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Market Commentary

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Covid-19 Developments

The pandemic is waning in the United States as vaccination spreads. Currently 40% of the population is fully vaccinated, with a greater fraction in high-density metropolitan centers. However, only 25% of Tennesseans and fewer than half of Republican congressman are fully vaccinated (in contrast to essentially all Republican senators.) Texas, Florida, and Iowa now ban mask requirements.

For the unvaccinated, even post-pandemic, the lifetime probability of acquiring Covid is essentially 100%. Of those, about 2% will die or suffer long-term serious medical injury. Roughly that same lifetime risk applies to motor vehicle accidents. Our government is quite coercive in its efforts to reduce traffic fatalities: it promulgates and enforces traffic codes, and road and vehicle engineering standards; imposes licensing requirements and requires drivers to carry documentation; criminalizes reckless endangerment via driving while intoxicated or making shoddy repairs. Whereas traffic fatalities are accepted as a regrettable consequence of vehicular mobility, it's hard to discern any benefit from free circulation of Covid. Many countries who had controlled Covid suffered subsequent mushrooming outbreaks. Coexistence with Covid is not possible, so a policy of elimination is required as for polio, rubella and other dangerous contagious diseases. Yet a too widely held view maintains that government ought not to impose moderately coercive measures.

Abroad the presentation of disease is quite variable. Per below table, some populous countries have a lot of contagion (a high case rate) coupled with high lethality (deaths per case) producing high death rates. Examples of this unhappy mix are Mexico, Brazil, Iran and South Africa. Other countries enjoy both low contagion and slight lethality to result in a minimal death rate. Examples of this second, happier mix are Vietnam, Thailand, Congo and Nigeria. India with the largest population and moderately high contagiousness is fortunate to be enjoying low lethality. Otherwise its absolute number of deaths would probably be highest in the world.

Country	Population (M)	Cases (M)	Deaths (K)	Case Rate	Deaths/Case	Death Rate
India	1380	26.5	299.2	1.92%	1.13%	0.022%
Indonesia	273.5	1.775	49.3	0.65%	2.78%	0.018%
Pakistan	220.8	0.903	20.3	0.41%	2.25%	0.009%
Brazil	212.5	16	449	7.53%	2.81%	0.21%
Nigeria	206.1	0.166	2	0.08%	1.20%	0.001%
Bangladesh	164.6	0.789	12.3	0.48%	1.56%	0.007%
Mexico	128.9	2.39	221	1.85%	9.25%	0.171%
Ethiopia	114.9	0.269	4.1	0.23%	1.52%	0.004%
Philippines	109.5	1.17	19.9	1.07%	1.70%	0.018%
Egypt	102.3	0.253	14.7	0.25%	5.81%	0.014%
Vietnam	97.3	0.005	0.043	0.01%	0.86%	0.000%
Congo	89.5	0.011	0.156	0.01%	1.42%	0.000%
Turkey	84.3	5.18	46	6.14%	0.89%	0.055%
Iran	83.9	2.83	78.5	3.37%	2.77%	0.094%
Thailand	69.8	0.129	0.776	0.18%	0.60%	0.001%
South Africa	59.3	1.635	55.8	2.76%	3.41%	0.094%

Color Code: bad poor better best

Source: John Hopkins Covid Map

Domestic Politics

The Republican party has decided to consolidate behind the former president, ousting its 30% Bush-Cheney-McCain-Romney faction that sought to distance their erstwhile leader. While 70% support sounds impressive, consider that under 25% of the electorate is registered Republican; in the overall electorate, Trump support stands around 17%. While the mechanics of our two-party system and Senate procedural rules have magnified the power of the Trump faction to an extreme degree, this embrace of Trump is hardly risk-free. He faces many criminal and civil investigations, and whatever his culpability in these matters may be, he evidently also ran an incompetent administration. Adding to this fraught legacy, the government is holding some 500 of his supporters in connection with the violence of January 6. The players' calculations are transparent: Republican leadership realizes that if they do not close ranks with Trump he will undermine them in the 2022 elections. Trump realizes that his best chance of staying out of jail is to enjoy continuing protection from the Republicans. The Justice department realizes that the trials of Trump and of the January 6 detainees will be bitterly divisive, so it is slow-walking the process while President Biden moves his bills through Congress.

