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Climate Change

The Copernicus Climate Change Service, an agency of the EU, reported that the earth's average temperature in 2023 was 1.5 degrees above the pre-industrial baseline. Holding the temperature below this point has been the goal on which current greenhouse gas reduction plans have been predicated. Policy makers had hoped they had until 2050 to implement their plan. In fact, their policies have proven to be too little too late and they have failed by 27 years - not a small margin. The temperature of 1.5 degrees was a somewhat convenient target rather than a critical turning point. Although climate change was likely triggered or accelerated by human production of greenhouse gases, natural processes are underway which will likely cause climate change to further accelerate. These processes include loss of snow and ice cover which are excellent reflectors of solar radiation back into space and outgassing of greenhouse gases from natural reservoirs released by thawing of the permafrost.

At this point major climate warming seems inevitable. At least three major ecosystems look to be severely disrupted: tropical coral reefs, the polar icecaps and the tropical forests. Coral reefs are important nurseries for fishes and their loss will negatively impact fisheries even of pelagic species. Reduction or loss of polar icecaps could trigger systemic change in oceanic circulation with near total disruption of regional climates at all latitudes. Fires and smoke will be significant hazards for humans living in or downwind of fire prone regions. For instance a range fire currently burning in the Texas panhandle is thought to have killed about 10,000 head of cattle (value about \$20 million.)

Economic disruptions are somewhat identifiable. Currently agricultural land use and transportation networks are optimized to current climate zones and growing seasons. As these shift, the agricultural sector will experience massive adjustment costs. Generally as equatorial regions become less habitable, human migration polewards will increase and temperate zone northern hemisphere countries will feel increasing pressure on southern borders. We believe those pressures will prove irresistible and the only sustainable policies will be ones that accommodate and control the pressure. Finally port cities are likely to be impacted by rising sea levels, more intense storms and adjustments of trade routes.

Redoubled efforts to mitigate the human drivers of climate change are clearly called for. Accelerated phase out of fossil fuels in electric power generation, transportation and building heating are called for.

Policies in place require faster implementation. Faster growth for solution providers is indicated; as is faster economic decline for technologies being phased out. New policies also are needed. Increased use of nuclear plants for electricity generation is one talked about possibility. These plants are useful in a base load capacity, but not in a load following role. They can replace coal fired base load generators and can compensate for seasonal fluctuation in wind and solar power. A different solution is required to smooth diurnal and weekly fluctuations in power demand and in production of power from wind and solar. Economic incentives have been slow to encourage technology development of solutions to this problem. Technical breakthroughs here could draw outsize economic rewards.



Russia

Russia appears to have gotten its war in Ukraine together. Casualty rates and recruitment rates appear in balance, allowing the military to maintain pressure in the field. Similarly material inputs are being sustained by a combination of new domestic production, arms supply from Iran and North Korea and draws from the deep reserves left by Soviet production. Russia's political influence operation (discussed below) has borne fruit by knocking out US support for Ukraine. The US had been supplying about 40% of the Ukraine's foreign support. Withdrawal of this support is creating both operational and morale problems for Ukraine and it threatens withdrawal of European support as well. The Russians have reportedly deported a total population of 5 million from occupied Ukraine, including 1 million children. Children are being made a special target of Russian propaganda/indoctrination efforts. Eliminating the Ukrainian national identity is a declared Russian war aim which it is pursuing with vigor. Alexi Navalny, the figurehead of domestic opposition to Putin, has died in a Russian prison. There is a modest debate as to whether he was poisoned (as previously) or simply died from sustained long term abuse. Although about 16,500 mourners turned out to bid final respects to Navalny, the Russian population as a whole appears to be lapsing back into the self protective political apathy that was required for personal survival during the Soviet era.

Battlefield correlates of this more unified effort are beginning to appear. The Russians have taken the city of Ardvika and thereby closed a ten mile pocket in the front line. The victory is attributed to the Russians having acquired local air superiority and then having applied tactical air support to ground operations. The cost of those operations is debated. A Russian blogger supposedly committed suicide rather than yield to pressure from the Russian military to hide the fact

that 16,000 troops had been lost in the operation. However, other estimates of losses range as high as 45,000. Effective air support is a new factor in the war and if repeated it promises considerable threat to Ukraine. Currently the Russians are maintaining pressure all along the front, but may be preparing for a sustained drive in the northern sector.

