer is officially upon us. It'll be a wonderful weekend, and I want to wish you all a great weekend.

Today, Friday, June 19th, is not a market day. For at least the last couple of years, it has been a stock market holiday in conjunction with the federal holiday that is Juneteenth. And so what I am really wanting to focus on here is the subject matter at hand, totally disconnected from any particular events. But I'm going to talk about a couple of things this week that were actually events of the week—things with the Fed that took place, things ongoing following up from stuff we talked about last week with the SpaceX IPO. But I'm doing all of it as part of a broader conversation that I want to get into, asking the question: Is this the dreaded top?

Are we at that moment that many have feared for some time, where a market frothiness takes us into a place that we don't want to go? I'm hoping that many of you right now who are regular listeners to The Dividend Cafe are saying to yourself, "We've been following David for some time. We already know that he is not prone to believing that one can make some sort of forecast about an imminent market turn, an imminent market rally, or these various predictions about short-term market phenomena." Even in my belief about the relevance of valuations, I have never attached them to timing. I think, as a matter of mathematics, it is true that one's long-term expected rate of return is connected to valuations at entry point. But I do not believe that that question has anything to do with what I want to talk about today, which is allowing investors the intellectual and, if you will, emotional honesty to think about the environment in which we are in, if nothing else, at least at a high level.

I want to tell you why we're not having this conversation. It is not merely about the aforementioned valuation issues I've been talking about and writing about for quite some time. Right now, the S&P 500 is expected to generate something in the range of \$330 to \$340 of operating earnings this year. So when you look at an S&P at around 7,450, you're talking about 22½ times earnings. Again, it could be 23, it could be 22.1, depending on the exact numbers. There are moving targets here. Some have said, "Oh, well, I'm hearing \$360 to \$370 of earnings," and that's not operating earnings. They're doing a little bait and switch there because that is totally GAAP-compliant, but it is utilizing certain one-time, non-recurring events. In this particular case, there are three companies that have moved the needle to the extent of about \$63 billion of gains in Q1 from various other-income markups in privately held assets or one-time tax

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benefits and things like that. Literally, just from three different companies adding roughly \$30 a share to full earnings. But the operating earnings side is the apples-to-apples way we look at it.

I want to point out that all of this is being done on a forward basis, looking into the future. For much of my career, we evaluated P/E ratios in the context of trailing earnings, backward-looking earnings, which would cause market multiples to be significantly higher than what we're talking about now. But look, a few things are different. It's also true that we've stayed above the normal range of market valuation. When we talk about the average market multiple being 16 to 17 times, we've been above that not for six months, but for several years. There are various moving targets, but I just want to make clear that rich market multiples are not the catalyst to today's topic.

I hate the word "vibe." I hate it with our politics. I hate it when someone tells me they're excited about a politician divorced from policy or philosophy or voting record, that they simply like the vibe of a candidate. I hate it in pop culture, where people get associated with one particular mood or personality and this nebulous concept takes over a lot of other categories. It's frustrating. But look, data is limited in what it can tell us. Data is very good descriptively, but not always predictively. Data requires execution, implementation, and interpretation. There's no hard-science way to do any of this. Yet I would like to say that some of the things in the vibe of the moment are very concerning.

As a contrarian, as a value-oriented investor, as a defensive investor, as a fiduciary of nearly \$10 billion of client capital, I take this stuff very seriously. There are certain things that, when you hear and see them, become problematic. I want to read you a quote word for word, and then I'll tell you who said it:

"One of the things that makes SpaceX so valuable is how valuable it is. The company can make acquisitions at materially less dilution because of SpaceX's high valuation. SpaceX's ability to do economically, strategically, and technologically accretive acquisitions is an important component of its value. There is enormous value inherent to a company with a high value."

I'll repeat that sentence: "There is enormous value inherent to a company with a high value."

And then: "Talent begets talent. Value begets value."

If that were from one of the regular grifters or pump-and-dump cheerleaders of the universe, I would ignore it. But it's from Bill Ackman, who is one of the great investors of my adult life. He's an alpha machine. He's very aggressive. He's had some big losses, but a lot more big wins. I hold Bill in very high regard, both personally and professionally. But this quote is indicative of the vibe I'm talking about. I want to be very clear: it has nothing to do with SpaceX itself. I'm using it as symptomatic of a broader context. When people start saying things like something is

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valuable because of how valuable it is, and that value is inherent to a company because it already has a high value, that indicates a moment that I believe warrants caution.

