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## **Domestic Politics**

Trump began his presidency much as expected. His boldest move is an attempt to change the basis of US citizenship. Countries have different approaches to this issue. European countries have followed an idea of allegiance ultimately derived from feudal concepts of the duties owed by a subject to their sovereign. In this world view, citizenship passes automatically by heredity from (usually father) to child. For instance, great-grandchildren of Italian forefathers may claim Italian citizenship even if none of their ancestors have lived in Italy for a century. In some cases claiming works in the opposite direction and a state may claim descendants as citizens, impose military duty on them and try them for treason even if their lives have been entirely severed from the ancestral country. The US adopted a very different concept of citizenship which is promulgated in the 14th amendment of the US constitution. All persons born within the territory of the United States are automatically citizens with two exceptions – children of foreign diplomats and of lawful enemy combatants. Historically citizens of Indian tribes also were excluded, but legislation abolished that exception in 1924. There is a limited recognition of citizenship by heredity. Parents of a child born abroad may apply for the child to receive US citizenship if at least one parent was a citizen and the parent had a significant period of residency in the United States. The later part of the rule cuts off the claim of citizenship by multi-generational descent, as for instance permitted by Italy. Balancing this territorial basis for citizenship, there is a mostly unrestricted right of persons to renounce US citizenship. This right is important for the children of aliens (other than diplomats and combatants) who happen to be born in the US during a posting of their

parents to this country or travel through it. As citizenship carries burdens – military service, potential taxation and expectations of loyalty – it is important for accidental acquirers of citizenship to regularize their status. By executive order Trump has instructed the bureaucracy to deny citizenship to children born in the US whose parents are neither citizens nor lawfully present in the US. This action is clearly contrary to the plain and historically well established reading of the 14th amendment. It upends the understanding of US citizenship, which as we have seen is not a simple concept and which has far reaching implications. It represents an approach to governance which will produce chaos, litigation and deep personal insecurities.

Towards the international world Trump was equally disrespectful. He promptly started the process of withdrawing from the Paris Climate accord. Currently only Iran, Libya and Yemen are not adherents to the accord, so Trump is having the US join strange company. He also started the process of withdrawing from the World Health Organization - which represents a loss of about 15% of its operating budget to the WHO. The WHO is the organization which organizes efforts to prevent pandemics. Finally Trump has discussed territorial expansion of the United States with chatter about acquiring Canada, Greenland and Panama. This blatant imperialist blather repulses the two thirds of humanity with bitter memories of European colonialism.

Next up to get the finger were the bureaucracy, the Biden administration and the woke. The bureaucracy was ordered to halt its regulatory work. A large number of Biden executive decisions were revoked. Trump took the position that gender is identical to biological sex. Like the rest of Trump's activity these acts are constituency pleasing but actually create vacuums of governance.

As far as these early indications go, the character of Trump's second administration looks to be similar to his first. An attitude that the US doesn't need a Federal government has deep roots in the country, gains power from time to time, but basically fails to produce competent governance. The country can coast along on inertia for some period of time, but inevitably a problem arises which requires a competent

government for its solution. Then the consequences of structural incompetency are revealed. In Trump's first administration Covid was that problem. In his second, Chinese expansionism is the obvious candidate for a second such challenge. But perhaps the problem will be something largely unforeseen, such as Covid was.

With regard to energy Trump is liberalizing oil leasing and curtailing windmill leasing. Wider leasing of oil properties will be beneficial to oil majors with capital to invest in development projects. But increased production will reduce the price of oil, which harms the smaller independents and the high cost fracking producers. It also risks triggering a price war with Saudi Arabia if they feels the US is unduly expanding its share of the oil market. Such a war would be harmful to all companies in the oil sector. The move against windmills appears based purely on Trump's personal animosities. Windmills are not especially unpopular with any portion of the US public. Trump also announced action against electric cars. This will probably turn out to be a gift to his ally Musk by suppressing competition. In an earlier commentary we predicted the business community would tire of Trump's interventions in the economy.

