

**Nicolo G. Torre**  
Ph.D. CFA  
Managing Director  
Lloyd Tevis Investments

3658 Mt. Diablo Blvd  
Suite # 201, Lafayette  
CA 94549

## Market Commentary

January 2023

### Best Wishes!

We open 2023 with best wishes for our readers! For investors 2022 was a stinker of a year. Not so grim as to make the history books, but delivering a continuous stream of disappointments and discontents to spoil the “morning coffee and newspaper” or perhaps “cappuccino and blog.” Fortunately, the calendar has rolled around – as it always does – and humanity gets another crack at building a better future for itself. We are cautiously optimistic! We no longer live in caves and wigwams, which is powerful evidence that despite history's colorful chronicle of folly and mayhem, the striving industry of billions wins out in the long run.

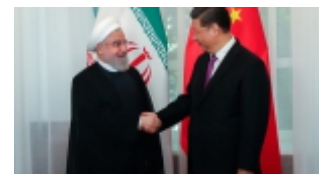


### Russo-Ukraine War

The struggle continues all along the front without either side making a substantial breakthrough. Overall this result favored the Russians. In the southern sector the Ukraine reported small probes across the Dnieper river. Here the Russians appear prepared for an elastic defense in depth, which is the correct approach, but they may not have sufficient reliable troops to be able to execute this strategy effectively. In the central sector the Russians continued their attempt to push into the Donbas. They made minor advances at high cost and failed to unhinge the Ukrainian defenses. In the northern sector the Ukrainians attacked along the Svatove-Kreminna front. This moderately impacted Russian supply lines, but the Ukrainians must advance a further 40 miles to Starobilsk to achieve strategic impact. The combatants have a further 4-6 weeks to continue pressing before the Spring thaw brings a slow down in military operations. The Russian position lacks strategic depth – being only about 200 miles deep at best. A Ukrainian breakthrough in any sector could have serious consequences for the Russians. Currently the Russians can not mount a counter threat of equal value against the Ukrainians. They are apparently trying to recruit aid from Belarus for a second advance on Kiev. So far Lukashenko's response to Putin has mirrored Franco's to Hitler (best wishes for your war, maybe we can join next year...) In fact, the Belarus army is sized for local population control and not for foreign adventures. The Russian's best hope is to wear the Ukrainians down. Putin has made it clear that he regards the war as one of national restoration and that he is committed to it for many years. In those circumstances NATO's best policy is to provide Ukraine with the means necessary to rout Russia's current field forces before they can be fully stabilized and substantially reinforced. Unfortunately for Ukraine, NATO appears hesitant.

### China and Iran

Both governments made concessions to their angry publics in an effort to cool street protests. China announced a loosening of the Covid prevention measures. Iran promised abolition of its hated morality police and possible



moderation of its modesty laws. China will likely succeed in cooling public anger with little sacrifice of the government's authority. Iran's government may be less successful however. Its concessions were greeted with skepticism and the regime seems to have lost all legitimacy with the public. In fact, the Supreme Leader's sister called for his ouster. The hail of rubber bullets the regime has released on the protesters is said to have caused over 500 eye injuries. The executions Iran has carried out have generated further protest rather than cowing the public.

It is China's action which could prove more consequential for the external world however. With the loosening of the zero Covid policy the epidemic is sweeping through China's population. With hundreds of millions falling sick, there is a possibility that natural mutation will give rise to a new strain of the virus that reignites the global pandemic. Fortunately this has not happened yet. However, it is reported that half of Chinese air travelers arriving in Milan have tested positive for Covid, so high caution is in order. We recommend keeping up to date with vaccinations and double masking in high risk environments. Those who fall ill should promptly seek anti-viral therapy to counteract the risk of long term Covid. Risk, while much diminished, is not eliminated.



