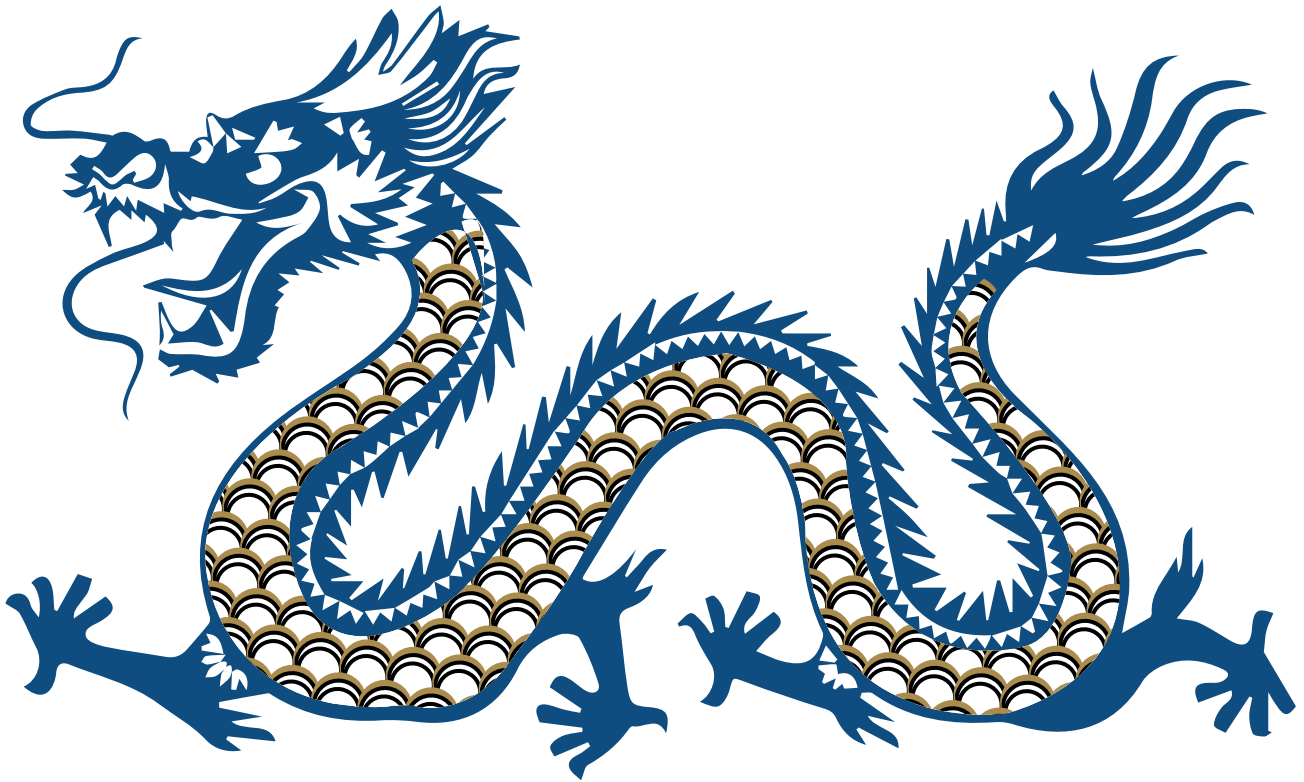




LLOYD TEVIS
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Market Commentary
February 2024



The Wars

Ukraine-Russia

The Russians and Ukrainians grind away at one another. The Russians are making very incremental progress at the cost of 15,000 casualties per month. This casualty rate is down from 25,000 per month last year and primarily reflects fatigue and reduced effort rather than any decrease in the deadliness of the battlefield. The Ukrainians have developed long range drones and have carried out successful attacks as far away as St Petersburg. As the war begins to touch the deep homeland, the Russians face a considerable challenge to step up their air defenses across a vast swath of territory. Ukraine's allies continue half hearted and defeatist in their approach to the war. Ukraine needs to gain a compelling technological edge on the battlefield to resume the liberation of its territory and so it must change its allies mentality.



