

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

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

## Market Commentary

September 2022

### The End of a Reign Queen Elizabeth II (1926-2022)



As we go to press, we hear, with sadness of the passing of Queen Elizabeth II. One of the most illustrious figures of our day, the respect, the grace, the loyalty, the devotion, the leadership, and interest which she commanded extended far beyond the United Kingdom and the Commonwealth which she served as Head of State for 70 years. Less recognized is the fact that she was perhaps the greatest traveler of our day and age.

The remotest corners of the globe proudly bear plaques commemorating her visits. She was one of a fairly select group of persons who tied together the distant corners of our world and gave the words “global community” real substance. As she became ever more the iconic grandmother, a quiet but substantial feeling of personal affection came to supplement all the various feelings about her office and heritage. When we consider the sweep of her life, from the height of England's Imperial supremacy to her final cabinet containing three ministers descended from once subject peoples, we see how much can happen in a lifetime. It also serves to remind us how the other events that shall be discussed in this report are comparative epiphenomena – most of them destined to be of no consequence in a month or so and forgotten within a few years. Queen Elizabeth II will, however, be remembered for lifetimes to come.

We at Lloyd Tevis Investments, LLC extend our deepest sympathies and heartfelt condolences to the Royal family who have lost a mother, grandmother, and great grandmother; the United Kingdom for their loss, of a remarkable monarch who reigned with integrity, humanity, fidelity and of course humor and left a lasting impression on her nation and her century. May the queen rest in peace.



### The Russo-Ukrainian War

In the first half of August the Ukrainians disabled the bridges that are essential to the Russians maintaining their forces on the west bank of the Dnieper. Cut off from supplies, those forces degraded over the course of the month and the Ukrainians have now begun an offensive to clear the Russians from the west bank of the Dnieper and to liberate the important city of Kherson. Their own ability to project power across the river to the east bank is very unclear, however, and so they may not be able to push the Russian forces far enough back to save a liberated Kherson from Russian shelling. Initially the Russians seemed to be preparing to fight for their west bank lodgment, but they seem to have reconsidered and now appear more intent on reinforcing their east bank position.

The Ukrainians have also been carrying out commando raids in the Russian rearguard. These pinprick attacks unsettle the Russians and force them to divert troops to guard duty in the rear. With forces drawn off to guard duty reinforcing the line of the Dnieper, Russia's own offensive in the Donbas has ground to a halt. This strategic initiative may be in the process of passing from the Russians to the Ukrainians.

The Russians continue making efforts to rebuild their depleted army. They are also busy trying to erase the Ukrainian national identity from occupied territories: deporting Ukrainian adults and children to Russia, bringing in Russians as replacements, and forcing conversion of occupied areas to Russian passports, money and school curricula. Military age males are forced into "filtration camps" in an effort to shut down partisan activity. Ukrainian priests are reportedly being targeted for extrajudicial killing. In short the Russians are not trying to reconcile the local population to their rule. Instead they terrorize it and engage in activities arguably criminalized by the convention on the prevention and punishment of the crime of genocide.

Despite the grim situation in occupied Ukraine, Turkey has managed to broker a deal for Ukraine to ship their grains worldwide, resolving a pressing concern. However, international concern has now shifted to Ukraine's nuclear reactor power station in Enerhodar currently occupied by the Russian military. Thoughts of a second Chernobyl disaster continues to trouble everyone except the authors of the original meltdown.



## Taiwan

China reacted with notably bad grace to Nancy Pelosi's drop-in visit to Taipei. Pelosi has previously revealed herself the master of the political hatpin - driving Congressional Republicans wild with her pricks. Unwisely, President Xi put himself at the mercy of this political acupuncturist. But will this drama just be continuing

political theater or will something substantive come of it? Xi expects to be reelected at the party Congress in mid October. Afterwards he could either cool the Taiwan issue and seek rapprochement with the US or he could move ahead with substantive planning for an invasion. The US could continue to talk a tough line while cutting its military forces, or it could begin reinforcing its forces to match capabilities to rhetoric. We think Xi is serious about recovering Taiwan but patient enough to wait for the opportune moment. We do not think the Democrats are keen for expanding the military budget, but if the Republicans have a strong midterm showing then military spending may be the only remaining program with bipartisan support in an otherwise hung Congress.

