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Market Commentary
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Executive Summary

The future continues to look promising for the US: abroad its enemies are struggling, at home its economy is expanding buoyed by an expansionary phase of the interest rate cycle and the country looks well positioned to dominate AI which should be the next big thing in technology. The incoming administration, however, believes the country is on the wrong path and it must fix things. So the continuance of current favorable trends is somewhat in doubt.



Russo-Ukraine War

Russia's foreign policy suffered an important setback when the Assad regime in Syria collapsed (see Mideast section below.) The change of government in Syria is likely to deprive the Russians of their only naval base in the Mediterranean. Although there is a possibility they could base some ships in Libya, the majority of their fleet will need to be withdrawn. With the Turkish straits closed to military traffic due to the Ukraine war, the Russians will likely be forced to retire to the Baltic.

The situation is already tense in the Baltic with submarine data and power cables to Estonia apparently having been snapped by Russian and Chinese ships deliberately dragging their anchors. NATO is patrolling important remaining cables. A rebasing of Russian warships to the Baltic will not reduce these tensions.

Russia's inability to continue propping up the Assad regime is a direct consequence of overstretch. That fact will catch the attention of a number of African dictators who face insurgencies very similar to the one which toppled Assad. For the past two years Russia has been assiduously cultivating states in sub-Saharan Africa. Traditionally these governments have looked to France for security guarantees. However, the Russians have succeeded in displacing the French in about 6 states. The rapid assemblage of this pro-Russian Africa bloc raised the possibility that Russia might be able utilize this base to apply pressure to NATO's southern flank – for instance by encouraging a wave of migration into the EU or by basing intermediate range missiles in these countries. After Assad's abrupt fall, we think these African states may reassess their choice of security partner.

The cause of overstretch is of course the war in Ukraine. The US Department of Defense reports that Russia has spent \$200 billion on the war to date. Its casualties amount to 700,000 men and its casualty rate is estimated at 7x the Ukrainian casualty rate. The war's ongoing costs represent 30% of the government budget. Reported corruption crimes have increased 30% and systematic efforts to loot the public purse appear to be in place. Russia cannot sustain this military effort while maintaining the current standard of living. At some point Putin must choose between winding down the war or impose economic sacrifices at home which potentially could destabilize his rule.

Putin shows no signs of winding up the war however. His negotiating position is that discussions will commence with Ukraine's surrender and throwing itself on his mercy. In the field, the Russian army is redoubling its effort to advance despite the exorbitant price it is paying.

Russia's intense meddling in Romania's presidential election elevated a far right nationalist politician to front runner status in first round voting. But exposure of the influence campaign led the Constitutional Court to order a re-do of the election. Within weeks of Putin signing various agreements with Kazakhstan, the UK broke a Russian spy ring which was implicated – inter alia – in running a honey trap operation against the son of Kazakhstan's president.

With foreign initiatives blowing up in every direction, Russia's nationalists are looking for success in Ukraine to redeem the country's reputation for consequence. Russia is pressing all along the line and making some progress in the Kursk salient and around the frontier city of Pokrovsk. These Pyrrhic successes can be used to spin a narrative of impeding Ukrainian collapse. The Biden administration is pushing supplies into Ukraine out of concern that the incoming Trump administration will find a way to convert Russia's ongoing failure into a Russian diplomatic success.

Militarily, Ukraine's air defenses continue stretched. The drone threat has largely been checked, but interception of advanced missile types remains challenging. Ukraine's allies have simply not provided it with enough systems to adequately protect its territory. High value targets continue to get picked off by Russia's saturation attacks. Fortunately, Russia also is constrained by lack of weaponry and can only make a few such attacks per month.



