FRIDAY – SEPTEMBER 25, 2026

Well, hello, and welcome to The Dividend Cafe. I am your host, David Bahnsen. I am recording from our beautiful office in Phoenix, Arizona, where I've been for a couple of days with the team here, and where we have taken in a Fed week that is the necessary subject of today's Dividend Cafe.

Let me explain something. I really do not want The Dividend Cafe to be about the Fed every time there's a Fed meeting. It has been more so than normal recently for various reasons, and the sort of drama and adventure of having a new Fed chair. But if I were to set it up this way and just simply tell you that I think most Americans want prices to stabilize, I think most Americans that wanna buy a home would like a cheaper mortgage. I think there are some Americans that wanna sell a home to get a bigger and better one, but don't wanna trade a low mortgage for a high mortgage. I think many Americans want the valuation on their stock portfolio to stay high, and I think many Americans want groceries to be in a certain price range relative to their own expectations, et cetera, et cetera. Then all of a sudden, perhaps this thing seems more, shall we say, relevant to Dividend Cafe listeners, viewers, and readers. But when I talk about it as if it were an academic or macroeconomic exercise—Fed policy, interest rates, quantitative easing, other jargon I could throw on there—it can sound very boring. DC FRI TRANSCRIPT 20260918

But when you think of this, and the reason I'm writing about it, in a very practical sense, and I promise you I'm gonna be concluding today with some very practical, basic, and I would argue relevant takeaways, it changes the tenor a little bit. I'm gonna cut to the chase here from the very outset about the Fed's decision to hike rates by a quarter point this week. And I'm gonna unpack all of this and give you a little more meat on the bone. But what I primarily want to say is that the Fed, in hiking rates a quarter point, didn't really do anything much more than acknowledging that they're following the market, not trying to lead the market. The way that the short end of the yield curve, short-term interest rates, had been going higher, the long end of the yield curve had been going higher when the policy rate was not moving and when the Fed had announced that they—last meeting they were not hiking and, in fact, had not moved rates all year long. What you really were seeing was the market doing what the market wanted to do, not because of the Fed, but despite the Fed.

And I think this goes completely against the sort of reaction function and the policy, the desired policy function, that we've had for quite some time. Markets responding to what the Fed has done, markets responding to what the Fed is going to do, markets responding to what they believe the Fed is gonna do. That is all very different than what I think you're seeing now, where markets are leading the way and the Fed is following. And it's why I've titled this week's Dividend Cafe that it was the most performative rate hike. I'm not saying it in a pejorative way, and I'm not saying it in a complimentary way, but very descriptively, there's not a lot of substance in financial markets to this rate hike because the financial tightening that a policy rate increase would normally represent, the financial tightening has already been done. The financial markets had already moved higher, and the Fed is playing catch-up. And so I think that this rate hike was intended to be very cosmetic in that regard, and that is what it is. And I think you need to understand it that way.

And in a lot of ways, you could refer to it as a do-over from that December of 2025 rate cut. They're kinda taking that cut off of the table. And right now, seeing a more natural rate somewhere around 3.75 to 4%. But I will say there's an 87% implied probability in the Fed funds futures market of another rate hike by the end of the year. That's about 50% for one more, 37% for two more. So is there another 25, another 50 coming up into the Fed funds rate? The one or the other is what the market seems to be saying.

Now, many have asked about the politics of it all. There's been, first of all, some who said, "Oh, the Fed's not independent anymore. They respond to what the president bullies them into." And it's kind of an interesting thing. I do not believe that has ever been the case with Chairman Warsh. I've never expected it to be the case. I do not believe when they didn't hike in July, it had anything to do with President Trump, and I do not believe that when they did hike yesterday—or at this point, if you're listening Friday, I'm recording Thursday—that it was relevant that it was an attempt to upset the President. I think that Chairman Warsh is independent, and I think that means he can be independently right or independently wrong when he independently takes action or independently doesn't take action. But I do not believe that he's being bullied by the President.