Ukraine is on the defensive but not yet out of the fight. It has shuffled its military command and is stepping up domestic military supply industry. It will likely introduce mass conscription soon. It has destroyed two more Russian warships. So far it has successfully attacked about half the ships in the Russian Black Sea fleet and a third of them have been sunk or destroyed. These successes have allowed it to resume grain exports through the western Black Sea. For the moment, it is able to shoot down about 75% of the missiles which Russia directs at its cities. However its stock of air defense munitions are being depleted.

Although not in crisis yet, the situation is becoming dangerous. The Ukrainian front could break or its air defenses fail. A threat of Russian victory might develop quickly. In that case the US and NATO could be forced either to intervene directly in the war or to accept defeat. Interventions would most likely take the form of providing air cover and strictly enforcing sanctions rather than supplying ground troops. It is clear that there is widespread failure in the West to take the measure of the Russians. Putin's declared war aim is the restoration of the Soviet empire. To this end he continues to threaten Finland, the Baltic states, Poland and especially Moldavia even as he remains tied down east of the Dnieper. He sees himself as walking in the steps of Peter the Great as he founds a new Russian empire. His true model for this war is the Great Northern War and not the Second World War. The Great Northern War lasted 21 years (1700-1721) and resulted in 80-90% casualty rates, but it decisively broke the power of the Swedish Empire and set Russia on a two century course of territorial expansion. With this model to go on much of what puzzles Western commentators becomes clear. Putin has avoided a total mobilization of the domestic economy because such would not be sustainable for the duration of the war Putin expects. Similarly he expects to lose a generation of

Russian manhood to the battle, and so losing 16,000 or even 45,000 taking a second rate city is not remarkable. Political operations are essential to the long game Russia is playing and will have sustained attention from Putin. Declared aims that appear totally disproportionate to Russia's resources assess very differently if you believe Russian resources will be applied single mindedly for decades while opposition resources will remain unfocused, riven by internal conflicts and dissipated across multiple conflicts.

As Putin routinely tells his people the main enemy is the US and breaking US power is his goal. The FBI recently indicted an informant who had supplied phony evidence to a House committee considering the impeachment of President Biden. The informant claims he was fed the information by Russian intelligence officers. A direct blow by Russian intelligence at destabilizing the US government is a bold move and such would not be the rogue effort of a sole operative. In fact, Fox News was loudly trumpeting this phony information – to such an extent that Fox must be considered a possible Russian intelligence asset. President Biden has been attempting to move a Ukraine support bill through Congress since December. Former President Trump has successfully prevented this, however, by leveraging his MAGA supporters in the House into a blocking force. It is unprecedented that an out of office politician could veto national policy and cause the country to abandon an ally that is fighting for its survival. Just by itself that shakes US national power as other allies fear they could be next. Trump's speech to the effect that he would encourage Russia to attack NATO allies is intended to magnify that shaking. Trump, in fact, has been an open political ally of Putin's for many years.

Just as Russian influence operations have successfully penetrated US political power structures, so too are they at work in Europe. There also Russia cultivates friends and parties whose interests can be aligned with Russia's objectives. Whereas during the cold war Russia's political operations were primarily directed to the political left, in this new strategic conflict its focus appears to be the political right. This switch in tactics has been quite useful in confusing the targets of Russia's operations. In the 1950s much of the success of the Cambridge Five spy ring was due to the British

establishment's overly comfortable trust in itself. We may discover similar complacency throughout Western political establishments.

Our view remains that preventing a re-establishment of the Russian empire in Europe is a vital US interest. If Russia is not stopped in the Ukraine the US will face the costs of hardening the NATO border from Northern Finland to Romania's Black Sea coast. This will be a multi-trillion dollar expense which could push US tax rates up five percentage points. As US resources are absorbed here the opportunity for Iran, China and North Korea to exert pressure in their respective theaters of ambition will be enhanced. The results will be yet further defense costs and an increased risk of global war.



