LLOYD TEVIS
INVESTMENTS, LLC

Securing your future through Precision Investing™

Market Commentary
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Russo-Ukrainian War:

The winter campaign season was generally disappointing for Russia. It had hoped that the NATO countries would be forced to terminate support for the Ukraine in order to restore natural gas supply from Russia. In fact, the western block has managed to successfully navigate the winter season without resuming gas purchases from Russia. The implication is that Russia has permanently lost its major export market for its primary foreign currency earner. Russia was also disappointed by the US elections. It had hoped a victory by Trump Republicans would crimp US support for the Ukraine. However, Republicans did poorly at the polls and Trump Republicans did particularly poorly. An alteration in the US's support for Ukraine is unlikely. Finally, while Putin's network of friends and influencers in European political circles has probably had some success in reducing aid to the Ukraine, recent indications are that European resolve to confront Russia is strengthening. Basically Russia's effort trying to freeze people during the winter earned it few friends. Nowhere was the policy of freezing people more vigorously followed than in the Ukraine itself. Here waves of missile and drone bombardments significantly damaged the electrical grid and made life miserable for the Ukrainian population but apparently accomplished nothing in terms of shaking Ukrainian resolve to defeat the Russians. Thus all of Russia's strategic efforts failed.

On the battlefield success also proved elusive. The Russians initially tried to take Bakhmut by frontal assault. The result was a massacre which fell heavily on the Wagner mercenary company. Seeking a consolation prize, the Russians switched to an attack on Soledar which they succeeded in capturing at high cost. Soledar is a small town (pre-war population

10,490) known for its salt mines. Its tactical value is marginal at best. Total Russian casualties in the first year of conflict are estimated at 188,000 with perhaps 48,000 killed.

Russia's internal situation appears to be "system normal totally chaotic." The government is running a budget deficit of about 30%, pays its soldiers late and has to resort to voluntary donations to arm them. Given that many of the soldiers were recruited from hard core prisons, the populace may well wonder at the government's folly in training, arming and then abusing such men. The economy is reported to have shrunk only 3% but one may doubt the reliability of that report. Yevgeny Prigozhin, the head of the illegal but patronized Wagner mercenary company is engaged in a political struggle with the country's defense minister Sergei Shoigu. Prigozhin started his adult life with a 12 year sentence (pardoned after 9 years) for fraud, theft and promoting juvenile delinquency. His route to power and influence was through a catering company he founded which ran several state dinners. Shoigu's career has taken a more conventional route. The son of a Pravda editor, he began a career as a communist party apparatchik and created a favorable name for himself as the Minister of Emergency Situations. In the US context, the Ministry of Emergency Situations would correspond to a fusion of FEMA with local municipal fire departments – it is a uniformed but nonmilitary service. Interestingly Shoigu's father was a Tuvan and his mother a Ukrainian. His exotic background has fed a persistent rumor that he is a practicing shaman, but Shoigu vigorously denies this rumor. The only non state voice which is permitted to comment on the war is an active community of bloggers. These compete with one another to see which can espouse the most rabidly nationalistic line. In consequence, Putin appears internally to be rational and moderate, while the external assessment is that he is deeply delusional and revanchist. Russia's very active public diplomacy is so lacking in credibility that one must presume its only targets are committed fellow travelers. Prominent critics of the government continue to fall out of upper story windows.

For the Ukrainians the winter season also proved disappointing. They made no advance of note in the northern sector which has been their main focus of effort. In the central sector they suffered a minor loss. In the southern sector, both sides confined themselves to artillery bombardments of moderate intensity. The Ukrainians claim to be building forces to repulse an expected Russian offensive in the spring/summer months.

Indeed, there are a number of signs that Russia is gearing up for another major push. Of the troops raised in the fall, approximately half were immediately dispatched to the front to stabilize a wobbly front line. The other half were held back for more substantive training. These forces can now be committed to battle while the spring recruitment program begins training their relief. Russia's senior general, Valery Gerasimov, has assumed the role of theater commander in addition to his role as chairman of the joint chief of staffs. Assumption of field command by the senior general is a common step in failing militaries. While usually a positive step, there is a limit to what one commander can do to correct systemic weaknesses. Russia's problems include loss of military prestige, rock bottom morale, over reliance on obsolete equipment pulled from deep reserves, a dearth of experienced competent officers of all ranks and an inadequacy of forces to assigned mission. Gerasimov has focused his first attention on discipline and professionalism, which is a necessary first step to rebuilding morale. We assess Gerasimov as a more competent and professional general than some of his colleagues. We expect he can develop a dangerous offensive once the weather turns favorable, but we are skeptical that he can fundamentally reverse Russia's unfavorable strategic position in 2023.

