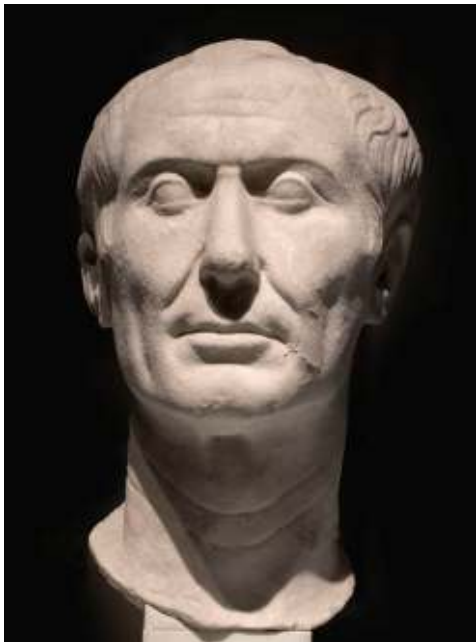




LLOYD TEVIS
INVESTMENTS, LLC

Securing your future through Precision Investing™



Market Commentary
August 2024



Executive Summary

Geopolitical tensions continue elevated with open war in the Ukraine and the Mideast. Tension with China over dominance in the Western Pacific and especially with reference to Taiwan is continuing. Further escalation and/or coalescence of these conflicts could significantly reorient the world economy.

US internal political tensions also are elevated with the two parties holding incompatible views on a number of core issues. As a result there is an absence of the policy stability generally preferred by investors. For the moment, however, the economy is strong and on a generally improving trend. Progress with AI promises a massive technological revolution comparable in its effects to the creation of the automobile or the internet. There is much for investors to be keeping an eye on at present.



Russo-Ukraine War

South Korea has developed an anti-drone laser weapon. Drones have been a dominant tactical element on the Ukrainian battlefield. In the next year, Russia aims to deploy one million drones. If the new weapon proves an effective anti-drone weapon which can be deployed at scale, it has the potential to alter the battlefield dynamic and possibly create a more fluid military situation.

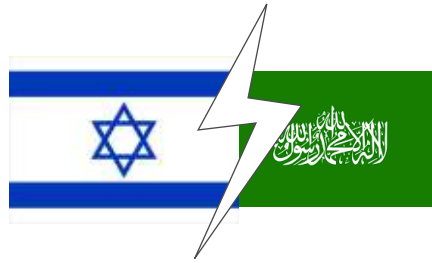
The Ukrainians continue to suffer from coalition warfare in which no one is accountable for victory. Solving this problem is a key issue for Biden to address. Unfortunately the US is in political turmoil at present. A resolution of the turmoil before February 2025 is unlikely.

The US and Germany have reported Russian plots to assassinate key defense industry executives. Russia's covert operations against NATO countries are moving right up to the line that would trigger a unified NATO response. NATO needs to respond forcefully to foreclose further escalation by Russia.

The US and EU have warned China that enablement of the Russian aggression through support of its war economy could expose China to loss of market access. With China's export industries currently providing key support to an economy dragged down by a depressed real estate/local government sector, the warning is well timed.

Several European countries on the front line with Russia have introduced mandatory mass conscription programs. Such programs typically require one to two years of military training at the end of formal education. After training, recruits are moved to the reserve pool and typically are subject to call up until their mid-forties. These measures are required by the emergence of grinding attritional warfare as the current norm for significant wars. The economic cost is pretty high – both in terms of the direct cost of training for a contingency that hopefully does not arise and the indirect cost of deferring productive use of labor.

Russia is nurturing its long term ties to Cuba, Nicaragua and Venezuela. It is also active in North Africa. China has sought to inject its diplomacy into both the Ukraine and the Mideast situations as a counter-balance to the US. In addition, China courts Brazil. The US faces significant challenge in its own hemisphere. India, although interested in balancing China and therefore friendly to the US, continues to regard Russia as its bedrock international partner. Fundamentally this makes no sense give the Russia-China accord, but India's foreign policy has long been full of wishful thinking and opportunistic tactics.