But I've had this little theory for a while, and I've shared it with some in my inner circle, that the play here was for him, if he wanted to be able to hike rates and not upset the President, was to explain that it was providing the President a sort of heads-you-win-and-tails-I-lose scenario, meaning the President is gonna be okay either way because it gives him a scapegoat. President does like taking credit for good things in the economy. I think that's true of all politicians and presidents. I think it's more true of this one. And the President does not like being blamed for things. I think that's also true of all politicians and presidents, and I think it's more true of this one. But there's a sort of optionality that this scenario represents, and so to me, it was the way to present it as, I think there's a benefit to higher rates. I think it might bring the longer end of the yield curve down, provide some credibility and independence in perception for the Fed, and be used to some regard to match up policy rates with market rates. But to the extent that there are certain things that then drag or lag in the economy, you can blame it on me. And I don't think Chairman Warsh would mind being blamed at all. And so that, to me, was a messaging that would really be effective.

Well, I don't know if this conversation ever happened or not, but what's really interesting is that the President did not blame Chairman Warsh for hiking rates and did not get upset. He said, "Oh, well, I told Kevin, 'Go ahead and do it because you don't have a choice. Everyone else is doing it anyways. They're politically minded.'" As if Kevin Warsh, the chairman of the Fed, had to do it even though he didn't want to. And I don't even know what to say because I honestly do not know the answer, nor do the people I know. Do I expect that they would tell me the truth as to whether or not the President really believes that? Chairman Warsh clearly wanted to do this and clearly said so, and so where that came from is a little mysterious to me.

But then the President did something that I think is probably a little more clever than people are giving him credit for, and I didn't think so at first. But in Dividend Cafe, as a matter of fact, we'll put up on the screen right now the actual cut and paste of the President's Truth Social post where what he said was that interest rates should be 1% or less. He's saying, "Oh, yeah, rates really should be lower." And this then, you think, is where he would normally go to say, "Why is my central bank person hiking rates when they should be cutting?" And he goes on to say, "It's because we have such a great economy, great credit." And then this is the part that's fascinating. "If we stop trading every country we have a deficit with, we would make $1.5 trillion a year. The deficit is a fancy word for loss," referring to trade deficits, referring to the amount we're trading with other countries. "Lower interest rates for America fast."

So he confuses credit spreads that reflect the creditworthiness of the country with the actual interest rate and then goes on to talk about trade deficits, which have nothing to do with this at all. And some folks thought, "You know, this is pretty scary. The President's mixing up like two or three different things here." I think the President is completely wrong about what he's saying regarding trade deficits, that you lose money when you buy something from someone else. I just, I don't—I kind of do think he really believes that, but I have written time and time again about the errors of that mentality. But my point of bringing it up is that what the President did here might even be, you know, on purpose to just simply divert the attention away from what the Fed did and go into a couple different red herrings that are actually not connected, and it becomes this sort of non-critical criticism. Like, yes, he is saying rates should be lower, but then he's going on to talk about trade deficits that have nothing to do with the Fed decision.

And it seems to me it's almost like an effective way to move it and not defend his chairman, but not criticize the chairman. And I'm not one of these people that always thinks the President's playing 4D chess, and I'm also not one who thinks he's always being dumb. I think that sometimes he's right, sometimes he's wrong. But, like, in this case, I think those trying to assess the politics of it—I promise you there were media characters yesterday just begging for a soap opera between the President and the chairman. And I think what you saw was kind of this interesting way of not giving them what they wanted.

So whether or not my scapegoat theory is gonna play out, we will see. But nevertheless, the political side of it did not go to where many thought it would. And now, if you think the Fed is gonna raise rates one more time this year, I do suspect they won't do it at the late October meeting, being one week before the midterms, that they would wait till the December meeting. It's entirely possible they do one in October and not one in December. It's possible they do one in each. But I would imagine they won't. Now, the midterm thing is absurd. There's just absolutely no reason not to. If you think it's the best thing to do, the fact that it's six days before the midterm, like, some person's gonna say, "I was gonna vote this way for my congressman, but because of a rate hike six days ago..." I just don't believe it. And yet those that would say, "Oh, there's this appearance of political meddling," I think we say there's an appearance of political meddling to make there be an appearance of political meddling when there is no appearance of political meddling. But that's beside the point.

Whether or not they will, I suppose it's probably unlikely in October, and then we'll see in December. The table has been set for one more rate hike. What is their reasoning? Well, let me first point out that they got a 12-0 vote, and that's very important. It was 9-3 not to hike at the last meeting. It was 12-0 to hike at this meeting. And so the unanimous collegial consensus is important. I don't have a source on this. I'm speculating. I believe there were one, if not two, Fed governors that voted against a rate hike and changed their vote to allow for the unanimous consensus once they saw the way the vote was going. I at least suspect that of Fed Governor Waller and perhaps one other. But again, I don't know that. But either way, it avoids more drama within the Federal Open Market Committee and the Fed governors, and that's a healthy thing.

