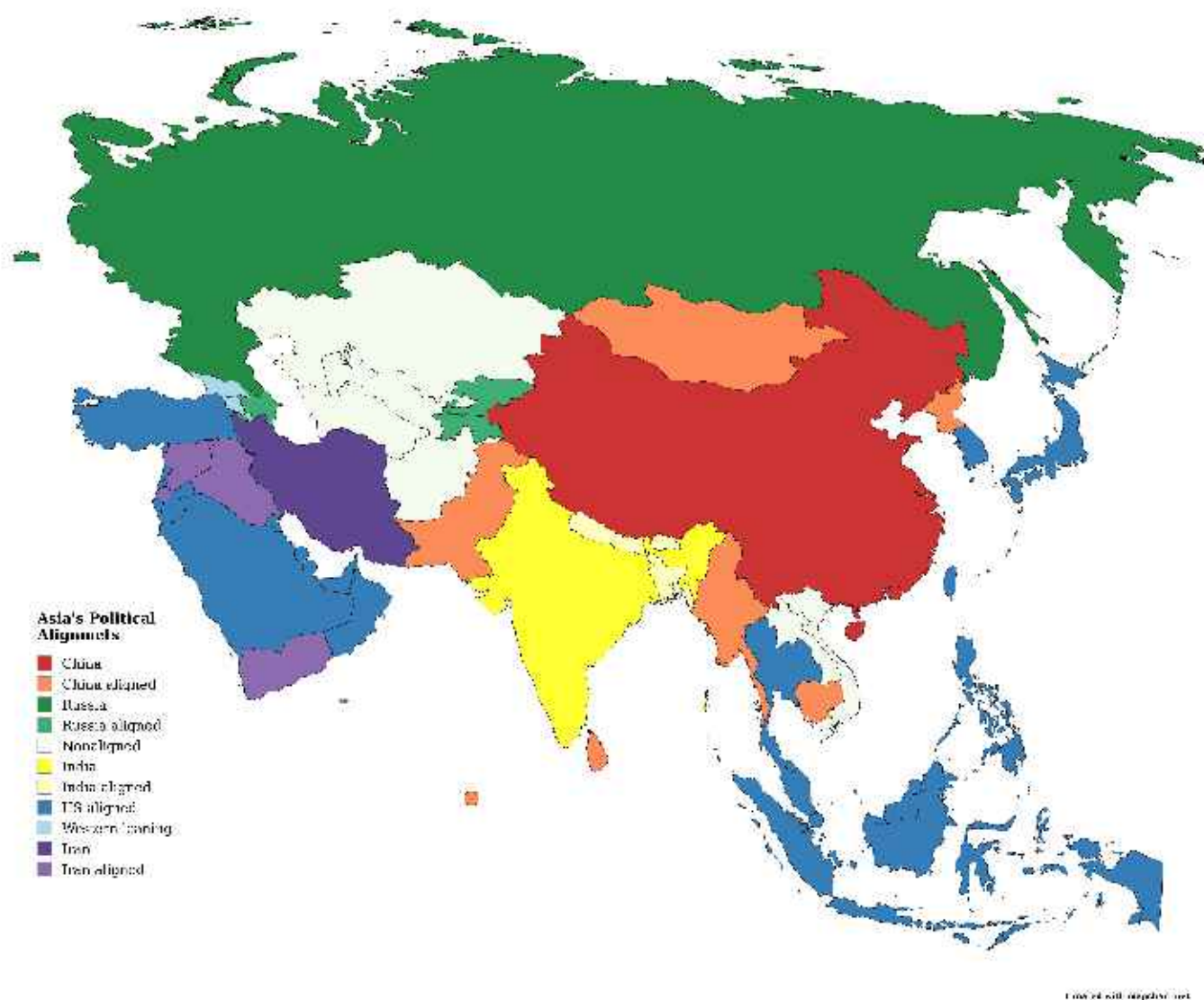




LLOYD TEVIS  
INVESTMENTS, LLC

Securing your future through Precision Investing™



Market Commentary  
September 2024



## Executive Summary

Geopolitical tensions, technological developments, macroeconomic uncertainties and electoral politics all stir the pot, but the market keeps moving ahead. Investors should take the market's lead and look through all the short-term noise to focus on longer-term trends.