Definitely causing fatigue in the business community is Trump's volatile approach to tariffs. After endless chatter, he imposed 25% tariffs on Canada and Mexico and a 10% tariff on China. Collectively these countries generate a third of the US's imports. US and world stock markets promptly fell 2%. Trump promptly suspended the tariffs on Mexico and Canada. His explanation was that they had verbally promised him cooperation with his efforts to stem the flow of undocumented immigrants and narcotics into the US. Essentially no narcotics enter the US from Canada. Mexico would like to stamp out its bloody drug cartels, but to do so it needs the US to stop the flow of weaponry out of Texas and into Mexico. Trump is unlikely to move against Texas's shadow arms dealers. Unchastened Trump is planning tariffs against the EU. China has already retaliated against Trump's tariffs and no doubt the EU also has plans ready. Will Trump manage to launch a big enough trade war to crater the global economy much as the Smoot-Hawley tariff of 1930 did? The

risk is certainly there, but we think China and the EU unlikely to raise tariffs against each other. Instead the rest of the world is likely to agree that Trump is the US's problem, move to isolate the US and carry on with trade liberalization among themselves. For the most part these countries are wise enough to put their country's economies in the hands of expert technocrats rather than populist politicians who must orchestrate a continuous flow of symbolic gestures to maintain their standing with their constituency.

Parenthetically we note that an idea which has sometimes been voiced is that tariffs can be a substitute for the income tax. This idea does not work due to the different sizes of the tax bases. It takes a 10% across the board tariff to equalize a 1% cut in the income tax rate. Only a national sales tax could meaningfully substitute for an income tax.

Trump summarily fired 15 inspectors general – an act not within his powers. The primary duty of inspectors general is to audit the administration's use of funds on behalf of Congress. Given that Trump's first impeachment was for improper use of military appropriations this is not a confidence inspiring move on his part. Trump's position no doubt is "the public knew what I am and they elected me so accept it."

Trump let out of jail the 1500 odd persons the government had locked up for trying to stage a coup on his behalf. Notably this included persons whose criminal conspiracy had drawn sentences of 15-20 years and persons convicted of assaulting law enforcement officers. He also pardoned the founder of the Silk Road website who had drawn a life sentence for operating a website to facilitate criminal activity. The President stated "[the] scum that worked to convict [Ulbricht] are the same lunatics who were involved in the modern-day weaponization of government against me." The "scum" in question were the FBI who convicted Ulbricht of 7 felonies arising from Silk Road's activities. Silk Road had facilitated approximately 100,000 users in trading narcotics in 10 countries representing volume of \$200 million. In addition the site facilitated money laundering, trade in stolen passports and reportedly six (failed) attempts to hire contract killers. Ulbricht successfully packaged himself as a

libertarian who merely sought to allow people to carry on their financial lives free of government interference. During the campaign Trump had promised Libertarian party members that he would pardon Ulbricht if they voted for him.

Trump's first day in office was highly productive if the goal was to assemble a varied group of enemies: constitutional law scholars, law enforcement, US born children of undocumented immigrants, some of our closest allies abroad, the other foreign countries, the prior Administration, gender rights supporters, the bureaucracy, independent oil producers, manufacturers of electric vehicles other than Tesla, anyone concerned about integrity of the public purse, climate change or epidemics. No doubt the list will grow as Trump continues to be Trump. But as noted, there are no surprises here.

Indeed Trump appears to be implementing the Heritage Foundation's Project 2025. We reviewed this policy program in the April 2024 Market Commentary available at [www.lloydtevis.com/web/newsletter](http://www.lloydtevis.com/web/newsletter). In brief it seeks to cement conservative control of the government through careful positioning of political loyalists at the levers of power. In our November 2024 commentary we listed nineteen items which we expected Trump to focus on initially. So far six are underway and a number of others are being prepared for action.