The Russian ministry of defense has announced a three year plan to expand and restructure the military. It is widely expected that Putin will announce a move to some form of a war economy. While these are rational responses to the hostile environment Russia has created for itself, a serious effort along these lines could well overstrain Russia's economy.

Indeed, Ukraine's major impediment at present appears to be more the feckless behavior of its allies than the efforts of its enemy. One would have hoped that NATO would have sat down with the Ukrainian command, agreed on a strategy for victory and that NATO would have systematically set about building the resources required by the strategy. Instead the NATO countries appear to have been pushing in random tranches of equipment with more apparent attention to internal debates and to maintaining joint action than to building an effective war fighting capability. Germany, in particular, has behaved foolishly – talking a strong line while frustrating its allies attempt to aid the Ukrainians and generally acting like this is a war without urgency. This posture has raised questions about Germany's fundamental loyalties and most likely is damaging its arms export business. The quality of Germany's army is also drawing unfavorable scrutiny. While the army recently brewed up a royalist plot against the state, it lacks the capability to quickly mobilize even part of its forces. Certainly the concern that pro-Russian elements continue to exert influence on the German state is not unfounded.

Our assessment is that at this point NATO's prestige is fully committed to the Ukrainians. A Ukrainian failure to restore their territorial integrity and to reverse Russia's ethnic cleansing operations, despite the gallant efforts of their populace and military, would be a defeat squarely laid at the door of NATO and would seriously undermine the alliance's credibility. Some elements of NATO may be coming around to sharing this assessment. A new found willingness to provide heavy offensive equipment, such as tanks and infantry fighting vehicles has developed and that may eventually extend to supplying the Ukrainians with air and amphibious assets.

Since its inception NATO has had a single purpose – to defeat Russian aggression. It is disappointing that after 75 years of existence it still lacks strategic coherence. There are forces at work in this world more single minded than NATO however. Reportedly the mild winter has kept the beavers more active than normal and their damming efforts have rendered the Priyapit marshes at least temporarily impassible. This development somewhat relieves pressure along Ukraine's northern frontier, where ongoing Russian-Belarus military exercises had raised concern about a Russian offensive launched from Belarus.

Covid:

So far the US has avoided a winter spurt in Covid deaths. The daily average death rate has remained steady at about 500 deaths per day. On the other side of the globe, China is reporting nearly a billion cases resulting in 67,000 deaths. Such figures are inconsistent with the rest of the world's experience with the spread and lethality of the disease. Western experts estimate China has had about 200 million cases to date and ultimate mortality will be about 1 million cases. Such a result would be comparable to India and still significantly better than the US experience. Were China to suffer mortality on a US scale, approximately 3 million deaths would occur. In the near term, travel associated to Chinese New Year is expected to spread the disease from city to countryside with an acceleration of the actual death rate. The reported death rate is expected to continue lagging reality however. Fortunately, the virus has not yet mutated into a more dangerous strain.

An Indian pharmaceutical company Bharat Biotech, has launched a Covid vaccine packaged as a nasal spray. Similar projects are underway in a number of companies. Easy painless application of the vaccine will hopefully lead to wider adoption. It will also be interesting to see if the nasal application proves more effective than the injection through priming mucosal immunity as well as humoral immunity.

Taiwan:

The Center for Strategic and International Studies, a bipartisan Washington public policy institute, has published a war gaming analysis of a hypothetical Chinese invasion of Taiwan in 2026. In this analysis the Chinese start strong by sinking the surface components of the US Seventh fleet, blockading Taiwan and getting a division ashore at the southern end of the island. However, that force proves inadequate to advance northward to the capital, the US air and submarine assets eventually sink the invasion fleet and the Chinese invasion force ultimately surrenders. China is then left with no successes to face a very angry US.

The most interesting aspect of this analysis is how it may shape future procurement as the US and Taiwan gear up to deter the threat from the mainland. In general, the analysis points to the need to strengthen Taiwan's land forces and the US's air and submarine capabilities. The analysis also suggests that heavy bombers armed with medium/long-range cruise missiles may be assuming the force projection role historically played by aircraft carriers, at least in near offshore naval operations. That realization points to a confusion in current service responsibilities for that zone of conflict. The analysis further suggests both Taiwan and the US may currently be over invested in surface naval vessels with low survivability in the analyzed scenario. With the air force acquiring new and high risk responsibilities attention is called to airbases which represent the most vulnerable component of the current air force. Developing a network of dispersed and hardened airbases close to the zone of conflict but at least partially out of reach of missiles launched from the Chinese mainland is a key objective. Similarly ensuring adequate stocks of anti-ship cruise missiles for high intensity conflict is more important than multiplying platforms. Airbases and munitions are the unsexy components of airpower, but this potential conflict requires close attention to these assets. We expect deterrence to succeed and so we do not expect a US-China war over Taiwan, but we recognize that an arms race is already well underway in this part of the world and is likely to continue for one or more decades.

