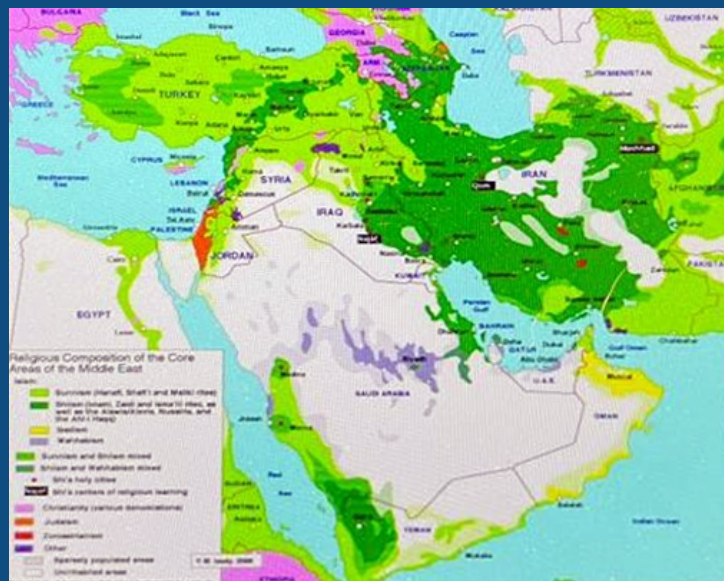
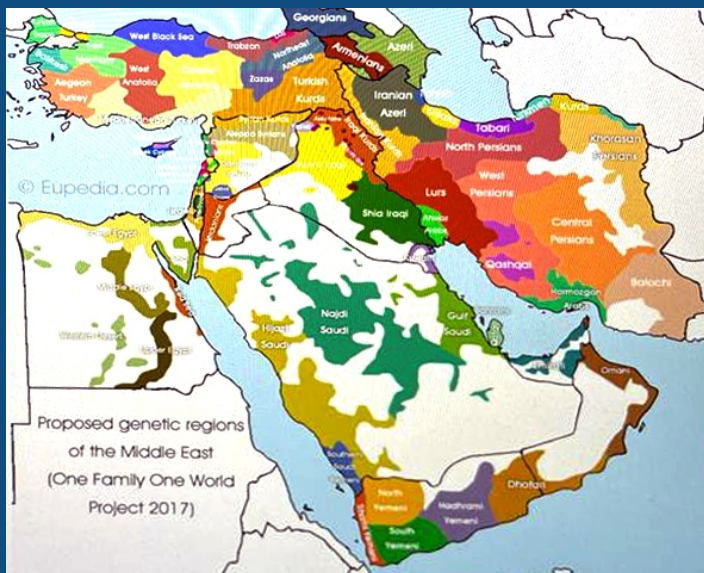




# LLOYD TEVIS INVESTMENTS, LLC

Securing your future through Precision Investing™





## Russo-Ukraine War

The front lines remain little changed. The Ukrainians apparently came close to penetrating the Surovikin line of field fortifications at the end of September, but the Russians successfully rallied to hold the line. Overall the Russians appear to be rebuilding, resupplying and modestly improving their tactical skills. They have gone on the offensive around Avdiivka, where they are attempting to pinch off a ten mile by ten mile pocket in the front line. Thus far, however, they have suffered high casualties for only modest gains. Late autumn weather is expected to slow the operations of both sides in November and first part of December.

A gas pipeline running under the Baltic between Finland and Estonia was apparently attacked. The perpetrators are unknown but the most likely candidate is covert Russian forces. Motives also are unclear – probably a combination of cage rattling and an attempt to manipulate gas prices for a profitable market speculation.



## Middle East Conflict

Israel was invaded by the Hamas militia operating out of the Gaza strip whose government they control. Their forces acted with genocidal brutality against the Israeli civilian population. They also abducted approximately 220 hostages. Israel is demanding release of these hostages and

has imposed an embargo on electricity, food, water and fuel to the Gaza strip. This is a threat to life to the 2 million civilians living in the strip. A considerable propaganda effort has been launched by supporters of the Gazans to blame their plight on the Israelis, while gliding over the circumstance that it was their government which launched this war and has conducted it with complete disregard of the laws of war. The numerous parties which repeat this propaganda line underline that Israel cannot expect fair treatment from a broad swath of world opinion. Hamas's attack was clearly long planned and is most likely part of a wider strategic plan. Israel and Iran have basically been at war for two decades, although the war is undeclared, and usually conducted covertly or through proxies as here. It seems likely that Iran has used Hamas as a pawn to bait Israel and put an obstacle in the way of Israel's efforts to make peace with the wider Sunni Arab world. As Hamas is a Sunni organization, we think Iran (which is a Shia society and government) would be willing to sacrifice this pawn to achieve its wider goal of slowing the formation of a common front against it. Besides the threat from Hamas in Gaza and parts of the West Bank, Israel is also threatened by Iran's ally Hezbollah in Southern Lebanon and by elements of its internal Arab population. US President Biden has deployed a significant naval task force, including two carriers, to the Eastern Mediterranean in an effort to discourage a spreading of the war. In addition the US Fifth Fleet, also a two carrier force, is active in the Arabian sea. Iran has been trying to mobilize its proxies in Lebanon, Syria, Iraq, the West Bank and Yemen against both Israel and the United States. So far the proxies have only committed themselves to low risk token efforts. It is unclear whether Iran is actually trying to rescue Hamas or merely give itself cover against the charge of having abandoned Hamas. Indeed, Iran itself may be confused on this point. Hamas's actions have placed it in the same category as the most extreme terrorists: Pol Pot, the Tamil Tigers, ISIS and the more extreme Nazis. The Israeli government is unlikely to stop short of the physical and political liquidation of Hamas. This development will probably be welcome to many Arab governments in the region who understand the dangers posed by this Iranian tool, but they will find it politic to deplore Israel's actions while operations are underway.