## Domestic Politics

In a victory for Trump, Harriet Hageman unseated Elizabeth Cheney as Wyoming's representative in Congress. Not only does this humiliate a fierce critic of Trump, but it places a key seat in the hands of one of Trump's supporters should a future presidential election ever end up being decided in the House of Representatives. Trump's strong championship of the fossil fuel industry has made him extremely popular in Wyoming. In a deeply grassroots campaign Hageman was able to portray Cheney's attack on Trump as disloyalty to Wyoming's economic interests. Hageman is a pure representative of the anti-Federalist arm of the Republican party. She



declares it as her goal to “get the Federal government out of people's lives.” Her victory caps the the take over of the Republican party by the anti-Federalists and their champion Trump.

So where now do the Bush-Cheney-McCain-Romney Republicans go? They represent about 30-40% of the Republican party and thus 15-20% of the electorate. While too weak to control a party, they are strong enough to be kingmakers. As in the 2020 election, they could throw their support to a conservative/moderate Democrat and shut the Republicans out of the White House. Or they can fight the battles of the back rooms to hold on to influential posts in a future Republican administration. The Democrats, who have cratered in the heartland, would be wise to broaden their geographic base by courting this disaffected faction. Whether they will have the wisdom and flexibility to do so remains to be seen. Interestingly, the Supreme Court's excision of abortion from the menu of national political issues will open up possible alliances for the Democrats formerly foreclosed by this litmus test. Republicans meanwhile are put on the defensive by the Court's decision as they fight the label of being the party which takes away people's rights.

Unfortunately for Trump, his faction's success at the polls is eclipsed by his legal difficulties. Trump has managed to get himself into a potentially lethal fight with the Archivist of the United States, an office both utterly apolitical and relentlessly single minded. The banality of the matter at hand is quite stunning. Everyone in America knows that when one leaves a job, one cannot go off with the employer's paperwork (although keeping trophies is a common infraction.) Equally, it is common sense to know that when the FBI Counterintelligence division comes looking for paperwork, you give them what they want and try not to feed them bumf. What most people do not know is just how much trouble one can get oneself in by removing and concealing government paperwork. These deeds are potentially violations of the Espionage Act and Obstruction of Justice - both laws define major felonies with potential prison terms of 10 and 20 years respectively. Worse yet for potential defendants, the unlawful deeds are criminal per se – mental state is not an element of the crime (unlike say murder or larceny.) In the present instance, the evidence against Trump apparently amounts to more than fifteen cartons of paper (about 500 lbs). Unless it all proves to be innocuous trophies of his White House years, a Federal indictment is likely to follow. To see how this case might play out, a useful benchmark is the 2013 case of David Petraeus. When a four star general, commanding the US effort in Iraq and Afghanistan, Petraeus compiled his personal work papers (containing classified materials) into a series of notebooks. When he moved on to the Directorship of the CIA, he (improperly) retained this material. He also began an extramarital affair with a Lieutenant Colonel who was writing his biography. Petraeus surreptitiously and improperly permitted his biographer to access his notebooks. This mess, when it came to light, cost Petraeus his post and led to his prosecution under the Espionage Act. In a plea arrangement, he pled guilty to a felony and was sentenced to two years probation and a \$100,000 fine.

The United States has greatly benefited from the tradition that the errors of Presidents are judged by the electorate and not by the Justice system. Certainly policy decisions and even most political activities should continue to be sheltered from prosecution. Most of Trump's misdeeds in office either squarely or arguably fall into these protected categories. The Mar Lago Papers, however, may prove to be the “smoking gun”, i. e. the clear and undoubted instance of a criminal act outside even the widest privileges of the office. Sensing the danger, Trump and his supporters have responded with a howl of pain – demanding the defunding of the FBI. This is not a position likely to restore their tattered credentials as a party of law and order. Trump's closest allies may also need to consider that if an eventual plea deal with the Justice Department emerges, then Trump may end up providing

State's evidence with regard to the January 6 affair. For a political leader to get himself in so much trouble seems a serious misjudgement.