US Politics:

Kevin McCarthy was selected as Speaker of the House after a bruising battle with the Republican party's hard right wing. The Republicans need strong new leadership but McCarthy appears unlikely to provide either. A would be leader, Governor De Santis of Florida, continues to redefine conservatism by offering a measure which would forbid private employers from instituting mask and vaccine mandates. Historically Republicans have believed that private employers know best how to manage their workforces and that employers do not require government direction.

Former President Trump got something of a reprieve from his Mar Lago paper scandal when it developed that former Vice President (now President) Biden had also been careless in handling classified materials. President Biden, for his part, secured some political cover from the discovery of classified documents in former Vice President Mike Pence's hands. We wonder whether we will hear stories of carelessness from key congressional committees or whether such stories will not emerge because the intelligence community knew better than to trust Congressmen with classified materials in the first place. Trump's dozen other scandals grind along. Most recently his real estate business and its CFO were convicted in New York State Court for a long running scheme of tax fraud. Trump also drew a fine of nearly a million dollars from the US District Court in the Southern District of Florida for filing abusive lawsuits. Perhaps most vexatious to him, he will have to pay part of that fine to his long time rival Hillary Clinton.

The Department of Justice secured a second seditious conspiracy conviction against the Oath Keepers. The first conviction fell on the leadership of the militia while this conviction addressed rank-and-file members. The Department also looks likely to secure a conviction against certain members of the Proud Boys currently standing trial for seditious conspiracy. Given the scraps of evidence that have floated into the public sphere, it appears unlikely that the militias acted entirely on their own. Rather it seems likely that political operatives provided them with encouragement, funding and intelligence. Direct testimony from Cassidy Hutchinson has stated that President Trump personally ordered metal detectors to be turned off so that sidearms borne by the militia members would not be confiscated from attendees of his Washington Ellipse rally at which he urged his supporters to "fight like hell" to "take [their] country back." It may well be that the Department of Justice will ultimately file cases against involved political operatives and if sitting Congressmen are indicted, as seems possible, the political temperature will go up considerably.

The US Economy:

This month we take a look at how some key macroeconomic numbers have developed in the last six month (table 1.) The economy continues growing at a 3% rate with basically full employment. Personal income growth is lagging the economy but still inching ahead in real terms. Core inflation remains well above the medium term expectation, but the sharp decline in oil prices has brought CPI inflation to a virtual stop. The Federal Reserve's chief policy rate (the Federal fund rate) remains below the core inflation rate. We still expect to see this rate raised to the 5% level but we are beginning to think the peak could be below the 5.5% rate we had expected earlier. The Treasury 10 year rate is 85 basis points below Federal Funds, indicating market confidence that the peak rate will not be appreciably higher or long extended. The 30 year TIPS rate at 1.3% is historically low and indicates the government is having no difficulty funding its large budget deficit (currently 5.46% of GDP.) The Prime rate at 7.5% is high enough to discourage some business expansion but is not high enough to create a business funding crisis. The spread of 3.17% over Federal Funds is pretty normal. Similarly, the benchmark mortgage rate at 6.13% is braking house purchases without stopping them entirely.

Table 1: Key Macroeconomic Variables
GDP & Inflation based on annualized 6 month trend
Other values latest report

Item	**Value (% pa)**
Real GDP Growth Rate	3.05
Unemployment Rate	3.50
Change Real Household Income	1.29
Inflation	
...CPI	0.33
...Core	4.69
...Five Year Expectation	2.33
Interest Rates	
...Federal Funds	4.33
...Treasury 10 Year	3.48
...Treasury CPI linked, 30 year	1.30
...Prime	7.50
...Mortgage, 30 Year Fixed Rate Conforming	6.13
...NYSE Dividend Yield	3.10
Corporate Spreads	
...AAA/Treasury	0.86
...BBB/AAA	1.06
...BB/BBB	1.03

Corporate credit spreads exhibit a normal pattern indicating that loan capital remains widely available to corporations. Finally the equity yield is in the normal range. The overall picture is of a strong but moderately overheated economy being gradually braked by the Federal Reserve.