Israel-Hamas

Israel is making progress on its battlefield but is losing the war of public opinion and diplomacy. Against Hamas, Israel claims 9,000 enemy soldiers killed at the cost of 190 killed in its own ranks. If these figures are correct, Hamas has now lost about 25% of its initial force. Hamas claims more than 20,000 Gazans killed, of which presumably 11,000 would be

civilians. The Israeli cabinet appears divided. One part wishes to annex territory from the Gazans and make the Gazan's living conditions even more intolerable in the hopes of creating emigration. The other part of the cabinet are prepared to leave the Gazans in possession of their current territory subject to safeguards that it not be used for attack on Israel. The ambitions of the annexationist wing are creating great concern internationally and are sapping support for Israel even among its friends. In the latest peace proposal the United States took a position opposed to Israel's stated key war aims.

The widespread pictures of civilian suffering in Gaza have fed the narrative of Israeli oppression and have excited a very broad swath of world opinion against Israel. Israel has been arraigned before the World Court for genocide. While in preliminary actions the Court stopped short of characterizing the war as genocidal, it did order Israel to prevent incitement of genocide and to restrain its army from extreme actions. Meanwhile, CNN is reporting the IDF to be systematically desecrating grave yards in the Gaza strip under cover of conducting forensic investigations. CNN is also reporting frequent killings of civilians fleeing the battlefield under white flag. Turkey has joined with Iran in calling for war crimes trials of the Israeli political leadership. Even within Israel, about half the electorate questions whether Netanyahu's leadership is in his personal interest or in the national interest.

Israel's controversial government and ambiguous ambition is proving a source of vulnerability for the country. The current government is an extended coalition rather than a true national unity government. The current war may prove too substantial for such leadership. We expect Netanyahu to remain in place while the bloody work of hammering Hamas continues, but to then be retired so that a less controversial figure can lead the inevitable next phase.

Hamas has rejected a plan to release Israeli hostages in return for a two month ceasefire and safe conducts out of Gaza for certain senior leaders. It shows no signs of being willing to end its military rule in Gaza as part of a post conflict regime.

UNRWA is the UN agency that provides humanitarian assistance to almost 6 million Palestinians displaced by the wars in the Middle East. It operates on a budget of about \$1.2 billion per year. The US contributes about 30% of that. Europe contributes about 60% and the balance comes mainly from Japan and Middle Eastern countries. The population UNRWA supports is divided 2.3 million in Jordan, 2.5 million in Gaza and the West Bank, and 1 million in Lebanon and Syria. UNRWA has about 13,000 employees and it focuses on providing food, water, shelter and education. Israel has released captured intelligence that about 12 UNRWA employees participated in the October 7 atrocities. However, infiltration of UNRWA by Hamas is believed to be much deeper – amounting to perhaps 10% of the workforce. The US and many other donor nations have suspended support of UNRWA pending clarifications. Aid flowing into Gaza was already inadequate to hold off famine and epidemic disease. The situation is rapidly becoming impossible.



Iranian Power Projection

The Houthis – a tribal militia in Yemen – have been waging a campaign of air strikes and piracy on commercial shipping transiting the southern Red Sea. Approximately 1/8 of world trade flows through these waters. The Houthi's campaign has been unimpressive. Most of their missiles and drones miss their target without getting close enough to constitute a threat. Most of those which are sufficiently on track to appear threatening are shot down by the US led flotilla that is providing defense to the shipping. Only a few missiles have struck and as of yet they have neither sunk vessels nor killed sailors. Out of caution, however, some major shippers are rerouting to the longer route around the Cape of Good Hope. Presumably Egypt's revenues from transit of the Suez Canal are hurting in consequence.

For those not familiar with the tangled politics of South Arabia, we provide a brief review in the appendix. Suffice it to say the Houthi's are small traditional players puffed up in to current significance by Iranian support. After a month of provocation, the US and UK have launched a string of air strikes on Houthi installations. Presumably these strikes were more damaging than those the Houthi's have been launching. The Iranian vessel which had been feeding the Houthi's intelligence on ship movements chose to return to port. Last month we mentioned Peter Ziehan's analysis of what would happen to world trade if the US Navy ceased patrolling the trade routes. The Houthi affair is a nice demonstration of his thesis that chaos would result and of our thesis that the US Navy is not giving up the mission.