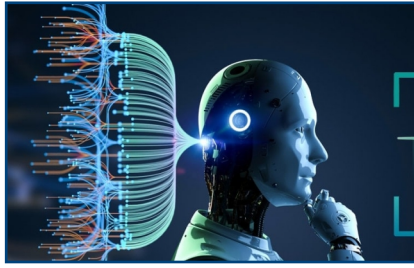
What has been a surprise has been the role of Elon Musk. In early summer 2024 Trump's campaign appeared to be in trouble and he cut a deal with Musk. Musk threw substantial resources into Trump's campaign and certainly aided its victory. In part return Musk has been given the role of a Special Presidential Adviser and Chairmanship of an advisory committee. From this nebulous position he has been extremely active. He has conducted outreach to extreme right wing political parties in the UK and Germany. He has dispatched his personal staff to seize the government's confidential data on everyone it pays, which includes broad swaths of the population (retirees, medicare beneficiaries, veterans, government employees, farmers, recipients of tax refunds etc.) Notably much of this population is made up of traditional GOP supporters. It is unclear how they will feel

about this invasion of their privacy. Musk has also attacked senior bureaucrats (who have been forced into early retirement) and whole departments of government. Notably Musk described USAID as an evil organization – a surprising description of an entity whose primary mission is famine relief.

The Guardian newspaper, a strong UK left of center publication, has done an investigative piece on Musk and Peter Thiel. Thiel was an early partner of Musk's in Paypal, a founding investor in Google and a very successful and influential Silicon valley VC. He has been long associated with Libertarian political positions. It was his support which led to the selection of Vance as the Vice President. The Guardian reminds us of the well known facts that Musk grew up in South Africa and Thiel in South Africa's colony of Southwest Africa (formerly German Southwest Africa, now Namibia.) Both men left Africa before the apartheid regime put in place by South Africa's Nationalist party collapsed. The official name of the Nationalist party's ideology was "Christian Nationalism" – a label which is sometimes applied to the MAGA movement. Apartheid was strongly opposed by Western liberals who represent an earlier generation of today's "woke." Apartheid was also opposed by Musk's father from whom he is now estranged. Given this complex background the Guardian does not connect the dots to assert that Nationalist party thinking directly lives on in Musk or Thiel. It simply suggests that both men grew up in a political culture far removed from the Western mainstream and that fact may explain some of their maverick views and actions. The piece also indicates that some European political analysts are likely to assess both men as belonging to the Neo-Fascist branch of conservatism. In origin the Fascists sought to model government after business corporations and so this may not be an entirely random political connection to draw. We would disagree with that assessment however. We feel American politics is best understood through native categories rather than transplanted European categories.

Musk's political activism is not good for his companies. Liberal consumers are likely to fall out of love with Tesla's cars. Quebec has canceled a contract with his satellite internet service in direct response to his politics. Advertisers

have fled his social media platform X. Shunning of Musk's companies is likely to grow as his political activities trouble ever more people.



## AI

Momentum continues to build behind AI. The UK government has announced a substantial effort to incorporate AI into provision of public services. The US government is sponsoring a mostly private consortium's effort to build AI data centers. Meanwhile a Chinese firm launched DeepSearch – An AI service apparently similar to ChatGP. The Chinese claim to have built this service at drastically lower cost and using a prior generation of chips. The result was consternation on the US stock market with AI related firms dropping significantly in price. In fact in our January 2025 commentary we had identified the overstretched state of US equity valuations. In such a puffed up market any bit of bad news can trigger a hard landing. Careful reassessment of the news may be in order however. First, ChatGP's released services reflect what they researched and built with chips that were cutting edge 18 months to 24 months ago, not what they are currently building with today's chips. Second, it is unsurprising that the Chinese are finding big efficiency gains. The US firms are trying to develop a technology as fast as possible. Such efforts tend to be enormously wasteful of resources. It is normally second and third generation products which emphasize cost effectiveness. Third, if a high level of functioning can be achieved at lower cost (the principal Chinese claim) the implication is that the technology will move even faster into broad deployment.