## Russo-Ukraine War

Russia left its border with Ukraine lightly guarded by rear echelon troops. The Ukrainians took advantage of this to invade, moving northward in the direction of Kursk. The Russians have responded reluctantly, dispatching operational reserves and a pot-purr i of units pulled from around the theater. Primarily the Russians are trying to protect their ongoing offensive in the central sector from disruption by the need to defend the Kursk sector. In the central sector the Russians are currently driving towards Pokrovsk. This is a town of 60,000 astride a road junction important to the supply of the Ukrainian lines. On the northern front, the Ukrainians have moved within artillery range of Kurchatov – a modest riverside town which hosts a large nuclear power plant. The Ukrainian advance is not yet a threat to Kursk, however. Kursk is a provincial capital of about 420,000. Unless the Ukrainians can bring it under fire, the Russians appear willing to treat the Ukrainian move as merely a border incident rather a regular invasion. Longer

term, however, the expansion of the battle space imposes heavy manpower and equipment costs on the Russians which they will not find it so easy to brush off. Even just limiting the Ukrainian advance has required the Russian's to divert nearly a division's worth of troops. Pushing the Ukrainians back across the border might require 3 to 4 divisions.

As the war rolls on Russia is gradually morphing from a European power with significant Asian interests into an Asiatic power with residual European interests. The four Asian great powers are roughly agreed that they should divide Asia into their respective spheres of influence and exclude outside influence. Three of the powers (Russia, China, Iran) are led by elites whose grip on power is threatened by Western political concepts and they are willing to sacrifice economic opportunity to fight off this cultural influence. The fourth power, India is more comfortable with Western political culture and eager to fully grasp the economic opportunity before it. It is also more distrustful of China than the other two powers. We think the four will succeed in managing Asian land mostly to their shared preferences, but they will not coalesce into a unified political block. Offshore and on the borderlands we expect American power and Western influence to continue to prevail.



## **China**

China continues trying to expand its territory through confrontations that stop just short of acts of war. Currently its areas of en-devour are Taiwan's outlying islands (Quemoy and Matsu) and a Philippine reef (Scarborough Reef.) The US has felt pushed to formally remind China of the US-Philippine Mutual Defense treaty. China has pointedly ignored this warning however and has expanded its area of confrontation with the Philippines. It seems only a matter of time until one of these confrontations escalates into an international incident. Our concern is that China has so stoked nationalist sentiment at home that such an incident could result in popular demonstrations against American

and other foreigners which the central government cannot fully control. Persons who visit China regularly on business or otherwise would be wise to monitor the situation and to act promptly to protect themselves should an Incident arise.



### **Domestic Polictics**

At its party convention the Democratic Party entertained itself with shaggy dog stories until 11 o'clock at night when it finally deigned to hear from its President who it had dumped and mocked just a month before for “needing to be in bed by 10.” As he surveyed the vast hall filled with delegates chanting “We Love You Joe”, President Biden may have reflected on Truman's words “If you want a friend in Washington, get a dog.” Biden's dog Commander, in fact, established quite a reputation for biting members of the President's entourage and particularly his security detail. Dogs are generally better judges of humans's loyalties than humans are themselves. Biden would probably have been better advised to rely more on Commander's judgment and to not rusticate Commander to the family home in Delaware. At the DNC Bidden delivered a high energy speech which gracefully reminded the audience that he has been a singularly effective President who had delivered for his electorate and that he was still the President and still trying to bring peace to a highly inflamed Middle East – an end which the DNC purports to want but an objective which they have substantially frustrated by lame ducking their President. His speech set a high bar for the party's nominee to match. Fortunately for Harris, lame appearances by two ex-presidents lowered the bar before she had to go on three days later. Her own appearance was an instance of preaching to the choir and fulfilled everything which could be asked or expected of such an exercise. More notable was her running mate Walz, who demonstrated why he had been an effective high school football coach before commencing a political career which so far has carried him to governor of Minnesota.

Biden is an interesting milestone in American political life. Born into the “Silent Generation”, Biden is the only member of that generation to have reached the Presidency. Ironically, Biden is a life long stutterer – a disability he visibly struggles with in every political appearance. He is thus the most disabled President since FDR and the only disabled person so far to have reached the Presidency in the age of intrusive modern media. He is the second Catholic to have reached the Presidency, following in the footsteps of Kennedy. Kennedy was largely a cultural Catholic, but even so Kennedy's Catholicism was a live political issue at the time. Biden, by contrast is a traditional practicing Catholic, yet his religious loyalties have hardly figured in the political discussion. This difference reflects a watershed change in America. A maturing of the country, a decreased influence of hard core Protestantism and a genuine acceptance of diversity of all kinds are important contributors to this change. Also important is a shift in public education. The Civil Rights Movement, to which Kennedy importantly contributed, pushed a reorientation of public education away from academics and towards community building. The result was a dumbing down of educational programs which ultimately led to decreased economic and social status for the demographic groups dependent on public education – most notably the white protestant demographic in the country. The Catholic community, by contrast, had long shouldered the cost of maintaining its own educational system. By simply holding to traditional standards, this educational system moved ahead the social and economic status of its students. Thereby, it effected a silent and remarkable social revolution in the US. Catholics are now represented at or above population weight in the top tiers of government and the professions. This is a remarkable change for a group which has been marginalized in American life essentially since the first colonization of British North America. Catholicism is a more tradition oriented faith than most flavors of Protestantism, and the relative ascendancy of Catholics in the social structure perhaps contributes to the rightward shift in the country. Observing its loss of status and opportunity, the under-educated white mainstream is enraged and education is currently one of the hottest button political issues. The solution proposed by the GOP is to tear the current system