But I also think his comments in the press conference, Chairman Warsh's, speak to their general frame of mind. They think the jobs picture is good. They think the overall economy is good, and that then took the pressure off the other end of their dual mandate to focus on the price stability end. And what they said in July was that there was upward pressure on prices, but they acknowledged a supply shock, and they took that language about supply shock out. Now, someone in the press conference said a quarter-point rate hike isn't gonna reopen the Strait of Hormuz, and that's certainly true. But what I think that they believe, with some data behind this for sure, is that, yes, the Strait of Hormuz being closed and the various Middle East geopolitical elements are really not in the Fed purview. And by the way, there's other supply shock issues, I think tariff-related, that are not in the Fed's purview either. But that there's enough upward price pressure and markets have voted that they believe that they need to focus on the price stability component with the policy tool they have available, which is the Fed funds rate.

Now, they're paying 3.9% to banks to hold reserves at the Fed. They're paying on those excess reserves an interest rate of 3.9. That's right in the middle of the Fed funds rate, which is between now 3.75 and 4. So they're not trying to dramatically incentivize or disincentivize lending one way or the other. As long as the amount they're paying is within the Fed funds rate, it doesn't either tighten or expand lending really at all. It's a very neutral and, shall we say, performative monetary policy step.

How did the bond market react? Well, in the immediate aftermath, you saw the two-year jump up quite a bit. The 10-year moved up about five basis points, but it had been down five basis points before. So you saw further flattening of the yield curve, that the short end was up more than the long end. As I'm talking here middle of the day Thursday, the entire yield curve is down about five basis points, but evenly so. I think the 10-year is now down about six basis points. So look, a 30-year at 5.3% right now, a 10-year at 4.94. There's no big performative flex in the bond market on any of this. It directionally has moved where you might expect it to, but mortgage rates are back to 7%, and that's what's gonna matter more than anything else.

Is the 10-year gonna get back to 4.5, where you could actually see it start to pull mortgage rates lower? Probably not anytime soon. But the one thing I do wanna say, and it's an insanely difficult dance for the Fed as they're trying to use a higher long end to bring—excuse me, a higher short end to bring the long end lower—that markets very rarely will respond exactly as you want. And the markets are leading, as I've pointed out right now. When it comes to monetary distortions and interventions, all you really can do is get lucky or do damage, see things you don't want to happen. It's very hard to pull off desired policy aims without the trade-offs that you're trying to avoid.

Now, I'm gonna put a chart up real quick that you could argue is a positive element of the last day or so. This is the 10-year TIPS spread, the inflation breakeven, and you can see it's dropped about five basis points. Okay, so if the 10-year dropped five basis points and the TIPS spreads are down five, that means that you brought rates down a tiny bit without expectations of lower real growth. That's what they want. Now, it's been twenty-four hours, and it's only five basis points, but directionally, that's what you would like, is to be able to increase rates and believe that you are dampening inflation expectations without impacting real growth or hiring or productivity in the economy.

The question about what all this means to the stock market, I first wanna point out, and I say it over and over again, I cannot say it enough, looking at the first forty-five minutes or hour and a half after the Fed does anything at any Fed meeting day is a fool's errand. It is filled with traders, speculators, hedgers having to cover and rebuy or resell or whatnot from where they were in a very short expectation. You get very heightened volatility. I went back at the last ten Fed meetings. You see an average move in this very limited period of time of 83 basis points, peak to trough, in a 30-, 60-minute window. Going back twenty-four Fed meetings, you get three times the normal volatility in a regular hour, 90-minute period of time.