Biden, meanwhile, is going around looking grandfatherly and talking with people about his desire to patch their roads and to help parents with their toddlers, teens and seniors. In between he takes time to test drive Ford's electric pickup. He appears to enjoy genuine popularity with an electorate broadly unhappy with its politicians and political institutions.

International Politics

The major powers have been quiet. Perhaps they are talking to one another behind the scenes. There was a brief civil war in Israel with Hamas fighters based in Gaza. Hamas launched 4,000 home-made rockets killing 12. Israel responded with substantial numbers of factory-made munitions and in the process killed about 250 Arabs. It was all over before the UN Security Council had a chance to deplore the situation. The nominal casus belli was Israel's continuing creeping displacement of Palestinians from the land. However the leadership of both sides are playing to internal constituencies: Israeli acting Prime Minister Netanyahu is fighting to retain office and avoid a corruption trial, so he is not adverse to being seen as Israel's essential protector. On the Palestinian side President Mahmoud Abbas (age 85) is approaching the end of his tenure, and Hamas would like to burnish its credentials as the protector of the Palestinian people. Once these domestic objectives were accomplished, there was no particular need to prolong the conflict.

Market Developments

Markets maintained the overall theme of upwardly marching earnings, with stronger recent performance in value and non-US markets. Inflation fears remain subdued, and while gold and oil inched up, Bitcoin fell further.

Market Index	May 2021	Jan – May 2021
S&P 500	+0.7%	+12.6%
Russell 2000	+0.7%	+15.8%
MSCI EAFE	+3.3%	+10.1%
MSCI EMG	+2.3%	+7.4%
BB US Aggregate Government	+0.3%	-3.2%
BB US Aggregate	+0.3%	-2.3%
BB US High Yield	+0.3%	+2.3%
JPM EMBIG	+1.1%	-1.9%

Focus Topic: Environmental, Social & Governance (ESG) Investing

This month we build upon our recent report "Opportunities in the Green Economy" which examined how Biden's promise - to reduce emissions 50% below their 2005 level by 2030 - would impact each sector of the US economy. By researching the viability of electric vehicles, of renewable energy generation, and other such topics, we concluded that a green economy was achievable by 2050. All this adds up to a solid long-term investment case for the "E" in ESG.

Turning to the "S", there is growing support toward not merely social responsibility, but social justice. Several Fed governors have spoken up this year about their new focus on economic inclusion alongside traditional targets of price stability and growth. As well, most leading corporations have launched efforts toward diversity, equity and inclusion (DEI) in staffing. While last summer's protests were a proximate cause, the motivation appears to run much deeper to a critique of our economic status quo. Laissez-faire policies, including counter-cyclical monetary policy, that have run since the 1980s have gotten exhausted through overuse, with inadequate stimulus reaching down to those likeliest to spend it and thus spur growth. By contrast, fiscal stimulus is inherently progressive, so delivers the leftward swerve that, in this growing view, will keep our economy moving forward.

Lastly "G" or Governance exists to ensure the execution of "E" and "S" goals. Exxon Mobil is a case in point. This strident climate denier has seen its market value plummet from a peak of \$520 Bn (in 2014, making it then the most valuable US company) to half that amount. A tiny, unknown hedge fund pushed for 3 board seats, saying "climate risk is business risk.. this debate shouldn't be ideological." Index fund leaders Vanguard, BlackRock and State Street all agreed, so the board changes occurred, and a strategic reversal likely lies ahead.

So ESG is now an undeniable force. In setting their benchmark and strategic (10+ year) allocation, astute investors will look beyond market weights (such as the current S&P 500 mix) and consider how ESG may reshape sectors and companies. There are scenarios and risks aplenty, giving rise to nearer-term (cyclical and tactical) opportunities plus the chance to assert individual needs and preferences. When you add in a proliferation of new data sources and automation possibilities, we are clearly entering a new era of scalable personalization.

Guidance

The present market calm provides an ideal opportunity to think deeply about one's goals and circumstances. Those should be married to a nuanced view of the future opportunity set in markets, considering in particular ESG implications. Past performance is never a reliable investment guide; that is truest today as multiple investment cycles turn.