down and to limit the government's role to financing education rather than to have it continue as a subsidized provider of education in competition with private education. Biden's approach, which he could not persuade his party to fully back, was to strengthen the existing system with greater resources, more access and debt relief for college students. Biden also takes considerable pains to emphasize his policies for creating good paying jobs for the less educated. As with many other policies, the division between Biden and the GOP was a division between internal reform and radical restructuring.

But all that is passe. The DNC is currently giddy over its candidate Kamala Harris in a way it was never enthusiastic over Joe Biden. Harris is the first mixed race candidate for higher office. In her person she represents the opening of opportunity for non-mainstream groups which has been such a feature of American life since Kennedy was President. Her qualifications for office are better than the competition, but not impressive even within her own party and generation. But, as noted, that might be a good thing with an electorate which itself is not impressively qualified. Her first policy pronouncements have been more or less what we expected – progressive baiting of class enemies. Well the GOP's policies – to the extent they are willing to talk about them – are no different. And frankly we expect intense partisanship at this moment in the political calendar. We note that Harris is at least showing the basic political skills of keeping her promises vague and dependent on the actions of others for enactment. As such she will find it relatively easy to move off them should she win office. However, for a candidate whose overwhelming need is to define herself politically it is not an impressive start.

The polls report Republicans who crossed-over to support Biden to be slowly drifting back to their home party. With independents, Harris is possibly picking up women voters but losing enthusiasm with male voters. This difference is significant. The electoral shift which put Biden in office was his appeal to white suburban male voters who forcefully turned away from Trump. With Harris apparently shrinking the Biden coalition, she will try to make up this deficit by

raising the enthusiasm of core Democratic voters. Political professionals believe depth of enthusiasm more significant than breath of appeal. This election will provide an important test of that conventional wisdom. We note, however, that Trump has long nurtured the enthusiasm of his base even at the cost of breadth of appeal. If enthusiasm is truly what matters, Harris starts in a distant second place.

The price of gold has risen nearly 25% year to date despite real returns of about 2% on US Dollar deposits. We think a primary driver of this appreciation is hedging political instability - both abroad and as a consequence of the ongoing struggle for power between left and right in the US.



### **The Mideast**

The Israeli army recovered the bodies of 6 hostages murdered by Hamas the previous day. The unfortunates had been kept in conditions that would be unacceptable for food animals in California. Three of them were due to be exchanged in the hostage deal which has been “almost there” for months.

The Israeli political left exploded with anger at Netanyahu, who it accused of scuppering the hostage exchange. Netanyahu showed his political skills by replying that the hostage's families are understandable in agony, but he could not sacrifice Israel's fundamental security interests for which a blood price has been paid and Hamas has, in fact, no intent of releasing hostages which constitute its only lever of influence over Israel. Meanwhile the IDF is selectively pausing military operations to allow a polio vaccination program to move forward in Gaza. Gaza's children in particular have been threatened by an incipient epidemic.

We think the war with Hamas will roll on until Hamas is weakened to the point that the Gaza Arab population turns on it and massacres it. Accordingly, we do not expect this

conflict to have a negotiated end. Iran chooses to believe otherwise and has deferred revenge for the killing of Hamas's political leader at an Iranian hosted event while talks are ongoing. Hezbollah launched a large but mostly ineffectual air assault on Israel and then declared fulfilled its need to revenge the killing of the man responsible for the Druze schoolchildren massacre. The Houthi's succeeded in setting a mid-sized tanker on fire. Their efforts mainly damage the Egyptians, who have lost approximately 70% of their revenues from the Suez canal.