The Biden Presidency

The special prosecutor, Robert Hur, investigating President Biden's possession of certain classified materials has published his finding that there is no prosecutable federal crime. This investigation was a spin-off of the investigation into Former President Trump which has resulted in the bringing of 37 separate charges against Trump under the Espionage Act of 1917. In November 2022 Biden's attorneys discovered that Biden had in his possession certain classified records from his Vice Presidency (2009-2016) which he should not have retained during his time out of office (2017-2020.) They informed the FBI and an investigation commenced. Biden cooperated with the FBI investigation. The FBI examined some seven million paper and electronic records. They found certain materials bearing classification markings and certain other unmarked materials which they considered might be classified materials. Of the unmarked materials they submitted 37 for review by the intelligence agencies and received the finding that 8 contained classified material which in 2017 would have borne high level security classifications, while the rest of the documents would have

borne mostly low level classifications. Some of the classified materials had been created by Biden himself, notably a hand written draft of a memo he prepared for President Obama. The rest would have come into his possession in the regular course of his official duties. Particular interest focused on two items:

- 1) A dossier of primary documents related to a policy review of Afghanistan counter-insurgency operations which took place in 2009.

- 2) A series of notebooks Biden wrote in his own hand and kept under his personal control constituting a running journal of his official and personal life. Biden committed his personal thoughts and reflections to these journals and considered them as highly private personal papers and not as government papers even though they of course dealt with classified and sensitive government information as such matters crossed his desk.

In reviewing the history of the materials, the FBI found that the Vice President received a steady flow of classified material in the course of his duties comparable to that received by the President. Safeguarding this material was a primary responsibility of the executive staff, but the much smaller staff supporting the Vice President could not maintain uniform control over the material. When Biden's term ended, his office and official residence were packed up under his personal direction. But seemingly filing cabinets and desks were shipped to his private residence without a detailed review of their contents. Presumably this was the primary route for transmission of official papers to his home, but the FBI could not exclude the possibility that the papers had been taken to his home during his time in office (an allowed but inadvisable activity) and then forgotten there. It seems that official papers moved from one home to another, got mixed with personal papers of temporary importance (tax information returns and an employment contract) and ended up in an "inactive records" section of the Biden garage where the FBI found them. The FBI found evidence that Biden might have had personal knowledge of his possession of the documents shortly after leaving office (presumably discovered while unpacking moving boxes) but it found no evidence that he specifically registered their importance. The

FBI found that Biden did continue to handle his notebooks with conscious care and that he referred to them in working with a ghostwriter on his memoirs. The FBI evaluated tapes of Biden's conversations with the ghostwriter and found that he took care to not transmit potentially classified material in the journals to the writer, but that on three occasions he slipped up and did reveal such information. However, there is no indication that the information was further transmitted. Biden asserted the notebooks were his personal possessions not bound by the Presidential Records Act. While the FBI did not agree with that position, they noted a similar position had been adopted by prior Presidents and that Biden could have reasonably have held this (in their view) incorrect belief.

Reviewing these findings, the Special Prosecutor concluded that criminal intent in the mishandling of classified materials was not provable beyond a reasonable doubt and he recommended that the investigation be closed without bringing charges. In his executive summary, the Prosecutor went further and speculated that a jury would be sympathetic to “a well meaning elderly man with a weak memory” and that they would happily latch on to any plausible piece of doubt to avoid bringing in a conviction. While such speculations are a reasonable consideration for a Prosecutor, his sharing of them with the public in a published report has been viewed by many as exactly the sort of political act which a special prosecutor should strive to avoid. Hur has done his personal reputation no good, but the key question is how much damage has been done to Biden's.

Biden is a life long stutterer and he is currently 81. Both make him vulnerable to mischaracterization. Political slander has represented him as a senile old fool since his first day in office. Biden has also maintained the lowest public profile of any President since Coolidge. For conspiracy nuts this feeds the idea he is just a hand puppet, while even the sympathetic sane can have genuine concerns about his level of vigor.