Live by the sword die by the sword. According to the Wall St Journal the US warned Iran of an impending terrorist attack. The Iranians ignored the warning and lost 84 citizens in the subsequent suicide attack which it ungraciously attributed to the US/Israeli axis. Iran has fired missiles at the terrorist's alleged bases in Pakistan. Pakistan has responded by striking at alleged bases in Iran of terrorists active against Pakistan.

Iran's main effort, however, appears aimed at pushing the US out of Iraq. The US has about 2,000 military in Iraq providing advice and logistical support against ISIS. Iranian proxies have made nearly 150 attacks on US bases, so far with very minimal results. US counter strikes are trumpeted by Iran's political allies in Iraq's legislature as violations of Iraqi sovereignty and agitation is mounted to expel the US advisors.

As we go to press news comes of 3 US soldiers being killed and 37 somewhat injured by a drone attack on their base Jordan. This is the first attack by an Iranian proxy to kill Americans. The US is said to be planning a measured but significant counter stroke. It seems inevitable that the US and Iran will soon be drawn into direct conflict.



American Politics

The 2024 election season officially opened with the Iowa Caucus on January 15. Iowa is considered a good test of “retail politics” – a candidate's power to meet and greet voters and whip up some enthusiasm. Months of door to door campaigning culminates in the Caucus – in which registered voters traipse down to town halls and line up behind markers to show public support for their favored candidate. This year an arctic blast was howling through the state and only the truly enthusiastic took part. Attendance was only 57% of normal and amounted to about 14% of registered Republican voters in the state. This group split 51% for Trump, 49% for someone else. The someone else vote split 21% for de Santis, 19% for Halley and 9% for minor candidates. De Santis had positioned himself as the more competent version of Trump, while Halley had positioned herself as the conservative with some appeal beyond the Trump base. Iowa's rural population is 36% of the state as compared to the US norm of 20%. Trump's appeal was marked in rural counties. Iowa also has a few urban centers and there Trump's appeal was distinctly more limited. The Trump campaign treated the Caucus result as practically a coronation and mainline media largely fell in line with that story.

Our assessment is that the Iowa result is a really weak showing for an incumbent party leader. Polls broadly show Trump as the likely nominee of the Republicans - propelled to success by his popularity among white Christian evangelicals. A recent political video “God Made Trump” testifies to a level of adulation for Trump in this demographic not seen since the days of William Jennings Bryan. In Iowa the rural complexion of the state, the Caucus format and the weather all worked in favor of Trump's candidacy. But even so, he was only able to assemble the barest lead over “someone else.” Indeed, only 7% of registered Republican voters were willing to publicly line up in support of him.

The next stop on the primary circuit was New Hampshire. The state is small (about 1 million voters), nearly half rural and overwhelmingly white (90%.) Trump prevailed in the Republican primary with 55% of the vote and 45% going to someone else. At this point the only major alternate candidate remaining in the race was Nikki Halley and the someone else vote was essentially hers at 43%. New Hampshire allows unregistered voters to vote in whichever party's primary they prefer. As a result 47% of the voters in the Republican primary were unregistered ("independent") voters. Looked at by registration status the results have an interesting breakdown. Of registered Republicans, 52% voted and 75% of those votes were cast for Trump to give him the support of 39% of registered Republicans – far ahead of his Iowa support. On the other hand, 35% of independent voters voted in the Republican primary and 65% of these voted for Halley. Additionally 83% of Halley's voters said they would not vote for Trump, even if he is the Republican party nominee. Even if all the independent voters are "Never Trump" voters it must still be the case that 43% of the registered Republicans who voted for Halley also are Never Trump voters. This ratio suggests that at least 10% of all registered Republicans are Never Trump voters. All in all, these results speak to Trump having strong support from a portion of the Republican party but much reduced appeal beyond that committed group.