Do I believe that the Fed funds rate matters to equity valuations? Well, first of all, in theory, we know bond yields and the risk-free rate are a factor. However, they just simply haven't been for some period of time, and that doesn't mean they're not a factor. It means markets, investors have been, for now, looking through it. Mathematically, in the annals of corporate finance, we know what it is. But I wouldn't have guessed you could have a 4% Fed funds rate, a 4.5% two-year, a 5% 10-year, and maintain a 23-times multiple in the S&P. But we've done it for quite a while. So do I think that higher bond yields eventually put downward pressure on equity valuations? I mean, we know they do academically and theoretically. But what I would say is that trying to speculate on that or the timing of that, when you have earnings growth, the AI business model, oil prices, market valuations are all far more important factors than the Fed funds rate, will-they-won't-they talk from the Fed in terms of the state of stock markets.

Let me close with this. Yes, the Fed has raised rates a quarter point. No, it doesn't matter to the extent the financial markets had already done it. Yes, mortgage rates have moved higher in the last couple of months. And yes, those borrowing money then are theoretically paying more. That includes governments, and it includes commercial real estate developers, and it includes residential mortgage borrowers. But just please remember that every dollar that's ever been borrowed is a dollar that was lent. That for every debtor, there's a creditor. For every spender, there's a saver. And that one person's interest expense in the P&L is another person's interest income in the P&L.

And to the extent we think that a lot of times that's banks, that's fine. But also remember, there are widows, retirees, savers that now have more interest income that they're going to be spending. I am really of the mindset that I, nor you, nor the President, nor a central banker should be trying to pick favorites between the borrower and the lender, the saver and the spender, the creditor, the debtor. That these things are just part of organic, healthy market activity. And to the extent we still continue to require the Fed to set the prices for how those parties transact, which does effectively ask them to create a favorite in those transactions, I think it's problematic. Now, I know it's not going away anytime soon. I've said that repeatedly. But to the extent that the Fed is allowing markets to set rates and they play catch-up versus them trying to impact market rates, I take that as a baby-step victory.

That's where we are this week, a performative rate hike and an awful lot of room to go. But a lot of other bigger and more important questions for those trying to actually understand the economy and where risk assets will go. More important questions than the never-ending drama around the Fed. If I could say all this to the President of the United States, I would. And in the meantime, I'll settle for my wonderful listeners, readers, and viewers of The Dividend Cafe. Have a wonderful weekend. DC FRI TRANSCRIPT 20260918

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Well, hello, and welcome to the Friday Dividend Cafe. I am your host, David Bahnsen. I had a tough time this week on the topic, and that is not normally the case when I've made a decision on what I wanna write about on Monday. I actually love going into a week with a topic determined and sort of marinating on it throughout the week. But then by Wednesday or so, as bond yields were moving higher and it seemed to be the obsession in the media and in financial markets, I thought, "Yeah, you know, the 10-year and 30-year making these new highs, we ought to cover the bond yield issue." But I was already kinda into the right mental space of this energy theme that I'm gonna be talking about today, and I decided to keep it. The bond yield story is not going away, so I can cover it next week, although the problem is I have another special thing I wanna do next week. So I'll get it all sorted. You have to hear from me enough that I shouldn't worry about whether or not I'll be able to fit in everything that I wanna say to you. I'll find a way, don't worry. DC FRIDAY 20260925 TRANS

But the energy thing we're gonna talk about today is a little different than the way I think a lot of people in the investment space are thinking about energy. There's a link in dividendcafe.com today, but I was on the Mornings with Maria Fox Business show on Monday, to kick off the week a few days back, and was asked a question about the volatility of oil prices and what it meant to some of the great oil companies. And I think it was a perfectly fair question and well asked in the context of that interview. I hope it was well answered by yours truly. But it's indicative of the way I think a lot of people continue to think about the energy investment story, to the extent anybody's thinking about it at all, which is another thing we're gonna talk about here. And that is that this notion of oil prices, and particularly the impact of the Strait of Hormuz and the Iran war on oil prices, being the kinda central story of energy investment. And I don't agree with that. I don't agree with it at all, and I'm gonna make the case today, first of all, how people should be and why people should be significantly more bullish on the energy investment story and opportunity. And it's not something I do with this much conviction very often in the Dividend Cafe, which is a lot more macro-minded. But I wanna get in the weeds here today and make a case on energy investment, but reframe the reasoning behind it, okay? So that's what we're gonna spend our time doing.