### United States

The Democrats cemented their control of the Senate with a victory in the Georgia run-off. The Republicans were vexed by their defeat which is pretty clearly due to their leader's ill advised meddling. In the House, Republican radicals were talking a big game – forcing cuts in Social Security and Medicare or a default on the National debt. Given that Republican voters have earned large benefits under these two programs and hold substantial positions in the national debt we think this chatter can be dismissed as pointless babble. Similarly, threats to impeach every Democratic official in sight do not amount to much. After the failure of two substantive impeachment trials on Trump, the impeachment process is essentially a dead law. Eventually the Republican party will sort itself out, but that they will do so quickly enough to retrieve their former position as the “natural party of government” seems increasingly doubtful. A recent epidemiological study (Meagan C. Fitzpatrick et al., “Two Years of U.S. COVID-19 Vaccines Have Prevented Millions of Hospitalizations and Deaths,” To the Point (blog), Commonwealth Fund, Dec. 13, 2022. <https://doi.org/10.26099/whsf-fp90>) estimated that the US Covid vaccination program has saved 3 million lives and 1.1 trillion dollars. Let us try to gain some perspective on those numbers. Three million lives is just under 1% of the US population, so most of us will have known one or two people potentially saved by vaccination. 1.1 trillion dollars is about 47% of annual personal income tax collections. Had the US government incurred this expense and then sought to pay it down over 30 years then tax rates would have had to rise by about three percentage points. Apparently not getting the memo on the benefits of vaccination, Ron De Santis is launching a grand jury investigation of “any and all wrongdoing” with respect to the vaccine program. We wonder if the investigation will include his own policies which sought to spread the disease in the (mistaken) belief that natural infection is superior to vaccination.

### US China Trade Policy

For 30 years the United States has supported the modernization of China's economy in the belief that closer integration of China into the US architected world order would support that architecture.



The Biden administration is reversing that policy. It has identified China as a potential foe whose access to strategic technologies should be broadly curtailed. Restrictions on US offshore investment in sensitive fields is also part of this policy. Observation of Europe's struggle with dependence on Russian oil has reinforced Washington's desire to wean the US off key Chinese manufactures and commodities. These moves will be seen as overtly hostile by China and as confirming their long held expectation that Washington would never accept their success. The fact that Washington is belatedly responding in an utterly predictable manner to their provocations is unlikely to be acknowledged. Our advice remains unchanged: We expect US-China tensions to grow and recommend reducing exposure to Chinese investments.

Europe and Japan are concerned that the new China policy is being used to erect protectionist barriers detrimental to their trade position with the US. In our view this is an accident on purpose. The US will likely unwind the detriments in return for a united front against China. The Europeans may regret that they cannot pick up some profits by striking a balancing position between the US and China, but they will likely go along. China's recent effort to bully Lithuania played very badly in the shadow of Russia's invasion of Ukraine. As for Japan, they are actively rearming against the Chinese threat. Their support for the new US policies is to be expected.

For India these developments could prove golden. With trustworthy accounting, a semi-free press to limit corruption, a slow moving but proudly independent judicial system, an alphabetic language, a strong educational system and twice as many English speakers as the UK the country has a sociopolitical infrastructure which is decades ahead of China. The government is encouraging foreign investment and trade. The country is well positioned to pick up the economic position China has tossed aside. China's not very useful response is to mount pin prick military incursions across India's northern border.



### **The Economy**

US inflation remains substantially above trend but appears to be decelerating. The Federal Reserve has indicated it will moderate its rate rises, which currently look like they could peak at 5.5% in the Spring. The economy has slowed down in Technology and interest rate sensitive sectors but remains strong in terms of general employment and demand. The pandemic exposed the country's dependence on offshore suppliers for a wide range of parts, components and supplies. Some substitution of domestic supply is probably occurring, although this shift is difficult to track. If so, the manufacturing sector may be experiencing some amelioration of the cyclical slow down.