### **The Domestic Economy**

Just as analysts were comfortably settling into a recession consensus the economy surprised them by adding a half million jobs. Analysts are now in disarray with expectations ranging from possible depression to renewed growth. We think the root of this confusion is the special character of this business cycle. In this cycle, the pandemic effected different sectors of the economy very differently. Hotels, restaurants, travel and commercial real estate were deeply depressed, while Technology boomed. A large swath of Americans were able to reduce their costs, hold on to their salaries and pay down debt. They are now well positioned to satisfy pent up demand for hotel, restaurant and travel services. Other Americans survived only by defaulting on rent and mortgages and are now struggling to recover their financial equilibrium. The depressed sectors are still in a recovery phase, while the Technology sector is moving into the bust phase of a classic boom-bust cycle. With the different sectors of the economy more dis-coordinated than usual the economic signals will be harder to read and analyst confusion is likely to persist. In terms of an economic slowdown, discoordination should reduce the depth but extend the duration of the downswing part of the cycle.

### **The International Economy**

China continues to deal with its real estate lending mess and the economic damper of its Covid policy. Europe is facing soaring electricity bills due to high energy prices and embargo of Russian oil and gas. Building adequate gas stocks to last out the winter is a major concern. OPEC (Oil Producing & Exporting Countries) countries continue to enjoy the high oil prices engendered by the Russo-Ukrainian war.



### **The Markets**

The summer rally ended abruptly and markets resumed their falling trend. All are now lower than where they stood on July 1. This month's decline was particularly marked in Oil (-7.75%) and International Developed Equity (-7.51%). There was comparative strength in International Emerging Equity (-1.26%) and US Large Cap Equity (-2.31%). In the three month view, US Large Cap Growth and Value Equity hardly differ (-0.51%) and Short Term Treasuries show relative strength (-1.42%)

**Table 1: Recent Market Performance**

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	falling	-4.25%	-3.49%
	US Large Cap Growth	falling	-4.58%	-4.79%
	US Large Cap Value	falling	-4.08%	-2.31%
	Growth – Value	falling	-0.51%	-3.03%
	US Mid/Small Cap	falling	-4.62%	-3.34%
	Intl Developed	falling	-11.10%	-7.51%
	Intl Emerging	falling	-7.56%	-1.26%
Fixed Income	3-7 Year Treasury	falling	-1.42%	-3.27%
	7-10 Year Treasury	falling	-1.92%	-5.34%
	TIPS	falling	-5.72%	-4.70%
	Muni	falling	-1.25%	-3.18%
	Investment Grade	falling	-2.02%	-3.99%
	Medium Grade	falling	-4.95%	-4.56%
	Preferred	falling	-1.41%	-5.47%
Commodity	REIT	rising	-6.88%	-4.67%
	Euro	falling	-4.50%	-1.66%
	Gold	falling	-8.97%	-4.09%
	Oil	rising	-17.69%	-7.75%

We think the Federal Reserve will need to continue tightening until the Treasury Bill rate (currently 2.8%) crosses the inflation rate (currently 8.5%). Even with the Federal Reserve increasing the short rate in 0.75% steps, it will take the better part of a year for this level of control to be achieved over inflation. Markets will remain in bear mode until they see an approaching end to Federal Reserve tightening.

Recently concern has been voiced about Biden's plan to forgive approximately 25% of outstanding educational debt. The economic effects of debt forgiveness are identical to temporary tax cuts, albeit the constituencies benefitted differ. We think this forgiveness program unlikely to have an impact on inflation.



### Advice

Bear markets are frustrating for long term investors, but they are as much part of the investing experience as winter is of the seasons. A stolid approach of soldiering through until better times return is in the end the best approach. Short swing trading may seem seductive in bear markets, but like other winter sports it comes with risks of broken limbs. We recommend against it. For those who cannot resist market timing, building cash reserves carries far less risk. Similar to munching cookies by the fire, the main risk of this activity is being slightly out of shape when spring returns.