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I said that when investors are talking about it, they're talking about it in this kinda limited or truncated sense about the news headlines, Hormuz, Iran, and of course what that means to WTI crude oil prices. That's fair enough, but I don't wanna overstate the point because there is an argument to be made that people are not really thinking about it at all. First of all, the reason I guess you could say this isn't important to a lot of investors is kind of the inverse argument as to why I say that the AI story has become so important for so many investors. When people tell me, "Oh, I'm not in Nvidia. I'm not doing this levered tech sector stuff and Mag Seven and blah, blah, blah," and I make the point all the time that this has now become your story as just a regular index investor, whether you like it or not, when certain names, certain sectors, certain subsectors have become at a level of concentration within the index that is absolutely unprecedented and dramatically so in history.

So I make that argument a lot, and if you inverse that logically, when energy started off the year as 2.9% of the S&P 500, and as I sit here right now, it is 3.4% of the S&P 500, then it is somewhat understandable why it just simply isn't on the radar of a lot of people. You know, energy is up this year as a sector. I believe the IYE is up 38%, and that's why the sector weighting has moved all the way from 2.9 to 3.5. But my point is that when something is up 38% and it's a few basis points to your portfolio, why should you care? And that's kind of where the index reality is for a lot of people.

Let's put this in a little bit more context. All of the energy companies in the S&P 500 put together are equal to substantially less than half, substantially less than half of Apple, one company, which is right now 7.4% of the S&P 500. It's a wonderful company. It's a very, very successful company, but more than two times the entire energy sector. Now, by the way, that is the entire energy sector. What if we just looked at midstream energy? It makes up a whopping 0.5% of the S&P 500. So now you have one company, again, a massive market cap with massive cash flow and earnings, that is 14 times the entire energy infrastructure—think of pipeline, transport, storage, infrastructure—14 times that relevance in the United States stock market.

I think the idea that how our energy needs are provided, how oil and gas gets to us, gets to refineries, gets to other countries that we sell it to, how those end products come to be, when you look at the end products that come out of natural gas liquids, and I'm thinking of butane, propane, ethane, where ethanol comes from. When you think about these things and the relevance in the economy and say, "That's kinda interesting. It's 0.5% of the S&P? And with all of the production and exploration and drilling added on and all the refineries added on, it's 3, 3.5%?" This is an ignored sector, period. And so it does make for a kind of self-fulfilling prophecy. If one is heavily overweight energy and it does real well, they're very likely to, quote-unquote, outperform. And if they're very overweight energy and it doesn't do well, then they're very, very likely to not. And so that is what it is. But my point is that you're dealing with something that the vast majority of people don't have to care about for the kinda inverse reason that the vast majority of people do have to care about the AI story relative to the way their, you know, vanilla portfolio might be invested.

Well, what I do not want to do in The Dividend Cafe, I alluded to before. First of all, I wrote The Dividend Cafe right when the Iran war started where I was making this philosophical case about the importance of energy and how economic reality is essentially a story of energy transformation. And that thesis I stand by entirely, but it's different than what I wanna get into today. When I argue that economic activity is energy transformed, that transforming energy generates wealth for societies, the historical argument and the kinda economic argument behind it is very important. First of all, it presupposes that a country or a society has energy to transform, and that they transform it well. America is a blessed country on both of those fronts. But I wanna do something a little bit more than just these kinda high-level realities that, again, you could think of as somewhat philosophical, and get into some specifics that I think have a lot of investment application today.

Now, when I say I wanna do this without just relying on the current Strait of Hormuz argument, this is not to say that supply particulars don't matter. First of all, there were 20 million barrels a day that were going through the Strait of Hormuz before the Iran war. It got down to about 2.7 million in the spring. You had about an 85% reduction, which is just incomprehensible in what you would think that means to global supply. My understanding is that that number has improved to about 6.5 million barrels now. So instead of an 85% reduction from pre-war levels, it's 68%. I mean, that's still a big deal, and it largely explains why we're sitting here in $92, $93 oil right now.

But there's a chart I wanna put up right now that shows you the level of inventory buildup that took place last year and inventory drawdown now. The IEA estimates that 507 million barrels have been drawn down from preexisting inventories since the war began. So more than 300 million barrels of emergency stock of oil has been released globally. That's 2.8 million barrels per day for six months that have come out of a pre-stocked inventory. In other words, a lot of this missing supply with Strait of Hormuz closure, as much as it did push oil prices up, could have been so much worse if it weren't for the fact that we've largely, and I don't mean this in the U.S. but globally, been living off of yesterday's oil to replace the production that is not happening today.