Whether a political reconstruction of the Gaza strip on peaceful lines is possible or that entity's days also are numbered remains to be determined. Israel is reluctant to resume control of the strip and they may be satisfied with carving out a DMZ zone on the Gaza side of their common border. An Israeli military administration of Gaza lasting for months to a year is likely to constitute the transition from war to the post-Hamas future.



### **US Politics**

House speaker Kevin McCarthy fell victim to a party coup carried out by the MAGA wing of the Republican party. The MAGA faction insisted that the office go to one of their own. Traditional Republicans were able to keep out the strongest MAGA firebrands, but ultimately acquiesced to accepting a MAGA candidate. The new speaker Michael Johnson seems likely to lead the House into continuous confrontation with the Senate and White House – essentially bringing governance to a halt. This is, of course, the objective sought by the MAGA faction. The former Vice President Mike Pence has ended his campaign for the GOP Presidential nomination. With 12 years in the House, 4 as governor of his state, 4 as Vice President and a proven reputation for courageous and principled political stands his resume made him the best qualified candidate for the nomination. He joins the long list of top tier individuals whose career was destroyed by their association with Donald Trump. Two important figures in finance – Ray Dalio and Jamie Dimon – have both voiced the view that the present time is one of high peril. Dalio foresees the risks of both civil war in the US and a world war abroad. Dimon is vaguer but equally concerned. Respectfully we disagree. While the world is certainly full of conflicts, crazy ambitions and touches of desperation that is

more or less normal. Only China can launch a world war. While we see China as an ambitious power, we also see it as a power motivated more by rational self interest than by emotional commitments. We think China may encourage enemies of America in the hope that American preoccupation with these problems may open opportunities for China. But we doubt China will commit itself to those enemies or seek to coalesce regional conflicts into a global war. A rational assessment of gains and risks simply does not argue for such a policy.

The Georgia RICO prosecution has bagged two significant guilty pleas: Kenneth Chesebro and Sidney Powell. They will now turn state's evidence. Powell was deep in the confidences of the principal actors to the alleged conspiracy and the threat of her testimony will likely push others into cutting plea deals. Chesebro pled guilty to felony conspiracy naming Rudolf Giuliani and Donald Trump as co-conspirators. Among less central players, Jenna Ellis has accepted a plea deal and other secondary players are understood to be in discussions. The originally sprawling case with 19 co-defendants looks likely to focus down to 4 or 5 principals facing a prosecution armed with a dozen cooperating witnesses. In addition former White House Chief of Staff Mark Meadows has accepted an immunity deal from Jack Smith, the federal prosecutor in the Mar Lago papers and January 6 Insurrection cases. With key insiders working with the prosecution the defendant's chances in these various trials have notably worsened. In these early plea deals prosecutors have waived jail time in favor of light fines and extended probation. Such leniency may not be extended in last minute deals.

Cases which go all the way to conviction are likely to draw the sort of multi-year custodial sentences which are particularly daunting to white collar defendants.



## **US Politics**

CPI inflation came in a bit hot, but after eliminating the volatile food and fuel categories it was basically stable. Labor unrest has continued. The source of inflation is changing. Its original source was connected to the pandemic – federal support for the economy and build up/spend down of household savings. Now, however, fiscal stimulus due to various policy choices is the continuing cause. The most efficient way to counterbalance this stimulus would be to raise consumption taxes. In the US consumption taxes take the form of sales taxes collected by local authorities. The Federal government would encourage their increase by trimming support to State and local governments. Presently there are no policy discussions along these lines. We mention the matter simply to point out that the government is not lacking in policy options which it could apply to the problem of controlling inflation. GDP growth surged ahead in the third quarter, rising from an annualized rate of 2.1% in the second quarter to 4.9% in the the third quarter. Inventory building added 1.3% to that growth as firms stocked up in anticipation of inflation driven price increases. This stock building is unlikely to repeat in future quarters. Subtracting this effect gives a growth rate of 3.6%, which is closer to a sustainable level. Consumption patterns show some shift away from their post-pandemic pattern, but it is too soon to say that “normal” patterns have been restored. These shifting patterns create a confusing environment for firms. This is a nervous time for investors carrying levered long bond positions. Another jog up in long rates could turn painful positions into distressing ones. Such investors will be watching every twitch of the CPI, the political news and the Fed with deep anxiety. That anxiety could coalesce into an abrupt market move. However, we think the upward momentum is out of rates and a long drawn out plateauing followed by a gradual relaxation is more likely.