Rather than parse the details of interactions with political friends or foes, we feel it is useful to look at the record of Biden's administration as a whole. On the domestic policy side, Biden shut down the Covid epidemic, passed a long stalled infrastructure bill, fundamentally reoriented national

policy on climate change, and presided over a fairly swift and benign economic recovery from the trauma of Covid. Biden has also had failures on the domestic front. He championed programs to address child poverty and education, for which purpose he would have raised the rate in the top tax bracket. He was probably correct in selecting these social programs among the many candidates for social spending as the ones which would most strengthen the nation long term, but he was unable to persuade his party to focus on these items among the party's long wish list and so no progress was made. On illegal immigration and border security, Biden has put forward substantive programs only to have them blocked by the opposition party which prefers to fuel a sense of crisis. In foreign policy Biden has been confronted by a Russia-China axis which constitutes a security threat comparable to the Fascist axis of the 1930s and the Communist axis of the late 1940s-mid 1970s. Biden has forcefully revived and extended the US's alliance system and successfully contained the threat for now. In the Mideast Biden completed the withdrawal from the failed Afghanistan involvement and has confronted Iran without either fully resolving that problem or committing the US to a major war. Among Democratic Presidents we view Biden's domestic record as comparable to Lyndon Johnson's and his foreign record as comparable to Truman's. By that measure, he is the strongest Democratic President since Franklin Delano Roosevelt. In terms of personal vigor we note Biden's trip to Kiev when the city was under active air assault. More recently we note Biden's grueling two day trip to Jerusalem followed immediately by an Oval Office address on his return. When vigor is required, Biden appears able to sustain a substantial effort.

Our assessment is that organizations do not achieve broad deep progress without strong leadership from the top. Accordingly, we are comfortable dismissing the charges of weakness and ineptitude thrown at Biden. Many, however, will not share our assessments and we do find Biden not possessed of first rank political skills. These political slurs are likely to be a continuing but ultimately not decisive drag on his reelection campaign.

It helps Biden's re-election chances that his likely opponent is the most hated politician in the US. While Biden may not

get the respect he deserves, he also attracts very little personal animosity. It is not possible to simultaneously characterize someone as both weak and frightening. The Republicans have plumped for characterizing Biden as weak feeling that strength is their candidate's most salable quality and likability Trump's greatest weakness. But except in moments of desperation, Americans usually want to like their President and weakness is a charge that, so far, does not stick to Biden.



The Mideast

Israel has indicated its plans. It will uproot approximately one million refugees currently clustered along the southern border of the Gaza strip. It likely aims to filter and move them to new refugee camps not administered by UNRWA. Its military will seize control of the border area and will continue its anti-Hamas operations throughout the strip. Longer term it sees a permanent Israeli security presence in the strip with civil administration in the hands of local collaborators. As collaborators could hardly hope to survive given even a marginal existence of Hamas, the precondition for this plan is complete eradication of Hamas and like minded groups from the strip.

Israel has strongly rejected the two state solution. Instead it envisions something similar to the US reservation system for American Indians or the apartheid plan for South Africa. Those systems distributed the conquered population among small isolated geographic regions in which they were permitted a degree of local civil autonomy. Those systems, however, were dealing with historically distinct nations and could reasonably justify the geographic fragmentation of the conquered on that basis. The Israeli plan, by contrast, appears entirely artificial. We regard it as somewhat fanciful at this point. At least it does not imagine the wholesale expulsion of the Palestinian population as some cabinet

members have urged. Israel's failure to envision a workable political settlement could end up recasting Hamas as legitimate freedom fighters rather than as hate driven terrorists.

The Houthis have continued their anti-shipping campaign. They scored their first success – they hit a fertilizer freighter hard enough to cause the crew to abandon ship. The derelict vessel is throwing off a miles long plume of either fuel oil and is slowly sinking. The US is showing signs of irritation with this form of asymmetric warfare. Egypt also must be quietly fuming as its revenues from the Suez canal drop. We wonder if Sisi will follow in Nasser's footsteps and invade North Yemen. The Houthis are not exhibiting a strong survival instinct in simultaneously irritating the Saudis, the Americans and the Egyptians. Iran seems the main beneficiary of the Houthis campaign as it gives them the opportunity to probe US naval capabilities. The results are useful if it should seek to close the Persian gulf to shipping. The Chinese also have sent ships to observe the situation.



Trump

As expected Trump prevailed in the South Carolina primary. About half of registered Republicans voted and the vote split 60-40 between Trump and Halley. The result was weak for both candidates. Although 66% of Republican voters told pollsters they believed Trump had won the 2020 election (and thus was currently the legitimate President), not all of them were willing to vote for him. Halley might have hoped to do better in her home state which she twice led as governor. Halley is a Tea Party Republican with some foreign policy credentials. But South Carolina Republicans have moved on – 40% identify as MAGA and 80% as conservative. To this electorate Tea Party now means left leaning.