Mideast

Israel's defeat of Hezbollah has had the knock on effect of toppling the Assad regime in Syria. In 1970 Hafez al-Assad rose to power through the twin engines of the Syrian army and the Ba'ath (Socialist) party. He quickly established a personal dictatorship and maintained it by a combination of ruthlessness and a wily playing of Middle Eastern politics. His personal power base was the Alawite community. The Alawites are an offshoot from the Shi'a which is located along the Syrian coastline in the north of the country and extending inland to the coastal mountains. Hafez died in 2000 and was succeeded by his son Bashar al-Assad. A civil war broke out in 2012 and over 12 years it has broken the country. Hundreds of thousands have been swept into regime prisons – many to die there. Approximately 6.6 millions have fled the country. While most have remained in neighboring countries, more than 1 million refugees have entered the EU where they have fed a xenophobic backlash. The Syrian army has been

hollowed out fighting multiple opposition groups, several with foreign patrons. Only stiffening from Hezbollah and air support by Russia has been able to keep the regime forces in the field.

With Hezbollah knocked out by Israel, the Syrian army folded. In an 11 day campaign the opposition, spearheaded by the Islamist group Hayat Tahrir al Sham (HTS), swept into Damascus and seized power. Bashar al-Assad seems to have had the good sense to negotiate an orderly handover of power and his personal exile to Russia rather than to have attempted a bloody last ditch defense of the capital.

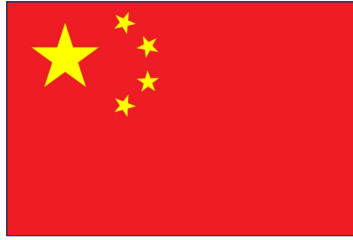
Israel has taken considerable advantage of the situation. Its ground forces have moved into the DMZ separating Syria proper from Israel. Its air force has taken out stock piles of chemical weaponry and long range missiles. It has also sunk most of Syria's small navy. With the possibility of hard line Sunni Islamists taking power in Damascus, Israel is preemptively clipping their ability to attack Israel.

What comes next is anyone's guess. Its quick victory has given HTS a sheen of competence and a claim to leadership in the next regime. Its vision appears to be a Sunni led unitary state with some protections for minority religious/ethnic groups. This vision will clash with the wishes of the larger minority groups. They would prefer a federal solution and with armed forces protecting their heartlands it is not clear whether HTS can bring them around to its view. Not helping the situation, HTS is apparently allied to Turkey which is adamantly opposed to a Kurdish controlled region in Syria. HTS also faces opposition from its internal Islamist hardliners who worry about concessions to minorities or foreign powers diluting the Koran based state they hope to erect. The US has primarily relied on the Kurdish militia (the SDF) to suppress the ISIS remnants active in Syria. With the SDF in a stand off with the Turks, the US is deploying troops to the region to prevent a resurgence of ISIS. Stabilizing Syria is likely to take some time and then the return of the refugees (about 30% of the country's population) is likely to be the only agenda item for some years.

Immediately, the fall of Assad cuts Iran's logistical support lines to Hezbollah. That will considerably slow any

rebuilding of Hezbollah and thus materially cements Israel's victory. The war with Israel opened with Israel facing dire threats from Hamas and Hezbollah and with the substantial risk that Iran could gain a footing in the West Bank and open a third front there. Fourteen months later, an uneasy peace still holds on the West Bank, Hamas is being defeated in detail and Hezbollah has been decapitated, withdrawn from Israel's border and forced to accept a ceasefire. Iran's remaining proxy forces are both distinctly second tier – scattered militias in Iraq and the Houthis in Yemen. They will be fairly easy for the US and its allies to contain. Iran's own attempt to enter the fight achieved nothing, while Israel's counter raids exposed Iran's vulnerability as outdated Russian air defenses delivered no real security to it. As Tehran comes to better appreciate the depth of its defeat criticism of senior military leadership is emerging and may grow into a significant change in leadership. While hard liners in Tehran are urging a nuclear breakout, the more prudent course would be for Iran to partially reconcile with the outside world. If that happens, Russia may lose an important arms supplier in its war with Ukraine.

Hamas has agreed that the Fatah led Palestinian Authority will take the lead in establishing a government in Gaza after a putative ceasefire agreement with Israel. Notionally this is a major concession on the part of Hamas, which heretofore has claimed to be the only political entity representing the Gazans. Let us not lose sight, however, of what is being discussed. This is an attempt to setup a municipal government for a bombed out city of 2 million where the city councilors have a long history of murdering one another and permitting their armed gangs to mortar the Israelis. We expect Israeli military occupation of Gaza to continue for years. The IDF reports that its “clearing” operations in northern Gaza are removing about 1000 opposition militia from combat per month at a cost of about 15 IDF personnel per month.