## **International Politics**

The Russian army is estimated to have taken more than 48,000 casualties in January on top of a like number in December. For the two months this is about 10% of its active duty strength. Movement in the front lines is visible only on very large scale maps. With a replacement rate of about 30,000 soldiers per month this loss rate is unsustainable. Russia's winter campaign appears to be culminating without important results. Russia is showing signs of deficits in the officer corp, mechanized divisions and drone operator specialists. These are all categories where replenishment cycles are long. Russia's industrial base is heavily concentrated in the Western part of the country. As a result about two thirds of its industry is within the striking range of Ukraine's drones. The Ukrainians are trying to pick off Russia's oil refineries and thus bring its logistical operations to a halt. Russia has not yet lost its war, but it appears to be losing it.

This war has revealed massive change in the technology of war. The combination of large and small surface to air missiles have driven manned aircraft out of the close air support role. These expensive vehicles are now confined to delivering stand off weapons – guidable glide bombs and air to ground missiles. The close air support role has been assumed by drones and deployed at scale they are even more effective than manned aircraft. They have robbed infantry of the element of surprise and made action by units larger than squads unfruitful. Efforts to deploy mechanized units against adequately resourced defenders result in loss rates approaching 90%. At this moment the tank and armored personnel carrier appear technologically obsolete. Mechanized artillery appears to be holding a role but less mobile artillery is quite vulnerable on this battlefield where drones are replacing a front line with a frontal zone. With massed troops and expensive weapon systems both

conceding a war winning edge the basic message is that technology is currently favoring dug in small powers over less committed big powers. We expect the big powers to spend heavily on military R&D to address this strategic shift. Purveyors of drones, missiles, autonomous vehicles and C3I systems all look to benefit at the expense of providers of tanks, basic artillery and certain manned aircraft.

Russia halted gas deliveries to its client statelet of Transnistria. This has given the EU and Moldova an opportunity to step in and begin the process of detaching Transnistria from the Russian sphere. In the opposite direction, a US think tank – the Institute for the Study of War – has published the assessment that Russia has achieved but not yet consolidated hegemony over Belarus. Success in this initiative will give Russia a massive salient into eastern Europe and materially complicate NATO's defense of the Baltic states. The European states have assessed that they are under active attack from Russian sabotage operations that constitute acts just short of open war.

Israel continues to wind down its wars in Lebanon and Gaza on favorable terms. Currently Hamas is in the grips of its military leadership which is trying to sell the story that it "won" the conflict. They may find this a hard sell with their local population. Approximately 2% of the Gazan population has been killed and probably another 2%-4% is maimed or permanently disabled. It seems that perhaps 80% of Gaza's buildings have been reduced to rubble.

In Syria HTS is making progress in consolidating control. It still faces opposition from the Kurds (the SDF) in the northeastern part of the country and from remnants of the Assad regime on the coast. The HTS appears to be insisting that the Russians leave the country but appear to be allowing them to do so in an orderly manner. Turkey is aiding the HTS in confronting the Kurds. It appears that a negotiation is underway which will bring the SDF into supporting HTS but retaining some degree of local administration and security. If the HTS can reach a settlement with the SDF its future control of the Syrian government would seem assured.

Having lost Lebanon and Syria, Iran is trying to strengthen its influence in Iraq. In particular it is trying to penetrate the

Iraqi army. But Iran is meeting resistance from various elements in Iraq and we cannot yet estimate whether Iranian influence will grow or diminish. The Houthis have paused hostilities in conjunction with the Gaza ceasefire. Iran may be trying to strengthen them as well.

Internally the embers of the Mahsa Amini protests exhibit occasional stirrings indicating that the populace has been intimidated into silence but not reconciled to its defeat.

Trump is doing his best to stir up trouble. He has encouraged the territorial ambitions of Israel's extreme right by suggesting that Gaza's population be deported to states which have no willingness to absorb them. He issued a blanket cut-off of foreign aid. As a result the staff which had been guarding a POW camp holding 10,000 ISIS fighters in Syria walked off the job. Fortunately it seems control was reestablished before a major breakout occurred.