Their primary concern is the “invasion at the Southern border” and they favor avoiding conflict with Russia. We

suspect Halley's gender is also a challenge for this very traditional demographic – overwhelmingly white, more than half over age 45, 70% without a college degree and one third having a family connection to the military. The Democratic primary held earlier in the month saw 96% of the vote go to Biden with only a bit over 10% of registered democrats bothering to vote.

The Michigan primary was similar. Trump gathered 68% of the Republican vote but lost 296,000 votes to Halley. Biden's support was diminished by a protest vote organized around his strong support for Israel. Biden took 81% of the Democratic vote but lost 101,000 votes to the “uncommitted” selection used to represent the protest vote. What is the implication for the general election? If we assume half the Halley votes are cast for Biden and the rest of the Halley votes and all the protest votes are not cast in the general election, the result would be a net shift of 150,000 votes to Biden. In 2024 Biden narrowly defeated Trump in Michigan by 154,000 votes. The primary results suggest Biden will hold or increase this margin of victory in 2024.

Trump's nomination by the Republican party seems assured and he is moving to position his daughter-in-law Lara Trump as co-chairman of the Republican National Committee. Lara has been outspoken on the need to direct all RNC funding to the Trump campaign. The Congressional and state officials who would normally hope to draw on those funds are trying to stall the Trump takeover. Halley says she will continue her campaign until March 5 when about 1/3 of the states hold their primary. Due to party rules which are either winner-take-all or winner-take-most, Halley's delegate count at the convention will not reflect her strength in the primaries. Should Trump unexpectedly fail to secure the nomination, the replacement candidate will likely be chosen by party elders rather than floor delegates.

Trump has funding problems of his own – he has been hit with an \$83 million judgment for defaming E Jean Carroll and a \$455 million judgment for taking out loans based on fraudulent paperwork. The Trump organization escaped dissolution, but it must operate under the watchful eye of a court appointed monitor. Trump is barred from serving as an

officer of the company for three years and his sons Eric and Don Jr are barred for two years. Possibly alleviating these woes, the SEC has approved a possible IPO by Trump's social media venture "Truth Social." This IPO could provide a mechanism for Trump's supporters to funnel large sums to him if they so choose.



The Supreme Courts

The Supreme Court has decided the Trump electoral disqualification case. The Colorado Supreme Court had found by clear and convincing evidence that Trump engaged in – and in fact led – an insurrection against the Federal government. Applying Amendment 14.3 of the US Constitution, the Colorado court banned Trump from seeking political office and ordered his name removed from the primary ballot. Maine and Illinois reached similar conclusions. As expected, the Justices of the Supreme Court were uncomfortable with each state making its own decision as to who should be eligible for national Federal office. A majority of 5 held that Congress must first pass enabling legislation defining how 14.3 should be applied before the Amendment can be enforced. A minority of four argued that it was enough to decide that Colorado could not proprio motu enforce the ban without settling larger questions of how the ban could be given life. Thus by a 9-0 decision Trump is restored to the ballot. Any decision of the Court was bound to agitate some fraction of the electorate. By leaving intact the judicial decision that Trump is an insurrectionist while relieving him of the consequences of that finding, the Court has maximized the aggravation of Trump's opponents while providing his supporters with the barest comfort.

The Supreme Court has not yet decided the Trump immunity case. Its delay in doing so is being criticized in some quarters as a finger placed upon the scale of justice. Hopefully that decision also will come quickly and help move these matters towards resolution.

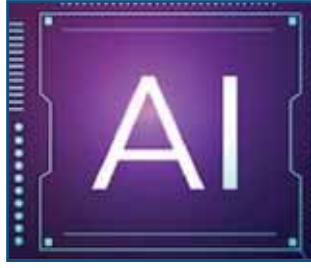
The Supreme Court has taken two cases which appear to be part of the Court's ongoing project to curtail the role of regulatory agencies. In 2011 the Federal Reserve imposed a limit on debit card fees. This rule is being challenged by a North Dakota gas station that presumably would like to charge more.