Overall the country is at peace and the most pressing matter on the public's mind appears to be the doings of its favorite songstress. Gas and grocery bills are eye catching, but outside specific industries jobs are plentiful and wages generally moving up. Sour grapes abound in the domestic political sphere and abroad the storm clouds gather. We suspect the public tunes all this out as it focuses on the more pressing issue of schlepping kids to after school programs.



### **The Global Economy**

The EU economy is slowing and its central bank has paused its regime of interest rate rises. Monetary policy in Europe remains softer than in the US. However, Europe's less modern economy is probably less able to cope with rising interest rates than the US economy. Also Europe is more impacted by geopolitical storms than the US. China's property sector continues in recession. Significant debt restructurings will be needed and recovery is likely to take years. It is too soon to evaluate the impact of the Israeli-Hamas war on the Middle East. The investor forum hosted by Saudi Arabia struck a dour tone. Another piece of bad news for oil producers was that adoption of electric vehicles is running above earlier projections. Continuing technical progress is chipping away at costs and technical roadblocks. California has revoked General Motor's operating permit for fully driverless cars. A human driven car hit a pedestrian who was propelled into the path of a driverless car. The driverless car reacted suboptimally and contributed to the victim's injuries. This incident underlines the technical challenge of creating autonomous vehicles which must function in a human dominated environment.



## Markets

Virtually all markets fell in October. Gold, which usually does well in politically troubled times, rose smartly however (+8.39%.) In equities relative strength was in US Large Cap Value (-1.89%), while the US Mid/Small Cap sector was particularly weak (-6%.) In bonds relative strength was in Short Maturity Treasury (-0.78%) and TIPS (-0.89%). By contrast, Preferreds suffered from both high duration and credit exposure (-5.2%.) Most asset classes ended the month either retesting or setting new six month lows. While October was a disappointing month for investors, it was more a month of incremental sagging rather than strong bear trends or market routs. In the face of an unquiet political situation one could even argue that the markets are exhibiting some latent strength. Our interpretation remains that US interest rates are in the process of plateauing and a technology led bull

**Table 1: Recent Market Performance**

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	rising	-7.17%	-2.19%
	US Large Cap Growth	rising	-6.37%	-2.70%
	US Large Cap Value	rising	-8.13%	-1.83%
	Growth – Value	rising	2%	-1%
	US Mid/Small Cap	range trading	-13%	-6%
	Intl Developed	range trading	-7.28%	-2.92%
	Intl Emerging	range trading	-9.25%	-3.32%
Fixed Income	3-7 Year Treasury	falling	-1.99%	-0.78%
	7-10 Year Treasury	falling	-5.47%	-2.21%
	TIPS	falling	-3.12%	-0.89%
	Muni	falling	-4.54%	-1.47%
	Investment Grade	falling	-4.37%	-1.83%
	Medium Grade	range trading	-2.48%	-1.52%
	Preferred	range trading	-7.03%	-5.21%
Commodity	REIT	range trading	-13.10%	-2.63%
	Euro	range trading	-3.23%	0.95%
	Gold	range trading	1.18%	8.39%
	Oil	range trading	4.15%	-6.01%



market in US equities has begun. We expect steady performance from the US economy to help stabilize the international sector and to ultimately help it recover. Investors should be mentally prepared for outbursts of volatility and periods of market setback.



### **Advice**

These episodes, however, are normal features of the investment experience. Overall, investors should be maintaining their normal portfolio posture at the present time.



### **About Us**

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](http://lloydtevis.com).

### **Cover Photo**

We show two views of the Middle East which reveal the complexity of this region. At a natural cross roads between Europe, Asia and Africa the region has in its long history seen dozens of migrations. The left hand map shows the region in terms of tribal heritage as revealed by modern DNA mapping. There are approximately 60 different groups on this map. While some of these groupings correspond to modern nations, others do not. Notably both Turkey and Iran are highly mixed on an ethnic basis. Turkish groups constitute about 85% of the population of Turkey, but Persians represent only 55% of the population of Iran. With ethnic identities too fragmented to form the foundation of powerful states, it is religious affiliation which has historically bound different peoples together to constitute the important states of the regions. But the ethnic identities which are initially submerged in a common religion have a tendency to reemerge as sectarian identities. The second map shows the predominant sectarian group in each region. In some cases DNA and sect identities align, while in other cases sect successfully knits together different peoples. In particular, Iran holds to its Shia identity with special energy in part because it lacks a strong ethnic center. Turkey, with a strong core of Turkic peoples, has been slightly more relaxed about its sectarian identity. In the twentieth century there were various attempts to replace religious affiliation with such modern ideologies as Kemalism, Arab Socialism, and Pan-

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Arab Nationalism. None of these concepts, however, have developed roots strong enough to challenge ethnic and sectarian identities. Complexity is the root of the region's cultural richness, political violence and failure to organize itself into what we consider modern democratic states. Over time that complexity tends to increase rather than diminish.