A useful contrast is provided by Biden. He was not even on the New Hampshire Democratic primary ballot as the National party had decided to boycott this primary over a calendar dispute. However a write in campaign gave him 63% of the vote cast with his nearest competitor at 20%.

De Santis suspended his campaign after Iowa and before New Hampshire. The post-mortem on the de Santis campaign has fingered the moment at which he launched his attack on the Disney corporation as the turning point at which his momentum began to wane. As the humorists put it – it was a mistake entering a popularity contest against Mickey Mouse. Uninstructed by this example, various right wing media have been launching attacks on the super-popular singer Taylor Swift. We suspect Americans have grown tired of gutter politics and they will be tuning out en masse from all forms of politically oriented media.

A group of Americans which might like to tune out but which will not be able to do so is the justices of the Supreme Court. On February 8 they will hear oral arguments in Trump's appeal of Colorado's decision to exclude him from the ballot. In this lawsuit a group of 30 distinguished Republican attorneys, attorneys general and a distinguished retired judge have filed an interesting amici brief. Basing their approach on the Court's preferred textualist philosophy of Constitutional interpretation, their argument limpidly presents the thesis that the Court cannot permit Trump to run without sacrificing the architecture of the laws. While the Court may prove more ingenious than its friends would consider prudent in squeezing a political decision through the thicket of precedent, there is a genuine possibility that the Court will simply terminate Trump's political career at a stroke.

The next Republican event is the South Carolina primary on February 25. Nikki Halley was a two term governor of this state so she should have some home turf advantage, but current polling shows her badly lagging Trump. The wildcard in the current situation is what happens if the courts take Trump off the board, either by a Constitutional ban or a felony conviction, prior to the Republican convention in mid July. Is the best strategy for winning the convention to keep campaigning and to enter the convention with a strong block of delegates or is it to make nice with party leadership now and hope for a back room decision at the Convention? De Santis appears to be taking the second approach. Halley may accordingly be forced in to the first approach. Or it may not matter. In the current chaotic state of the Republican party anything could happen – except perhaps good governance.

To most people it is probably self evident that the National government controls the national border. Every day about a million people legally cross the border into the United States and a similar number exit the country. Amid this tide of people, about 5,000 people per day are apprehended entering the country illegally although in December the number spiked to 8,300. Fleeing evil government and looking for work are the two dominant

motivators of this illegal entry. However, MAGA Republicans have spun enormous public hysteria out of these rather dull facts. In response to perceived Federal slackness in controlling the border, Governor Abbot of Texas seized control of part of the border and excluded the Federal Border Patrol. In the subsequent appeal to the Supreme Court 25 Republican governors supported Abbot. President Biden asked Congress to fund 1500 additional officers for the Border Patrol and to give him emergency powers to close the border during surges of illegal immigration. Congressional followers of Former President Trump blocked this request. The Supreme Court voted 5-4 to return access to the border to the Border Patrol. Of the 6 justices appointed by Republican presidents, 4 voted to leave the border under control by Texas. MAGA Republicans loathe both illegal immigrants and the Federal government. Handing control of the border to Texas seems a psychological dodge to avoid deciding which they loathe more.



Asia

As expected, Taiwan chose to continue the pro-independence party in power rather than elect the pro-mainland candidates. China's immediate reaction was muted. Two months ago China abruptly sacked a number of army generals. The US has released an explanation. Apparently top generals had diverted funds intended for rocket fuel to their own pockets. Instead of fuel, portions of China's ICBM force had been stocked up with water. If true this story suggests 1) that Xi's ten year effort to stamp out corruption still has not succeeded and 2) some of China's generals are not anticipating a war with the US in the near term at least. Corruption undermining military readiness must be one of Xi's recurring nightmares considering the eloquent object lesson provided by the Russian military.