High stock prices being used as acquisition currency is, of course, less dilutive. That's a tautology. But the idea that a company using a high stock price to make acquisitions automatically creates greater value is not remotely defensible historically. Some of the worst deals ever done in human history were done with high stock prices. It's a classic case of begging the question. It tells us nothing about the underlying economics of the acquiring company, the acquired company, or what price was paid. Certainly there have been good companies that bought good companies with high stock prices and created value. But is that inherently true? No. When we start talking about things being inherently true that are not, I think it indicates an environment that is dismissive of reality, apathetic about risk, and inviting investor complacency.

I would suggest there is a risk paradigm changing before our eyes that many people do not understand. We have come through a period in which the largest companies in the market required very little capital to fund growth. They generated huge cash flows, bought back stock, retired equity, and faced very little competition for investor dollars because IPO activity was muted. That is changing. Companies that previously needed little reinvestment are now spending enormous amounts on capital expenditures. Companies that didn't need debt are issuing debt. And increasingly, companies that were buying back equity may soon be issuing equity. We are moving from retained cash flow to debt financing and potentially toward equity issuance. Whether all of this works out or not is one thing, but it unquestionably changes the risk paradigm.

I want to point out two examples. NVIDIA, one of the greatest companies of our era, has been basically flat since October. During that period, quarterly revenue growth has been extraordinary—62%, then 73%, then 80% year-over-year growth. Yet the stock has gone nowhere while the broader market is up. Broadcom likewise delivered extraordinary AI-related growth, announced massive revenue expansion, and still saw a significant stock decline initially. My point is not that these companies are bad. It is that we are reaching a place where stock performance and operating performance are no longer moving in lockstep. Expectations have become so elevated that even remarkable results fail to move the needle.

The same dynamic appears elsewhere. SpaceX, for example, recently sat at roughly a \$2.5 trillion valuation on \$19 billion of revenue and negative earnings. I'm not making a statement about where the stock should go. I'm making a statement about market mood. These things remind me of prior periods where rationalizations became increasingly creative. Some of those stories ultimately worked out. Some did not. But many felt problematic before they were ever resolved. My point is simply that there is a series of things worth considering when you think about the environment we're in.

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The one I'm going to spend a little more time on now is the Fed itself. I could have done an entire Dividend Cafe this week about Kevin Warsh, his first FOMC meeting as chairman, his first press conference, his announced task forces reviewing Fed communications, the balance sheet, labor productivity, inflation modeling, and broader monetary-policy frameworks. There are a lot of meaningful changes taking place. Moving away from certain aspects of forward guidance, revisiting long-held assumptions about inflation and productivity, and embracing the possibility that productivity growth itself can be disinflationary.

I do not think Kevin Warsh is setting out to pop a bubble. But I also do not think he particularly cares if some froth comes out of risk assets along the way. That is different. I have not thought that way about a Fed chair since I was in high school. Greenspan became chairman when I was entering high school, and every Fed chair since then has operated with a very different posture. People will debate the merits of specific policies, and there will be good and bad outcomes. That's not my point here.

My point is that when you combine elevated valuations, changing capital structures, increasingly speculative attitudes, anecdotal evidence of excess, and a Fed that may be more tolerant of risk-asset volatility, it creates an environment that deserves attention. I don't want this to sound like an exhortation to time the market because it is not. I am saying exactly what I have always said. Do the right thing now.

And by "the right thing," I do not mean getting on the right side of a trade or a momentum move or a bubble. I mean allocating capital to what is sensible, rational, defensible, and connected to actual operating performance. I think you find that more readily in dividend growth investing than in many of the stories dominating headlines today.

I started this week's Dividend Cafe asking whether we are near a top. I'm ending it in the same place. I don't know. And many of you probably knew I was going to say that. What I do know is that there are a lot of people with a vested interest in continuing the narrative because the continuation of the moment depends on others believing it will continue.

I think your portfolio deserves a better rationale than that. It deserves something intrinsic, something connected to actual operating performance, actual value creation, and actual business results. And I think you will find that more measurable in dividend growth investing. Do I think we're about to tip over in the S&P or in the AI trade? I have no idea. The timing of these things can be remarkable.

But for all the reasons I've laid out today, it is as good a time as any to think about the right time to do the right thing. To that end, we work at The Bahnsen Group.

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Thank you for listening. Thank you for watching. And thank you for reading The Dividend Cafe. Have a wonderful weekend, and I will be back with you for our normal Monday Dividend Cafe, per usual. Take care.