Probing into details we dissect GDP growth by sector in Table 2. Personal consumption expenditure provided about half the growth in Q4 and accounted for about half the slowdown from Q3. Service expenditures provided most of the growth but slowed importantly from Q3. Food, accommodation, housing, utilities and healthcare supplied much of the growth. Financial services and “other services” accounted for most of the slowdown. An uptick in goods sales, both durable and nondurable, partially offset the deceleration in services. Car sales had a particularly strong quarter as formerly stalled supply chains kicked into action and began working down a backlog in demand.

The Government sector was the second most important contributor to growth – accounting for 22% of growth. Its contribution was steady between Q3 and Q4. International trade contributed 19% of growth in Q4. Its contribution slowed considerably from Q3. The slowing was present in both imports and exports, but was more significant in exports.

Private investment contributed 9% to growth in Q4. Nominally this was a strong uptick from Q3. However, the driver was growth in nonfarm inventories and this increase probably reflects the build up of unsold goods in stores rather than pipeline refilling. Fixed investment shrank, with important reductions in residential construction and computer hardware. Similar to personal expenditures, sales of transportation equipment were strong however.

Table 2: GDP Growth By Sector

Sector	Q4 (% pa)	Q3 (%pa)	Change
All Sectors	2.90	3.2	-0.3
Personal Consumption	1.42	1.54	-0.12
..Durable Goods	0.04	-0.07	0.11
.....other	-0.12	0.02	-0.14
....recreation	-0.04	0.23	-0.27
....furniture	0.01	0.05	-0.04
....vehicles	0.20	-0.38	0.58
Nondurable Goods	0.22	-0.01	0.23
.....clothing	0.02	0.11	-0.09
.....gasoline	0.05	-0.06	0.11
.....food & beverage	0.06	-0.15	0.21
.....other	0.10	0.1	0
..Services	1.16	1.63	-0.47
.....financial	0.01	0.27	-0.26
.....transportation	0.06	0	0.06
.....recreation	0.08	0.09	-0.01
.....food & accommodation	0.09	0.25	-0.16
.....other	0.19	0.48	-0.29
.....housing & utilities	0.21	-0.03	0.24
.....healthcare	0.39	0.58	-0.19
Government	0.64	0.65	-0.01
...defense	0.09	0.17	-0.08
...federal nondefense	0.30	0.07	0.23
...state & local	0.25	0.41	-0.16

Sector	Q4 (% pa)	Q3 (%pa)	Change
International Trade	0.56	2.86	-2.3
...imports	0.71	1.21	-0.5
.....goods	0.72	1.19	-0.47
.....services	-0.01	-0.02	0.01
...exports	-0.15	1.65	-1.8
....goods	-0.58	1.38	-1.96
....services	0.43	0.26	0.17
Private Investment	0.27	-1.8	2.07
..Fixed Investment	-1.20	-0.62	-0.58
...Residential	-1.29	-0.93	-0.36
....Nonresidential	0.09	0.8	-0.71
......computers	-0.47	0.16	-0.63
.....other equipment	-0.05	-0.11	0.06
.....r&d	-0.02	-0.03	0.01
.....structures	0.01	-0.09	0.1
.....entertainment	0.01	0.08	-0.07
.....industrial equipment	0.03	-0.15	0.18
.....software	0.28	0.32	-0.04
.....transportation equipment	0.30	0.63	-0.33
...Inventory Investment	1.46	-1.19	2.65
...farm	0.00	-0.04	0.04
...nonfarm	1.46	-1.14	2.6

Interestingly investment in software was a continuing growth contributor. Layoffs of software engineers at the major high tech firms have been heavily publicized. Many of these workers are foreigners in the US on H1b visas. They will have to find re-employment within 60 days or else return to their home countries where the influx of US trained talent could ultimately prove beneficial to foreign competitors. How do we reconcile the widely announced layoffs with the evidence of continuing strength in software sales? We think several factors are at work. First, rapid growth and supportive venture capital had fueled considerable growth and salary mark ups – particularly for junior engineers. We think the major firms had begun talent banking to some degree (hiring staff before actual need.) This banking is now being unwound and salary expectations to a degree are being reset through staff churn. Second, considerable software investment is probably continuing in the general business sector outside of the more cyclical VC funded world. Third, there are probably lead-lag relationships between job layoffs and GDP reports.

Fourth, as businesses pull in the belt a notch in expectation of a recession, it is easy and relatively costless to postpone hardware upgrades. Abruptly halting software installations and upgrades may result in the loss of considerable value embedded in work-in-progress however.