Bad economic news drove a month long sell off in China's stock market. The government responded with a stimulus package adequate to halt the immediate market deterioration. Actually China's economy has bright spots as well as a dim center. Chinese manufacturing continues to climb the value added curve and Chinese exports are ever more competitive internationally. China's challenge is to complement this strong sector with a strong domestic economy. Reforming its domestic economy is a multi-year project with lots of political complexity. International investors are likely to remain cool on China until they feel the government has a solid program underway.

North Korea has rejected the policy of reconciliation with South Korea initiated by the current dictator's father. It is busy tearing down the large monument to reconciliation that had been erected in 2001. Creating continuing periodic coverage of the Dear Leader by the world press seems to be the one constant policy in Pyongyang.



The US Economy

Inflation basically held steady in December at about a 2.5% annualized rate. The economy de-accelerated some, but chalked up a still sprightly 3.3% annual growth rate. All sectors except housing contributed to growth.

Tesla shares tumbled 12% on an earnings call. The company shipped 35% more product in the quarter versus year earlier, but the market had been hoping for 50%. Car purchases have been stimulated by price cuts, so revenue only increased 3%. Tesla is being forced to cut costs to respond to competition from China's BYD. That firm has been able to gain market share by delivering somewhat more basic cars at a lower price point. Tesla plans on responding with its own down market offerings. Despite sourcing batteries from China and manufacturing there as well, Tesla is finding the competition

painful. Management said it might require trade protection to prosper and share momentum turned negative in response. Analysts complained that management was not owning up to the nuts and bolts problems in its operations nor was management sharing how it planned to address these problems. At this moment China's manufacturers have the technological edge in batteries and they favor domestic firms over foreign. As a result, BDY and its cohorts have an advantage over Tesla and other non-Chinese firms manufacturing electric vehicles. It will likely take Tesla a few years to level the playing field.



The Capital Markets

US large cap equity continued rising with most of the strength coming from the Technology sector.

Other equity sectors pulled back some. International developed equity was the weakest of the equity sectors at -3.88%. Fixed income sectors also pulled back a bit across the board – typically giving back 10% of the gains made in the last three months. REITS were especially weak at -4.14%. The euro and gold both sold off slightly, while oil had a slight advance. In short, the markets delivered a quite modest correction of last month's enthusiasm. We have left our estimates of trend unchanged.

Market expectations of when the Federal Reserve might start cutting rates has been pushed one to two months forward.

Table 1: Recent Market Performance

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	rising	18.25%	3.99%
	US Large Cap Growth	rising	20.00%	6.66%
	US Large Cap Value	rising	16.18%	0.90%
	Growth – Value	rising	3.82%	5.75%
	US Mid/Small Cap	rising	18.12%	-1.06%
	Intl Developed	rising	12.32%	-0.27%
	Intl Emerging	rising	5.34%	-3.88%
Fixed Income	3-7 Year Treasury	rising	3.83%	-0.47%
	7-10 Year Treasury	rising	6.69%	-0.86%
	TIPS	rising	4.09%	-0.46%
	Muni	rising	6.85%	-0.42%
	Investment Grade	rising	6.65%	-0.80%
	Medium Grade	rising	6.32%	-0.26%
	Preferred	rising	11.90%	2.53%
Commodity	REIT	rising	15.27%	-4.14%
	Euro	rising	1.91%	-2.41%
	Gold	range trading	2.93%	-0.97%
	Oil	falling	-12.63%	1.50%



Advice

A steady hand on the tiller is the best response to the ebb and flow of the capital markets. Investors should identify their core objectives, formulate plans to achieve them and implement steadily.



Appendix: The Politics of Yemen

Yemen is the country located at the southern end of the Arabian peninsula and bordering upon the Red and Arabian seas. The region is the homeland of three famous agricultural products: coffee, frankincense and myrrh. The later two are aromatic resins harvested from trees growing in near desert conditions. The climate is hot and the local recreation is the chewing of a narcotic herb qat which induces a considerable lassitude. The country has never had what might be called strong government and the peace is kept mainly by a culture of relentless blood feuds. The country is poor with a per capita income of \$600 per year which equates to about \$2000 per capita when purchasing power is taken into account. Historically Yemen has been divided into three parts: the city of Aden, South Yemen and North Yemen.