China

China is organizing another drill for a Taiwan war to respond to an overseas trip taken by Taiwan's president. This drill is massive, with forces deployed from Japanese to Indonesian waters. These intimidation exercises probably worry a segment of Taiwan's population, but they win China no friends among the neighboring states who can easily imagine how China's attentions might be applied to them. China seems disinclined to accept our advice of last month that it should wait for the US to create its own mistakes rather than competing to create its first. These exercises will make it fairly easy for the US military to lobby for budget growth.

Chinese spies have been detected exhibiting high interest in US missile installations and in US bases on Guam. President Xi instructed his military to be ready to invade Taiwan by 2027 and they appear to be taking that assignment seriously. We would assume, however, that the actual readiness data for any invasion would be well before the public date of 2027.



Domestic Politics

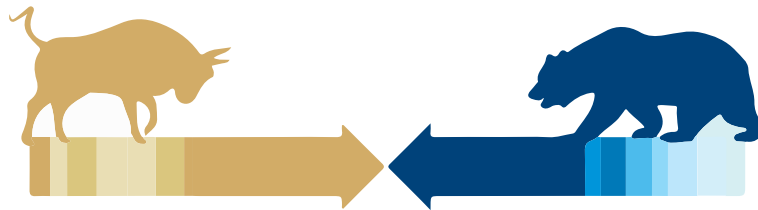
Coffee housing is a card player's term for chattering about ongoing play or otherwise distracting the other players with meaningless banter. Generally it is frowned upon at serious card tables, although it's a fact of life in social games. Coffee housing is exactly what the incoming administration has been up to in the political game. So many signals have been sent as to future policies and initiatives that both opponents and allies are in a state of considerable confusion. To give an example, President elect Trump has expressed a desire to

break the free trade agreements with Canada he negotiated in his prior presidency and replace them with a 25% tariff wall. Yet he also says he would also like to draw Canada into a political and economic union with the United States, apparently by annexation. With such wide ranging chatter going on, it is difficult to be sure that core policies have been correctly identified. Expectations, however, are being set for strong early moves on deportations, tariffs, budgets, and politicization of the bureaucracy - especially the Justice department. It remains, however, to be seen if a weak House majority can be kept together and if the contending ambitions of powerful supporters can be balanced. Washington looks forward to a rocky spring.



Domestic Economy

The US economy chugs along unfazed by the noise around it. Employment grew by 277,000 – which was sufficient to hold unemployment steady at 4.2%. Job growth was strong in health care, hospitality, government and social assistance. Employment in transportation rebounded to pre-strike levels. Employment was trimmed in retail and steady otherwise. Hourly earnings accelerated slightly relative to the twelve month average of 4%. Real growth in earnings is about 2% per year. The long term real interest rate is 2.5%.



Capital Markets

Markets trended up across the board except for the fully priced US large cap growth sector. REITS were particularly strong, while the inflation sensitive prices of gold and oil fell. In general, this is probably engendered by good feelings in Trump's supporters, a sense that the country is in for change, and optimism about that change.

Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	2.54%	2.91%
	...Large Cap Growth	rising	6.58%	-0.69%
	...Large Cap Value	rising	-1.16%	6.38%
	...Growth – Value	outperform	7.74%	-7.07%
	US Mid/Small Cap	rising	3.38%	5.43%
	Intl Developed	rising	-8.05%	2.68%
	Intl Emerging	rising	-8.50%	2.83%
Fixed Income	Treasury 3-7 year	rising	-3.39%	1.34%
	Treasury 7-10 year	rising	-5.79%	2.89%
	TIPS	rising	-2.98%	1.33%
	Municipal	flat	-2.22%	2.17%
	Investment Grade	rising	-5.49%	3.42%
	Medium Grade	rising	-1.12%	0.69%
	Preferred	rising	-4.51%	3.56%
Commodity	REIT	rising	-7.75%	10.27%
	Euro	rising	-6.10%	2.67%
	Gold	rising	1.35%	-0.66%
	Crude Oil	falling	3.63%	-7.23%