Israeli-Hamas War

Iran's new President has signaled an aspiration to improve Iran's economy through reaching some accommodation with the Western powers regarding its nuclear program. The US judges that Iran can manufacture a Hiroshima class bomb in about two weeks and that the Iranian President has no control over Iran's nuclear program. The President's inauguration drew regional leaders and leaders of Iran's militia allies to Tehran, where - no doubt - much diplomatic palavering occurred. Israel took advantage of this situation to kill Hamas's political leader with a bomb planted in his guest house. Iran is understood to be meditating on revenge. The situation seems unpromising for peacemaking.

Israel is following a military strategy of raiding Hamas strong points rather than a strategy of seizing and holding territory and of separating Hamas from the civilian population in which it is embedded. Israel's strategy is likely to lead to a slow moving conflict that maximizes suffering in the civilian population. It is also not clear that it can deliver a clear victory. Anything other than a decisive defeat of Hamas will be considered a Hamas victory not just by rabid partisans of Hamas but also by a good fraction of neutral parties and even Israel itself.

The Houthis attacked Tel Aviv with a drone and killed one person. The Israeli air defenses are apparently lighter on the Eastern Mediterranean side from which the Houthis attacked by way of a circuitous aerial approach. The drone employed can fly 1500 miles and carries a 40 pound explosive charge. An off course Hezbollah missile killed 12 Israeli Druze children in the Golan heights. The Druze are an offshoot from Shi'ism. Regarded as heretics by the majority of Muslims, they have survived by cultivating a fearsome reputation for avenging wrongs. Israeli leaders attending the children's funeral were met with the question "Why is Beirut still standing?" The IDF in due course killed the senior Hezbollah commander responsible for the sector. Hezbollah

has duly frothed at the mouth, but more quietly indicated it does not want to further escalate this situation. Flaky technology and hard to control line staff create substantial problems for militia leaders in a region where “proportional response” is a not in the cultural lexicon.

By a vote of 68-9 Israel's parliament rejected creation of a Palestinian state (“the two state solution.”)

The two state solution had been the guiding framework for peace negotiations since the Oslo accords of 1993 (i. e. for a thirty one years.) Originally deeply supported in Israel, repeated Palestinian attacks on Israel have converted the Israelis to the view that creation of a Palestinian state would be an act of folly. Israel is likely to move to formal annexation of all occupied territories. Israel will not extend civil rights to Palestinian occupants however. Instead they will be treated as stateless persons. The Hague Court has issued an advisory opinion that Israel is abusing the rights of an occupying power at present. As Israel moves forward with its anti-Palestinian policies its international position is likely to grow increasingly isolated.



US Politics

The month was dominated by political assassination. A twenty year old man tried to kill Trump with an AR-15 rifle. He got off a grazing shot; killed a bystander in the crowd and was himself killed by the Secret Service. His motivations appear to be apolitical. Trump was simply the most convenient target for a shooter seeking the notoriety of a celebrity kill. It is fortunate the shooter had not outfitted himself with a bump stock. Had he done so Trump most likely would not have survived. Surviving the attempt provoked a wave of support for Trump among his followers which fed into a well choreographed Republican convention. Trump selected Vance as his Vice Presidential running mate. Vance lacks qualification for high office. He wrote a best selling

novel and has served eighteen months in the Senate. Otherwise his career has been bouncing from position to position every two years. His selection has been a boon to Kamala Harris, who was transformed in the twinkle of an eye from a light weight into a relative middle weight. Vance brings the ticket no new support. Trump is said to have selected Vance at the behest of Peter Thiel. If so, we have the irony that the Bay Area – an isolated political bubble within the United States – is contributing both Harris and Vance to the national political scene.

Vance's novel "Hillbilly Elegy" is an account of Appalachian culture as experienced by Vance in his own life. The novel attributes the woes of Appalachia to the personal mistakes of its inhabitants and allegedly malign Federal interventions. Understandably many Appalachians were irritated by this viewpoint. Vance has gone on to prove he is a maser of insulting people by accusing childless cat owners of possessing sociopathic tendencies. Approximately 30% of US adults have no children. Approximately 30% of US households have a pet cat. For comparison purposes, white males are also about 30% of the population. Vance, Noem and Trump all seem to have something against pets – a genuinely odd feature of the current Republican party.