### **The Green Transition**

We have briefly updated our research on the transition to the Green Economy with two research notes (available at <https://www.lloydtevis.com/web/resources.html>.) The first note considers valuation implications for oil stocks of the ongoing transition to electric road vehicles. We conclude oil firm earnings should be valued at only 30%-50% of typical equity earnings. The second note evaluates recent progress in the application of nuclear fusion to electric power generation. We conclude that there are some intriguing possibilities for the acceleration of the development of this technology, but that it has no current investment implications for the transition currently underway to renewable resources and short term power storage. In that transition it has become clear that lithium battery



storage is likely to be the dominant technology for utility scale storage over the 1 to 4 hour time frame. The key unknown is what technology will prevail for utility scale storage over the 4 hour to one week time frame. There are several candidate technologies: vanadium batteries, liquid air energy storage and molten salt energy storage. No technology is yet the clear winner for this application. In the short term, improvements to the grid and hydro power storage can deliver immediate solutions.



## The Markets

Equities had a mild sell-off in the month. We suspect year end tax loss harvesting played a role in this and would be unsurprised to see a reversal in January. Bonds also sold off, which we interpret as the end of a bear market rally. Municipals and medium grade credits showed relative strength indicating the presence of yield buyers in the market. The Euro, Gold and Oil all had a good month. We are reclassifying them to range trading from their former falling classification. Markets appear to be stabilizing.

**Table 1: Recent Market Performance**

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	range trading	7.13%	-3.39%
	US Large Cap Growth	range trading	1.12%	-4.44%
	US Large Cap Value	range trading	12.88%	-2.28%
	Growth – Value	range trading	-11.75%	-2.17%
	US Mid/Small Cap	range trading	7.60%	-3.43%
	Intl Developed	range trading	17.19%	-0.18%
	Intl Emerging	range trading	8.66%	0.80%
Fixed Income	3-7 Year Treasury	falling	0.53%	-0.36%
	7-10 Year Treasury	falling	-0.22%	-1.41%
	TIPS	falling	1.47%	-0.73%
	Muni	falling	2.87%	-0.01%
	Investment Grade	falling	0.67%	-0.91%
	Medium Grade	falling	3.14%	-0.79%
Commodity	Preferred	falling	-3.60%	-3.90%
	REIT	falling	2.20%	-1.81%
	Euro	range trading	9.29%	3.15%
	Gold	range trading	9.72%	4.57%
	Oil	range trading	0.97%	2.50%

## IRAs

Congress closed the year by passing a package of goodies for IRA investors. Contribution limits were raised; required minimum distributions were postponed; the position of surviving spouses who inherited an IRA was improved. Of a more structural nature, tax status of 401k-Roth's was improved; certain rollovers from 529 plans were allowed and emergency withdrawals were made partly penalty free. Finally student loan payments can now be included in the computation of employer matching contributions. In toto, these changes make the accounts more attractive and easier to use. IRAs should be part of the investment plan for almost all investors with earned income.



## **ADVICE** Advice

January is a month highly suitable to putting in order ones financial records for 2022 and preparing for income tax filing in April. It is also a month highly suitable for reviewing ones long range objectives, for setting new goals and for setting ones budget for the coming year. While engaged in these tasks, it also is a good moment for reviewing ones investment plan and updating it as necessary to remain aligned with life's larger purposes. Our investment outlook remains unchanged. The world is working through the various problems that emerged in 2022 in the aftermath of Covid. The United States, however, is enjoying competent government, peace and a normal economy for the first time in this century. Its recovery from the headwinds of 2022 is expected to outpace the other countries and its economic prospects are relatively bright. Now would be an opportune moment to reaffirm ones long term plans. In particular, any idle cash balances accumulated in 2022 could begin to be invested long term.

### **About Us**

Lloyd Tevis Investments LLC is a registered investment advisor offering its services over the internet to US individual investors and their families. 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 we strongly recommend a highly personalized approach to investment decision making which would make a general publication an inappropriate setting for an investment recommendation. 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 small 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 <https://www.lloydtevis.com>.