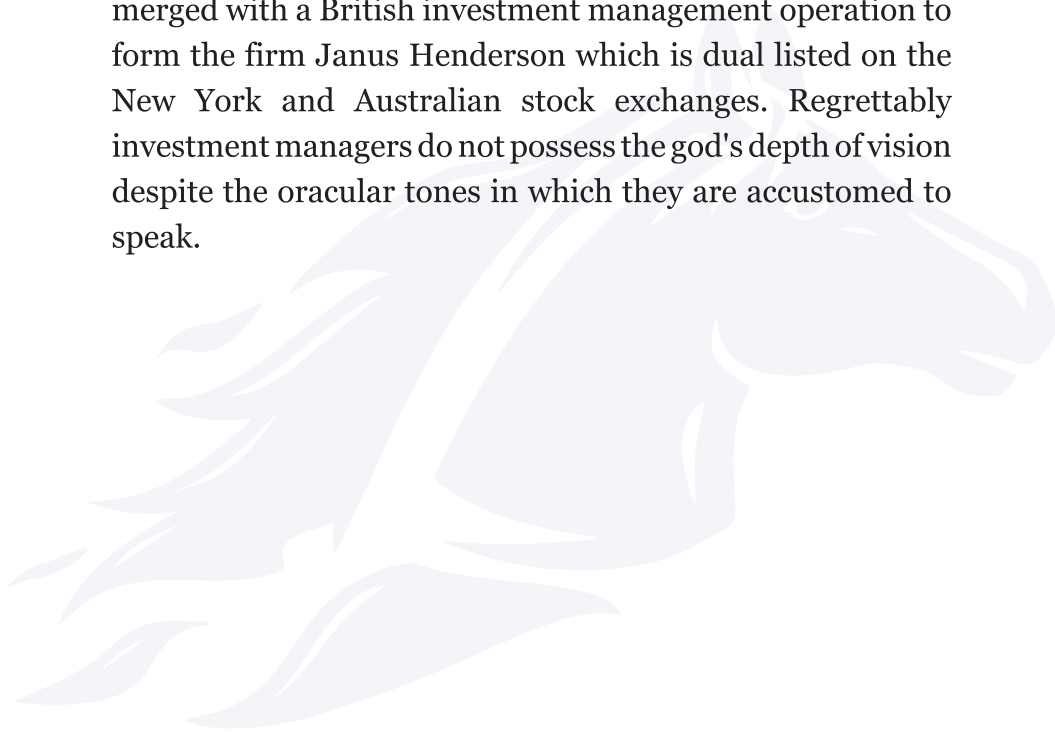
Advice

At this juncture asset prices have gotten ahead of results, perhaps by 20%. We would adopt a wait and see approach to lean against the prevailing optimism. The US has real strengths but there are also real geopolitical and fiscal issues that need to be addressed. The new team will take a very different path from the prior team and how successfully it will deal with the challenges is not yet known. Meanwhile sticking close to your long term strategy is probably the best course of action. More speculative accounts may wish to retain cash against future “buy on dip opportunities”, while more defensive accounts may prefer to harvest profits in view of planned short/medium term outlays. Both moves, however, constitute market timing exercises which generally

are not important sources of long term performance. For that reason we do not recommend these moves for investors of limited investment experience.

About the Cover

The cover features a statue of the Roman god Janus. The doorkeeper of the gods, Janus looks both forward and backward seeing the beginning and ending of all things. He gives his name to the month January which, in our current calendar, opens the new year while closing the old year – the doorway between past and future. He is a fitting symbol for investment management which studies the past in an effort to divine the future. Indeed Janus has also given his name to the Janus Mutual Fund family. That company has now merged with a British investment management operation to form the firm Janus Henderson which is dual listed on the New York and Australian stock exchanges. Regrettably investment managers do not possess the god's depth of vision despite the oracular tones in which they are accustomed to speak.





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.

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