Meanwhile President Biden fell victim to a different sort of assassination mounted by his own party. At the conclusion of the NATO summit Biden gave a press conference demonstrating the ability to give cogent paragraph long answers to reporter's questions, to do so standing on his feet for an hour at the end of a long week and to even to interject moments of humor. There were the customary signs of his lifelong speech impediment, but Biden withstood the reporter's grilling with no signs of diminished mental capacity or stamina. What he could not withstand was a comment by former President Obama, delivered privately to a group of donors and immediately leaked, that he was "shockingly disoriented at a fundraising event." We assess that act as the move of a political assassin and not the deft work of a senior statesman. Ill with Covid, Biden retired to his beach house while the party held conclave to pick his successor - inevitably settling on Harris because passing her over "would be unacceptable to women or blacks." This left

unexplained why knifing a successful older white male in the back was acceptable but skipping over a lightly qualified mixed race female was not. Also unexplained is why Biden is so shockingly disoriented that his former running mate feels it necessary to force him off the ticket, yet he can be left running the country. Finally if we are to believe the story of declining mental capacity how are we to understand party leadership's initial support for Biden's re-election? According to Republicans incapacity has been evident for months. Insiders seem to have embraced the Republican position as true and in the process destroyed their own credibility. The incoherence of the party's position is remarkable. In short the optics are terrible and the deeds are actually worse than the optics.

To the charge that this is a raw power play by the Obama faction of the party there is perhaps some answer. It seems that the wider party genuinely panicked over polling data, impulsively decided something had to be done and then discovered campaign finance law made Harris the only possible successor. But that story is no more confidence inspiring than the power play story. In particular, polling data is known to be less reliable at present due to technical changes in data collection (most polls sample the population through calls placed over landlines, but that is an increasingly unrepresentative sample of the voting population.) The real difficulty is that the Biden coalition relied not just on Democrats but also on cross over Republicans and Independents for its electoral success. Some of that coalition will start with the assumption that Harris is a backstabbing swamp creature. Many will be skeptical of the Democratic leadership as a whole. Possibly Harris will be able to overcome these impressions, but she will have her challenge cut out for her.

Cautiously, we estimate that the anti-Trump vote will hold firm and push Harris over the line to victory, but we think the electorate may indicate its distrust of the Democrats by electing a Republican Congress. The result seems likely to be a hung government, or possibly a unified Republican government if Trump can squeeze through to victory.

Harris has certain moves available to her. She gets to pick a running mate. Inevitably representational politics demands a white male. There are several candidate governors whose selection might bring a swing state into the Harris camp. Harris also undoubtedly will attack Trump as too old for the job.

Pretty much every white male over age 50 in a corporate job has an age related concern. They know that their employer's desire to cut costs, diversify the ranks of senior staff, maintain a docile workforce which will not question C-suite policies and present a youthful vigorous face to the world all put a target on their back for early retirement. Early retirement at the peak of ones saving years can have devastating impact on personal finances and typically forces its victims into meager second careers that extends into the mid-70s. In short it is no retirement at all. A presidential campaign season that endorses age prejudices will heighten economic anxieties in this demographic. The demographic has good reason for its anxieties. Age discrimination is alive and well in corporate America. There are two steps persons who find themselves in this situation should take. First, build retirement savings continuously through out the career. Do not follow the old pattern of focusing exclusively on family building in the first half of the career and postponing retirement savings to the second half. Second, manage ones career so that it creates viable and worthwhile second career opportunities. If ones career is so specialized that it can only be conducted inside large corporations then the compensation package must provide for accelerated building of retirement savings.

This election was the Democrat's to lose and they appear to be doing a fine job of it. Indeed the possibility that revulsion at the Democrats delivers both the Presidency and Congress to the Republicans must now be considered in the scenario set.

Prior to all these shenanigans, it had broadly been expected that the election would result in a hung Congress, with the Democrats expected to retake the House but to lose the Senate. However, expiration of the 2017 tax cuts next year could have provided the Democrats with enough political capital to trade that a total lock up of government would not

occur. If no political compromises emerge, then the increase in government revenues would relieve some of the fiscal pressure on the Democrats. Biden was running on a fairly light program realistically calibrated to the likely tight budgets and hung Congress. In fact, Biden's main goal for a second term was simply to consolidate the achievements of the first. Even a fairly lame duck term could have usefully accomplished that goal. Harris is now likely to amp that program up but lose credibility in the process. We doubt that, if elected, she will have Biden's skill at moving legislation through Congress.