China has been unusually quiet. She is no doubt watching to see how the situation develops. Taiwan's principal opposition party, the Kuomintang (KMT), is trying to create political chaos and may be auditioning for the role of a Quisling party.



## **The Economy**

The latest readings showed a modest uptick in inflation. Trump's core policies of deportation, tariffs and tax cuts are all directly or potentially inflationary. The Federal Reserve has suspended its program of interest rate cuts. In our December 2020 market commentary we noted that a 40 year long bull market in US Treasury securities had peaked in early August. We now appear well in to a secular bear market which will last a comparable length of time. Characteristic of secular bear markets is that each cyclic turning point in interest rates occurs at a point which is above the prior cyclic turning point. It is possible we are hitting the current low for interest rates in this cycle. Certainly that is likely to be the

case if Trump's economic management transitions us from the Biden expansion into stagflation.



## Capital Markets

Trump is generating volatility and that is not good for markets. Most asset classes have ground to a halt as the market pauses to assess Trump's policy impacts. There are a few asset classes which have made notable moves however. Oil fell substantially on Trump's promise to "drill baby drill." Gold, by contrast, resumed its upward trend as did TIPS. Both changes speak to concerns about the direction of inflation. International developed markets fell substantially on talk of tariffs. US large cap growth, which has been the market leading sector, managed a small gain. But the gain was less than recent trends.

Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	5.78%	2.65%
	...Large Cap Growth	rising	9.61%	2.68%
	...Large Cap Value	rising	0.59%	0.88%
	...Growth – Value	outperform	9.02%	1.80%
	US Mid/Small Cap	rising	4.54%	0.38%
	Intl Developed	rising	-10.50%	-7.66%
	Intl Emerging	rising	-3.89%	1.50%
	Fixed Income	Treasury 3-7 year	rising	-0.54%
Treasury 7-10 year		rising	-1.59%	0.62%
TIPS		rising	0.05%	1.10%
Municipal		flat	-0.46%	0.29%
Investment Grade		rising	-1.40%	0.64%
Medium Grade		rising	0.40%	0.00%
Preferred		rising	-3.14%	0.19%
REIT		rising	-4.69%	0.26%
Commodity	Euro	rising	-4.40%	1.04%
	Gold	rising	3.01%	4.35%
	Crude Oil	falling	4.68%	-6.79%



## **Advice**

In turbulent times it is easy to become distracted and get wrapped up in rapidly unfolding events.

But few investors are successful at “trading the news.” These are times in which one should most clearly keep ones long term strategy in mind and stick closely to it. Cash also is good in turbulent times. Any departures from ones longer term strategy should take the form of opportunistic liquidity building as discussed in last months commentary.

## **About The Cover**

Our cover photo honors Tibetan New Year (Losar), which commences on February 28th this year. This is a joyous festival which celebrates settlement of past debts, new beginnings and deep appreciation of barley beer. Among its customs particular honor is paid to Palden Lamo one of whose ritual images is shown on our cover. This firey personality is a wrathful goddess particularly tasked with protecting moral law (Dharma), the Dalai Lama specifically and Tibet in general. According to her sacred history she was initially an evil djinn (Rākshasa), but as a result of a bad marriage she turned against evil doers – including her son whom she killed and ate. On her death she was condemned to hell but fought her way out collecting various potent weapons on her way. Reaching the natural wold she prayed for guidance and the primordial Buddha (Vajradhara, also named as Shakyamuni) appeared and assigned her the protective duties that now occupy her. Traditionally Losar opens with ceremonies honoring her and invoking her protection for the New Year.

[https://commons.wikimedia.org/wiki/File:Palden\\_Lhamo,\\_\\_Tawang\\_onastery.jpg](https://commons.wikimedia.org/wiki/File:Palden_Lhamo,__Tawang_onastery.jpg)



## **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](http://lloydtevis.com).