Now, the Strait of Hormuz is not everything. First of all, Saudi has had other ways to get oil moved out of the Gulf. The United Arab Emirates has had other ways. There are other things that can happen when you have a supply shock, primarily demand erosion, that can help soften the impact of prices. We haven't necessarily seen a ton of that, but we've seen some, at least on the margin. I think the interaction between supply and demand is one of the most basic of economic laws, and its relevance in the whole oil story is significant. But what I would suggest to you is that in the short term, oil prices moving higher because of supply constraints and then being buffered to some degree by a drawdown of inventories, that is not the entirety of the story.

Demand does remain strong, and I get that this is a pretty good position in 2026. You could argue maybe some of it's reflected in stock prices now. But it is not the subject of this Dividend Cafe. If I were a betting man, and I am not, and it is not the subject, it is not the base of the thesis, but if I were to think through this in a short-term context, intermediate term, regardless of how Hormuz plays out, I would guess that China's demand will meet expectations, if not surpass it, that supply will remain constrained, and I would say that most U.S. producers at a general level will remain capital disciplined. That's all a pretty good setup. But I would also tell you that to the extent there is a relative relationship between oil prices and the kind of energy sector within the S&P 500, there's a big margin of error here. And I do not think current stock prices are reflecting where those dynamics are.

So you get all at once perhaps a bit more defensiveness than people realize is embedded and perhaps a bit more offense for those focused on the current supply-demand story. The chart here shows this. I'm gonna put this second chart up regarding the kind of historical relationship between energy within the S&P versus oil prices. And you can see that there's a big gap between the two in that historical relationship. So look, I am not making the case for the integrated plays, the kind of big upstream companies that are globally diversified, merely on the headlines. I do think supply and demand factors are favorable. I do believe capital allocation has proven to be far better, more prudent. I understand that our focus has been and will be on less-levered names and those with a history of prudence in the way they manage their business, verified through decades of dividend sustainability, the fortress balance sheet behind it. I think all of that stuff is true.

What I would say to you is that if you believe in the AI story and you separate it from the energy story, then you do not understand how the AI story is supposed to work. The AI story is so incredibly dependent on further power, on such high power demand, and that power demand, electricity production, requiring so much more oil and gas, it is not discussed nearly enough. There's a demand catalyst that is much longer term than the short-term scenario around a Strait of Hormuz supply shock. I find that to be very compelling. And yet you could argue that overpaying for those fundamentals then becomes the problem. Because once the energy story is tethered to the AI story, and if I believe so much of the AI story requires you to overpay, which I do, then the valuation subject becomes a matter of question for energy itself.

And yet energy's earnings right now, the energy sector is about 5% of the total weighted earnings of the S&P 500, and it is less than 3.5% from a market cap standpoint. Look, not even financials have as big of a delta between their percentage of market cap and the percentage of earnings. Financials are about 12 and 15, respectively, and as a percentage differential, energy's is even further disconnected. Now, the forward P/E for the energy sector is always less than the S&P 500's for a lot of really good and understandable reasons. The historical relationship is baked in over time between what the S&P's multiple's gonna be and what the energy sector's multiple's gonna be. There's a relationship there that already factors in that there's higher CapEx needs in energy, that there's lower growth rates than, for example, the technology sector. But the noteworthy piece here, and I'm gonna put another chart up right now, is that factoring in that historical relationship, the energy sector's valuation relative to the S&P is only 70% of its own historical average.

I do find this quite bizarre. I also find it tantalizing. So let me summarize this before I move on to where I think the lowest-hanging fruit in the energy story may be, and that is the short-, intermediate-, and long-term story behind energy presents a solid investment case, but does not force us to grossly overpay and move out on the risk curve in a way that I don't wanna do.

But that requires me now to look at where I think people can get almost outside of a crude oil conversation entirely, and that is the midstream energy story. I say a lot that I want you to meet me in the middle, that the upstream story has a lot of commodity price volatility, the producers, the drillers; that the downstream story has a lot of cyclicality and also volatility, the refineries; but that in the middle represents something that ought to be much more attractive, and yet has created a couple of what I call investment PTSD moments that caused an awful lot of investors to go away and to not come back. And I say investment PTSD versus PTSD because I don't wanna belittle real PTSD, which is often, you know, folks who went through something, let's say, in combat that is worthy of the name in what the trauma that goes on, and I don't think any of us sitting here looking at a screen dealing with investment dynamics should ever be allowed to use that term in the same context.