The government argues that the window for challenging the rule is six years and the matter is now closed. The gas station argues that the six year window commences at the point when the rule first impinges on it. Adopting the gas station's interpretation would basically mean there is no fixity to regulatory rules since a new impingement could commence at any time. By contrast, note that laws are set from the moment of promulgation and effected entities that come later are expected to conform to the law of which they had opportunity to inform themselves.

The second case is a procedural dispute between the EPA and certain states. The background finding is that particulate emissions from electric power plants are a health hazard and in particular cause childhood asthma. The EPA wished to address the situation where the power plant is upwind of a city and the pollution crosses state lines. It invited the states to submit remediation plans. A number of states did so, but in 21 cases the EPA concluded the plans were inadequate. Two states failed to submit a plan entirely. Accordingly the EPA proposed its own plan to address the situation where no adequate plan had been proposed. The EPA's plan was that power plants which had pollution abatement equipment already installed should switch it on. The states have appealed to the Supreme Court on an emergency basis asking it to issue an injunction against the EPA while they litigate the plan in the lower courts. Several remarks are in order. First, the EPA plan is not going to deprive the polluting utilities of any profits. As regulated companies, they will simply pass the costs of operating their anti-pollution equipment on to the power purchasers. Second, let us suppose the EPA plan is enjoined on a temporary or permanent basis. The result will be tens of thousands of cases of childhood asthma resulting in some amount of medical cost. The insurance companies and health systems will naturally want to recover those costs and the results may well be lawsuits against the polluters. At its

root the matter before the Court is “may the people of Indiana enjoy slightly lower electricity rates at the expense of sickening the children of Kentucky.” The EPA thinks not, but the Supreme Court is suspicious that Congress has made an excessive delegation of power to the EPA to decide such matters. But if Congress is, instead, to directly decide such matters there are two well known problems. First, when Congress legislates on matters of economic minutia the law quickly goes out of date but then hangs around for decades causing problems until the political will to update it forms. Second, pushing detailed economic regulation into Congress is a recipe for corruption. Regulatory rules can be updated more easily than laws and corruption in administrative agencies is easier to control than in political bodies. The problem with being against administration per se is that curtailing administration does not result in liberty and prosperity. It results in costly messes. We feel the proper role of the courts is to address obvious and specific abuses of regulatory power and not to attempt a fundamental restructuring of how a complex economy operates.

The Supreme Court of Alabama has made its own headlines. A fertility clinic was entered through an unsecured door by a seemingly disoriented patient of the hospital housing the clinic. This person took fertilized embryos from the cryogenic freezer in which they were stored, burnt his hands in the process and dropped the embryos resulting in their death. In its zeal to punish the negligent clinic, the Court ruled that fertilized embryos are protected human life and that suit could be brought for wrongful death. The consequence has been to shut down in vitro fertilization (IVF) in Alabama. IVF is a mainstream medical procedure for helping couples with difficulty conceiving. Nationwide about 2% of pregnancies are due to IVF. The procedure routinely results in more fertilized embryos than are implanted and carried to term. The excess embryos are normally discarded, but under the new legal interpretation doing so is to commit wrongful death. The US Senate attempted to grant speedy relief by passing a law protecting IVF treatments nationwide by voice acclamation. It was blocked by Mississippi's MAGA senator Cindy Hyde-Smith. MAGA's doctrinaire thinking appears once again to have put it on the less popular side of a reproductive health issue.



AI

An explosion of energy continues in the AI world. Every major technology company seems to have an initiative in this area. Business strategies vary. Google and OpenAI have focused on building large, complex proprietary models. Facebook has taken an open source approach which has launched a broad wave of experimentation with its models. This breadth seems to be paying off in terms of rapid improvement. The core technology being worked with is large language models (LLM), but some work is also ongoing in interfacing LLM to other technologies. We think this multi-technology approach is the right one. Early deployments of applications based on these technology include query answering, customer service and characterization of customer preferences for marketing purposes. Readers can expect ever more suggestions of the form “you might like to buy this” to be presented to them. AI customer service should be less annoying than phone trees and possibly more helpful. A huge number of variations on the implementation and application of the technology are being explored. At this moment it does not look as if the field will be dominated by one or two winners. Rather it looks more like the development of a base technology which supports a whole industry, as for instance the integrated circuit was.