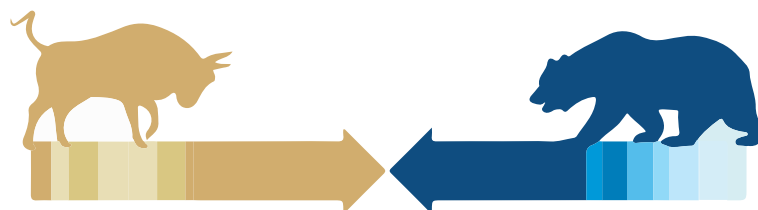
## **The Economy**

Inflation is down. Job creation is continuing at a very subdued rate. Every day brings news of another firm going out of business – so far mostly second tier firms. The Federal Reserve is setting expectations for the start of an interest rate easing cycle. We think that easing will progress rapidly enough to keep the economy growing overall. Pockets of weakness and restructuring may occur however.

Technologists remain super excited about AI even as consumers and main street businesses remain underwhelmed and somewhat hostile to what they have seen so far. We think AI is a very big deal but its impacts will emerge over the next decade rather than the next year. In the military sphere we think its impact will be similar to the introduction of the steel warship or the diesel powered tank and truck. These innovations obsoleted existing military stockpiles and ingrained tactical and strategic ideas. As a result the geopolitical power structure shuddered but ultimately did not change. In the transportation sphere we think it entirely possible that in 5 to 10 years humans will no longer be allowed to drive on congested highways but will have to sacrifice control of their vehicle to AI. In the consumer sphere we think the primary consequence will be improvements in the price-performance curve of a number of



products and services. Substantial opportunities for agile companies should open up and investors will want to monitor successful applications of AI closely.



## Capital Markets

Capital markets were volatile in August. The US economy has been the locomotive pulling the world economy out of the post-Covid doldrums. Signs of softening in the US economy thus gain outside attention abroad. Meanwhile the US elections offer the outside world a possibly dramatic policy turning point over which they have no say or influence. We expect markets to remain twitchy until the next phase of Federal Reserve policy looks to be succeeding and the electoral uncertainties are behind us.

Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	6.94%	2.43%
	...Large Cap Growth	rising	7.69%	1.95%
	...Large Cap Value	rising	5.67%	2.36%
	...Growth – Value	outperform	2.02%	-0.42%
	US Mid/Small Cap	rising	6.13%	1.16%
	Intl Developed	rising	2.22%	3.26%
	Intl Emerging	rising	3.78%	0.42%
	Fixed Income	Treasury 3-7 year	rising	3.51%
Treasury 7-10 year		rising	4.60%	0.91%
TIPS		rising	2.03%	1.76%
Municipal		flat	1.83%	0.62%
Investment Grade		rising	4.04%	1.28%
Medium Grade		rising	2.87%	1.01%
Preferred		rising	1.92%	1.89%
REIT		rising	15.07%	5.88%
Commodity	Euro	falling	2.08%	2.35%
	Gold	rising	6.22%	-0.06%
	Crude Oil	falling	-3.41%	-3.22%

Despite the volatility, most markets moved mildly ahead. International developed equity was the strongest performer in the equity group followed by US large cap value stocks. Large cap growth appears fully priced for the moment and just following behind the leaders. In fixed incomes, most groups moved slightly ahead while REITs did quite well

buoyed up by both good stock markets and fixed income markets. Only crude oil fell substantially, and that slide has continued into September.



### **Advice**

Investors should determine and stick to their correct strategic allocation. They should anticipate and ignore short term volatility for the next few months. They should monitor developments in geopolitics and technology, but respond only in a measured fashion.

### **Cover Map**

Our cover this month gives a sense of Asia's political alignments. The great powers of Russia, China, Iran, and India are shown in darker shades while countries aligned to them are in lighter shades. Degree of alignment ranges from close military partnerships to reluctant maintenance of historic ties. The Western (US aligned) bloc is prominent on the periphery of the map. In Central Asia the two small countries of Georgia and Armenia would like to escape their historic membership in the Russian bloc to realigned westward. However, they may not succeed in that aspiration. Neighboring Turkey is shown as a member of the Western bloc, but aspires to an independent policy of its own. The Central Asian “stans” would prefer a non-aligned status, but those bordering China find it prudent to keep relations with Russia warm. China has projected its power outwards to secure its borders and sea lanes to the Mideast. In the process it has encircled India which notes China's spreading power with concern. Iran has gained influence primarily in countries with important Shi'a communities. Vietnam is attempting to escape China's embrace but avoids the provocation of an outright Western alignment. Laos is of no significance to anyone and is left in a non-aligned status in consequence.



## **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. To learn more about our firm visit us at [lloydtevis.com](http://lloydtevis.com).