But nevertheless, in the investment jargon I'm dealing with, what happened in 2015 when OPEC attempted to go after the U.S. fracking industry by flooding the world with oil, and what happened again in 2020 with Saudi and Russia and that dynamic, and the midstream sector's downturn in that time period definitely left an investment PTSD dynamic for an awful lot. And I don't say that to explain it away or even express sympathy. I'm not flattering these people because in 2021, the MLP midstream space was up 40%; in '22, 31%; then 26.5%; then 24.5%; then 10%; now year to date, 24%. These are stunning comeback numbers that a lot, a lot of people, the vast majority of people—it's 0.5% of the S&P 500—missed out on.

And yet the recoveries you've seen notwithstanding, I think that what took place in these past bad moments of very poor capital discipline, in some cases very poor governance, overly saturated markets, obviously the shenanigans from Saudi, OPEC, Russia, that it—look, it caused a lot of people to say, "Never mind, I'm gonna look elsewhere." But what is missed is that not only have you had this great recovery, what I think skeptics fail to understand is how different the fundamentals are and the story is now in what you could refer to as this midstream 2.0 moment, where natural gas demand is leading the way, a cheaper and cleaner fuel that has replaced coal as the primary driver of electricity production in our country. The business model largely on a pay-to-play system where it does not matter what the natural gas cost is going through it, that there are much healthier counterparties and much more favorable contracts that mitigate commodity risk. Regardless of what the overall investment sentiment is, the fundamentals largely mitigate some of that commodity risk.

This natural gas demand I talk about is domestic. You look at our—I mentioned before the natural gas liquids—the amount of plastics and petrochemicals and cosmetics and household items that we get with a natural gas liquid derivative is stunning. The way in which our homes are heated and electricity is produced, the way we feed ourselves, these are just core elements that are clearly secular and structural in nature. And natural gas is abundant and needs to be moved, and that is a domestic story that I believe is irresistible.

Now, it's also a global story. Our capacity to export liquefied natural gas is going to more than double in the next five years. So I think that we're gonna continue needing food and heat, and there may be some out there saying, "No, AI is gonna mean you don't have to eat anymore." I don't know if anyone's actually saying that. I would imagine I could find someone on the internet who is. Some of the things that get said about what AI will do for us are just in that vein of ridiculous. But I just wanna point out that if you actually believe that AI's gonna do this or that, then you should be an even bigger natty gas bull because you can't get AI to do any of these unbelievable things without data center build, and data center build requires power, and the power requires natural gas, period, point blank.

So look, moving this natural gas around requires pipelines, and the pipelines are not easy to build. They're not easy to permit. There's a tremendous value where there is incumbent legal rights for pipelines. The contracts have embedded inflation protections more often than not that favor the pipeline companies. And so the fundamental story becomes the expectation of volume growth, pricing power that is there creating enhanced distributions. This is a very enviable business story. And I think when you combine it with the improved capital discipline that exists in the space, much less leverage than we had before, much stronger balance sheets, much more self-reinforced CapEx versus requirement for dilutive equity issuance, you have a really, really attractive capital story attached to a very attractive fundamental story.

There is a little anecdotal paragraph about the White House idea of a diesel fuel export ban. I'm not gonna get into it right now, but there's some links in Dividend Cafe. I do think the White House, if they were ever serious about it, has now walked away from it. But that's touched on in dividendcafe.com if you wanna look at some of that.

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I will pull this to conclusion here. The fundamental takeaway is this, and I'll read it directly from the conclusion in Dividend Cafe, okay? "I believe investors not looking for a weekly return timeline or a monthly return timeline can look to the energy sector at a time when very, very few others are, and find attractive valuations and fundamentals, especially in the midstream space, find a structural argument with literally a half dozen tailwinds to be excited about."

I think this is a very good idea in what often feels for investors like a world gone mad. So I will leave it there. Thank you, as always, for listening, reading, and watching The Dividend Cafe. Have a wonderful weekend. I will be with you on Monday for our normal Monday Dividend Cafe. It's gonna be a very great week ahead. And enjoy your weekend, and beat the Ducks and fight on and play some defense.