The Republican party, by contrast, is full of ambitions. Trump has sought to distance himself from the plan for a fascist dictatorship proposed by the Heritage Foundation's Project 2025. With 140 former Trump administration staffers on the author list of that document, however, the distancing is not credible. But at a minimum certainly the Republicans are keen to renew the tax cuts, which by inexorable fiscal logic pushes them into deep cuts in social programs and entitlements. In addition, rolling back climate and environmental initiatives are key agenda items for them. Consolidating restrictions on abortion remain a first priority for an essential component of the Republican party. Finally, substantial efforts at deportation may not be a viable strategy at a time of near full employment, but terrorizing the undocumented with well publicized deportation round ups is a fine way to beat down wages paid to the undocumented in the gray economy. With Congress hung and unlikely to enact major portions of this plan, the Republicans will need to fall back on executive action and a supportive Supreme Court. A hankering after fascist dictatorship is what one would expect of people who dream of reorienting government and society but who know they do not have the votes to do so. Possibly, however, the Democrats have gifted the votes to them and thus forestalled the need to fall back on extra Constitutional measures.

Whichever party loses the election is likely to push full bore into the generational transition of power. What emerges from that process is unpredictable. This election has become very high stakes for both parties.

Biden seems not to have received the memo informing him that he has been stripped of political authority. He has proposed a Constitutional Amendment to limit the tenure of Supreme Court judges to staggered terms of 18 years. While the Amendment is unlikely to move forward at present, a strong show of support for it may induce some caution in the Court. We regard this proposal as an opening salvo in what is likely to be a long struggle by Congress and the Presidency to claw back power from the Court.

In other actions, the government has negotiated a prisoner exchange with Russia which releases 16 prisoners from six countries held by the Russians in return for eight imprisoned Russian spies. The Russians claim their prisoners were spies also, but the home countries tend to feel they were hostages nabbed by the Russians to provide bargaining chips. The Biden administration has made a priority of repatriating citizens unjustly imprisoned abroad and so far has had more than 70 successes. This deal returned home three high profile American prisoners. In addition the government has struck a plea deal with the 9-11 plotters held at Guantanamo military base. In exchange for guilty pleas the government has withdrawn the threat of imposing the death penalty. Doing so denies the al-Quaeda group martyrs to boast of and the forum of a trial at which to protest prisoner abuse and assert their claims of being legitimate freedom fighters.

With all this racket going on, Judge Cannon has killed the prosecution of Trump under the Espionage Act by finding the Special Prosecutor's appointment irregular. We think the Attorney General, who for seven years served as Chief Judge of the DC Circuit Court, probably knows the law better than Judge Cannon and no such irregularity occurred. This issue will go into appeals and likely wend its way to the Supreme Court. Here Thomas has signaled that a supportive ruling is possible. Trump is lucky to be receiving so much protection. The government's factual case appears air tight and carries heavy criminal penalties.



Inflation

Monthly CPI inflation was -0.1% in June. For the full year it was 3.0%. For the 6 months the rate is 2.6% with the monthly numbers steadily lower month by month since February. July jobs increased by 114,000 – a distinct slowdown from June's number of 180,000. Last month we had already commented how June's strength was less than it looked and we are unsurprised by July's weak number. Unemployment rose from 4.1% to 4.3% as the job market continued unable to absorb new entrants. Economic growth continues reasonable robust, however, with a preliminary estimate of 2.8% real growth in second quarter. This is significantly better than the first quarter's soggy 1.2%. The first quarter had to contend with the headwinds of winter weather and faster inflation. The Federal Reserve has set expectations for a modest rate cut in September but it is tempering expectations of further rate cuts in 2024.

Financial markets continue with exaggerated responses to each item of news. Our globalized digitalized hyperventilized world has difficulty acknowledging that paint dries faster than the world economy moves.



Capital Markets

It was another month in which most asset classes had positive returns. Notably, however, growth underperformed value by 5.15% in contrast to its recent outperformance. Strength in the equity market shifted to Mid/Small Cap and REIT – perhaps indicating that the formerly red hot Tech sector is fully priced for the moment. The long end of the bond market

exhibited modest strength in anticipation of the beginning of a Fed easing cycle.

Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	8.84%	1.22%
	...Large Cap Growth	rising	13.08%	-1.13%
	...Large Cap Value	rising	6.07%	4.01%
	...Growth – Value	outperform	7.01%	-5.15%
	US Mid/Small Cap	rising	8.46%	6.54%
	Intl Developed	rising	2.62%	2.74%
	Intl Emerging	rising	5.29%	1.05%
Fixed Income	Treasury 3-7 year	flat	3.28%	1.65%
	Treasury 7-10 year	flat	5.21%	2.38%
	TIPS	flat	1.38%	0.06%
	Municipal	flat	0.64%	0.27%
	Investment Grade	flat	4.58%	2.31%
	Medium Grade	flat	2.96%	1.68%
	Preferred	flat	2.58%	0.63%
Commodity	REIT	flat	14.62%	6.98%
	Euro	falling	1.49%	1.02%
	Gold	rising	8.50%	6.77%
	Crude Oil	rising	3.06%	-0.83%



Advice

The near term is murky and will continue to generate volatility – at least until the US elections are over and accepted by the populace. The long term is not so murky, however. The economy will continue to move ahead with occasional cyclical slowing. If the impacts of war and climate change grow serious, progress will be slower. By contrast, if the big problems continue at their current level the economy could accelerate further. Investors should form their investment strategy around their long term objectives and hold to plan through the murk and excitement of near term events.

Cover Photo

Our cover photo features portraits of historic politicians felled by an assassin where the assassination had important consequences. Julius Caesar (top left) was killed (44 bc) by a cabal of Senators intent on protecting the republican form of government. Their act slowed but did not stop the emergence of the imperial system for ruling the Roman state. It did, however, continue bloody civil strife for a generation. The Duke of Buckingham (top right) was felled (1628) by a disgruntled army officer motivated by personal hardships. His death may have disorganized the English effort to bring relief to the Huguenots besieged at La Rochelle by the French king. However, Buckingham's weak administrative skills might have achieved the same result had he lived. The Huguenot defeat and the subsequent revocation of the French policy of religious tolerance would spur emigration of French Protestants to the future United States. Pyotr Stolypin (bottom left) was by all accounts the most able of Tsar Nicholas II's ministers. His murder (1911) by a revolutionary ended internal efforts at reform and may have contributed to the outbreak of the Russian revolution six years later. However, the strain of World War I was a far greater factor in the end of the Tsarist regime. William McKinley (bottom right) was an American president killed (1901) by a disaffected recluse with weak connections to the anarchist political movement. McKinley's death brought Theodore Roosevelt to the the Presidency and ushered in a vigorous foreign policy coupled to strong domestic reform. Finally Archduke Francis Ferdinand of Austro-Hungary (center) was murdered (1914) by a 19 year old student who had been made the tool of a rogue element within the Serbian secret service. The Archduke's death precipitated World War I in which Serbia lost more than half its male population, was overrun by the Austro-Hungarians and was eventually merged into a Serbian-Croatian state from which it reemerged some 88 years later. By this data, political assassination is shown to have most unpredictable results. Those results often seem totally different from the ends sought by the assassin. The assassins for their part are a variegated group – ranging from thoughtful statesmen to lost souls. Their motivations are just as commonly personal and confused as political and purposeful.



About Lloyd Tevis Investments

Lloyd Tevis Investments LLC is a registered investment adviser offering its services over the internet to US individual investors and their families. Our Precision investing™ service provides clients with highly personalized investment solutions tuned to the client's specific circumstances and objectives. We believe the strategic asset allocation decision is the key decision faced by our investors. Accordingly, our monthly commentary focuses on matters which can shape the longer term performance of asset classes. We do not time market swings or pick individual stocks. Discussion at this level of detail is made for the light which it throws on relative valuations and such discussion should not be read as an investment recommendation. Indeed, our investment focus is on maximizing diversification, careful risk budgeting and maximizing implementation efficiency. These are the proven builders of long term investment success.

In evaluating political and social developments our perspective is that of long term investors. We believe the investor's interest is best served by a stable environment in which change occurs incrementally as broadly supported policies rather than by an environment of abrupt changes and frequent U-turns driven by transient partisan advantages. Finally, our assessments should always be read as what we consider likely to occur and not as expressions of what we would like to see come about. To learn more about our firm visit us at lloydtevis.com.