Immigration and the US Labor Market

Immigration and labor are much in the political limelight. Addressing campaign rallies, Former President Trump accuses President Biden of flooding the country with

criminal minded illegal immigrants. An undocumented immigrant is by definition a law breaker, but just how criminally minded is this subgroup of the population? The Cato Institute examined this question using data from the Texas criminal justice system. Cato is a conservative think tank funded by Charles Koch which describes itself as libertarian/free enterprise oriented. Texas is known for hostility to illegal immigrants and for strict enforcement of criminal laws. The data shows natives to be twice as prone to crime as

Figure 1: Texas Criminals 2015

Item	Native	Legal Immigrant	Illegal Immigrant	All
<u>Population</u>				
...count	22,797,819	2,913,096	1,758,199	27,469,114
...percent	83%	11%	6%	100%
<u>Convictions</u>				
...all crimes	409,708	17,785	15,803	443,296
...homicide	709	30	46	785
...sex crimes	7,079	280	503	7,862
...property	60,870	2,156	1,090	64,116
<u>Convictions per 100k</u>				
...all crimes	1,797.1	610.5	898.8	1614
...homicide	3.1	1.0	2.6	2.9
...sex crimes	31.1	9.6	28.6	28.6
...property	267.0	74.0	62.0	233
<u>Multiple of Illegal</u>				
...all crimes	2.0	0.7	1.0	1.8
...homicide	1.2	0.4	1.0	1.1
...sex crimes	1.1	0.3	1.0	1.0
...property	4.3	1.2	1.0	3.8

Source: Criminal Immigrants in Texas: Illegal Immigrant Conviction and Arrest Rates for Homicide, Sex Crimes and Other Crimes, Immigration Research and Policy Brief No 4, Alex Nowrasteh, Feb 26, 2018, The Cato Institute

illegal immigrants. For murder and sex crimes natives and illegal immigrants have similar rates of criminality. Those rates are 2-3x higher than the rates among legal immigrants. For property crimes, however, natives have 4.3x the propensity to crime as illegal immigrants and illegals are slightly more law abiding than legal immigrants. Immigrant criminals (legal or illegal) face a deportation risk not faced by native born criminals. This extra deterrent appears effective at reducing economic criminality in the immigrant demographic. Crimes against persons are less responsive to

legal deterrants, which probably accounts for the equal rate of such criminality in the native and illegal populations. The legal immigrant population includes a weighting towards the well educated/professional class in excess of the general population due to the H-1B visa program. That circumstance probably accounts for the reduced level of crimes against persons committed by this group.

The US Chamber of Commerce is a private lobbying group representing the interests of US employers. Its data casts an interesting light on immigration and the state of the labor market. Immigration to the US, both legal and illegal, slowed during the pandemic. According to the Chamber's data the country is still below the trendline for legal immigrants by about 1.65 million workers. [Future of the Workforce, Stephanie Ferguson, Jenna Shrove, Isabella Lucy, Oct 3, 2023, US Chamber of Commerce.] In addition, data from the Bureau of Labor Statistics show workforce participation rates have not fully rebounded from the pandemic and that takes about one million workers out of the job market. Finally Census data shows that for every 100 workers currently aging out of the labor pool there are only 95 workers in the immediately younger age cohort aging into their job. This effect creates a deficit of about 900,000 workers. All of these factors create tightness in the job market. However, Labor Department data shows that there is lots of sectorial and regional variation in market tightness. In finance there are about 5 job openings for every unemployed worker. In government, health care, business and professional services that ratio is about 3. Manufacturing, hospitality and leisure actives offer each unemployed worker about 1.5 openings. In retail, construction and IT the ratio is close to 1. Regional variation is just as great. North Dakota has 5 openings per unemployed worker, while in California the ratio is about 1. In general the ratio of job openings to unemployed workers is higher in the red states than in the blue. This circumstance is fueling internal movement of workers from blue to red states. The total flow from blue to red states over 2020-2023 was about 3 million persons of whom perhaps 2 million were workers. The internal flow is approximately twice the immigrant flow and likely contributes to the sense citizens of red states have of being crowded by new comers.