Overall the detail view confirms the picture of an economy being braked by the Federal Reserve. In part this braking is expressed through interest rate sensitive sectors. In part it is expressed by slowed investment as businesses anticipate a recession. Finally the slowing in exports responds to dollar appreciation driven by interest rate hikes. Relative strength is present in traditional defensive sectors, but also in sectors were pent-up demand accumulated during the pandemic. This later phenomena is causing some departure from the typical cyclical pattern.

The Markets:

Table 3 contains our usual market survey.

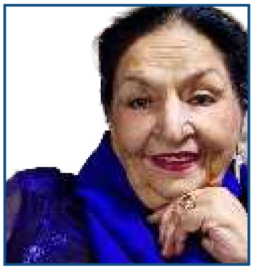
Table 3: Recent Market Performance

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	range trading	7.13%	6.27%
	US Large Cap Growth	range trading	1.12%	5.61%
	US Large Cap Value	range trading	12.88%	6.97%
	Growth – Value	range trading	-11.75%	-1.36%
	US Mid/Small Cap	range trading	7.60%	8.80%
	Intl Developed	range trading	17.19%	9.00%
	Intl Emerging	range trading	8.66%	9.13%
Fixed Income	3-7 Year Treasury	range trading	0.53%	2.10%
	7-10 Year Treasury	range trading	-0.22%	3.58%
	TIPS	range trading	1.47%	2.08%
	Muni	range trading	2.87%	2.46%
	Investment Grade	range trading	0.67%	3.33%
	Medium Grade	range trading	3.14%	3.67%
	Preferred	range trading	-3.60%	10.06%
Commodity	REIT	range trading	2.20%	9.65%
	Euro	range trading	9.29%	1.68%
	Gold	range trading	9.72%	5.40%
	Oil	range trading	0.97%	-1.53%

It was a month of solid advance for equities, with results ranging from 6.27% (US Large Cap) through 9.13% (Emerging Markets.) The stronger performance by weaker markets was a notable change from the bear market pattern of less speculative markets exhibiting greater strength. Value stocks continued to outperform Growth, but by a much narrower margin than in the three month view (-1.36% vs -11.75%.) Fixed incomes showed modest advances across the board except for Preferreds which rallied smartly (10.06%.) REITs were another equity income play with excellent results (9.65%.) In commodities, gold did well (5.4%) while oil sold off a bit (-1.53%) and the euro continued its recovery against the dollar (1.68%.) We hesitate to declare the advent of a new bull market, but it appears this bear market has ended and markets are well into a stabilization/recovery phase. Markets which have suffered from excessive negative momentum can often show the best rebounds at this point in the cycle. However, that strength does not necessarily continue in to the next bull market.

Advice:

The US is working through a fairly typical business cycle slowdown. While pockets of real pain exist, for most of the economy this slowdown is likely to be a “soft landing” which corrects imbalances before they become excesses. We expect core inflation to start trending down and to be recognized as moving towards target levels by midsummer. The markets will then begin anticipating the upswing side of the next cycle. Continuing turbulence from domestic and international politics is to be expected, but likely will prove a purely incremental force to the normal heart beat of the economy. This is a good time for investors to review and reaffirm their long term commitments.



In Memoriam

With sorrow we note the passing of Sardani Roopinder Kaur Sandhu. She was the daughter of a prominent family of Indian industrialists and politicians which included her grandfather Indra Singh, the founder of Indian Steel and Wire Products, her uncle Baldev Singh Minister of Defense (1947-1962), her father Ajaib Singh, CEO of a dozen companies and her mother Prakash Kaur who served as India's official hostess in the 1960s and 1970s. Roopinder married the distinguished civil engineer Avtar Sandhu. Together they engaged in an eclectic collection of pathbreaking projects – furthering understanding between India and US businesses, founding a hospital which developed medical tourism to subsidize care for the local population and introducing California wines to the Indian market. Roopinder was the first person to envision the possibilities for Lloyd Tevis Investments and her continuing support and encouragement were critical to the firm's realization. Her final public act was an exhibition of her paintings at Bikaner House in New Delhi (December 2022), with the proceeds being devoted to a charity caring for female orphans – a life long concern of hers. She left the world a better place for her journey here.

About Us:

Lloyd Tevis Investments LLC is a registered investment advisor offering its services over the internet to US individual investors and their families. 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 we strongly recommend a highly personalized approach to investment decision making which would make a general publication an inappropriate setting for an investment recommendation. 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 https://www.lloydtevis.com.

Cover photo: A beaver takes a pause from dam building to contemplate the world.