Undoubtedly people are in motion. But where some fear the stomp of an invading horde others will hear the giant sucking sound of the American economy calling out to the global workforce – a suction pump that is still going strong after four centuries. The Federal Reserve's current dear money policy is basically an attempt to slow the pump down. Absent this policy wage rates would have to spiral up to dissuade older workers from retiring. AI and global outsourcing also can relieve some pressure – but again mostly in the office job sectors. Manual laborers have less capacity to extend their working lives than office workers, so those jobs would have to be sourced disproportionately by foreign workers. Given the continuing political inability to revise immigration policy to address economic need, the result of less dear money would be increased illegal immigration to fill jobs in a reviving construction sector.



The Economy

Recent data shows the Federal Reserve's dear money policy to be making continuing but slow progress at containing inflation. Commentators are now expecting it to be continued in place longer. As the above analysis suggests, The Federal Reserve is leaning against both cyclical and structural factors. With structural factors in play it is unsurprising that the economy is responding slowly to interest rate policy. Continuation of dear money promises more pain for the banking and commercial real estate sectors. It also suggests the dollar will stay strong and trade deficits will widen. However, foreign capital will respond to the same suction force as foreign workers and the capital flow will counterbalance the trade deficits.

Assessments

The medium/long range outlook has darkened some in the past quarter:

1. It is clear we face massive adaptation costs with respect to global warming. We can still usefully reduce our emissions but political will is flagging.
2. Allowing Russia to reconstitute its European empire would be an act of unparalleled folly. But the US appears paralyzed in front of the threat.
3. The Republican party – an important institution of our polity – is close to dysfunctional. Its Congressional wing has been unable to deliver on the deals it has cut. Its presidential nominating process is selecting a discredited faction leader as its standard bearer. It is apparently unable to keep its Treasury out of the hands of a convicted fraudster. Its policy ideas seem to be more an emotional response to a complex changing world rather than the results of deeply reasoned analysis.
4. The apparent direction of the Supreme Court is concerning. It appears driven by philosophical doctrines rather than the more reliable guideposts of precedent, pragmatism and a basic sense of justice.

We will be watching developments along these axes and might trim our expected return for US equities by 0.25%.



Capital Markets

US equities continued to rise, led by the large cap growth stocks (+8.56%) and followed by Value (+2.95%) and Mid/Small Cap (+0.95%). International equity also turned in good results: both developed markets (+2.99%) and emerging (+4.17%). Fixed Income mounted a modest pull back from the advance of the last three months. Pockets of strength were Preferred (+0.37%) and REIT (+2.09%).

Table 2: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	12.43%	6.22%
	...Large Cap Growth	rising	15.53%	8.56%
	...Large Cap Value	rising	8.40%	2.95%
	...Growth – Value	rising	7.13%	5.61%
	US Mid/Small Cap	rising	2.78%	0.95%
	Intl Developed	rising	6.67%	2.99%
	Intl Emerging	rising	1.09%	4.17%
Fixed Income	Treasury 3-7 year	flat	0.48%	-1.62%
	Treasury 7-10 year	flat	0.87%	-2.32%
	TIPS	flat	1.83%	-0.68%
	Municipal	flat	1.36%	-0.45%
	Investment Grade	flat	1.29%	-2.28%
	Medium Grade	flat	2.14%	-0.19%
	Preferred	flat	4.96%	0.37%
	REIT	flat	4.32%	2.09%
Commodity	Euro	flat	-0.80%	0.01%
	Gold	rising	0.77%	1.65%
	Crude Oil	flat	7.97%	8.33%

The Euro was stable against the dollar, gold continued slowly rising and oil bounced upward in response to war drawing near to the Mideast oil shipping lanes.



Advice

Our advice is to formulate and hold the portfolio which reflects your personal life plans. Although clouds hang on the horizon, there is still plenty of opportunity for them to dissipate. They bear careful watching but need not yet drive a portfolio adjustment.



About Lloyd Tevis Investments

Lloyd Tevis Investments LLC is a registered investment advisor 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.

Cover Photo

The goddess Fortuna turns her wheel lifting some to glory and plunging others into ignominy. As the changing fortunes of war and elections spin round the fates of politicians and nations this image seems at apt metaphor for our times. It also reminds us that it was ever thus – the variability of human affairs is no new thing. For investors the challenge is to judge how fast the wheel is spinning and which passengers are yet ascending.