The Ottoman empire embraced southern Arabia until 1636. Then the Zaidi tribe established a Shiite Imanate over most of this region. The Imanate gradually decayed from 1700 resulting in a number of successor states in different parts of the country.

In 1740 the Sultanate of Lehej under the Abadali dynasty broke away from the Imanate. It controlled most of south Yemen. In 1840 it allowed the British to establish a coaling station at Aden. Politically this arrangement developed into the Aden Protectorate in which the British directly ruled Aden but left the hinterland under the control of the Abdali dynasty lightly supervised by British political officers. Under the British Aden developed into an important port, with its population increasing from 600 in 1840 to one million today. Outside of Aden, British administration was conducted with a light hand. For a first hand account of this period we can recommend the memoirs of a British political officer "The Kingdom of Melchior" by the Master of Belhaven.

In 1958 the British began the political reorganization of the region into two federations of emirates.

From 1962 their plans were opposed by two revolutionary organizations inspired by General Nasser in Egypt. In 1967 the British negotiated their withdrawal with the more radical of these two organizations – the National Liberation Front. In 1968 the NLF assumed power, deposed the emirs and declared a marxist-leninist state under the name of the Peoples Republic of South Yemen, more usually known simply as South Yemen.

Meanwhile up the Red Sea coast the Ottoman control returned in 1849 when the Zaidi Imanate finally collapsed. The Ottomans were defeated by the British in World War 1 and forced to withdraw in 1918. Iman Yahya seized power and declared the Mutawakkilite Kindom of Yemen, usually known as North Yemen. This polity was again based in the Zaidi tribe. The state was destabilized by Egypt in 1961 and began a nine year civil war which resulted in the end of the monarchy in 1970. The successor state was known as the Yemen Arab Republic.

South Yemen invaded North Yemen in 1972. The low intensity fighting lasted for a month and then peace was restored by a declaration of an eventual plan to unify the two republics. Fighting broke out again in 1979 with similar results. A unification plan was developed in 1988 and implementation began in 1990 to be halted by more fighting in 1994. The 1994 civil war resulted in the overthrow of the southern socialists and control of the united Yemen by a northern general Ali Abdullah Saleh. He maintained his grip on power until 2012 when the unrest of the Arab spring resulted in his Vice President Abdrabbuh Mansur Hadi taking power.

The Houthis emerged as a political force in 2004. They derive from the Houthi component of the Zaidi tribe. Like historic Zaidi rulers their political orientation is to Shiite theocracy. In the present context this makes them natural allies of Iran. They have generally been opposed by the Sunni element of the local population which looks to Saudi Arabia for support. In 2014 the Houthis allied with Saleh, who they had

previously opposed, and seized control of the capital Sana`a. This is a city of 3 million people located in the mountains of North Yemen at an elevation of 7500 feet. After taking the capital, the Houthis fell out with Saleh and they killed him in 2015.

Yemen has been in a state of civil war since 2014. The Houthis control a territory closely corresponding to historic North Yemen. The internationally recognized government of the Republic of Yemen bases its control in the old hinterland of the Aden Protectorate. Meanwhile Aden and its immediate environs are controlled by the Southern Transitional Council. The STC is led by various former officials of the Republic of Yemen who broke with its president Hadi. In 2022 Hadi turned over power to a new council based mainly on the Southern Transitional Council. Thus the current factions in the civil war correspond closely to historic North and South Yemen.

There has been considerable intervention in the civil war by foreign powers – Saudi Arabia and the UAE have backed the southern group while Iran has backed the Houthis. Multinational terrorist organizations – notably al-Qaeda and ISIS – have involved themselves. Their activity has drawn in the United States which remains at war with both organizations. More recently China has joined the fray with an effort to reconcile multiple conflicts between Saudi Arabia and Iran, of which the Yemeni Civil War is one. Foreign intervention has had two basic motives. Neighboring powers have sought to pacify Yemen as a way to stabilize their own polities. More distant powers have sought to protect or threaten the important trade route running through the Red Sea. Since 2019 a peace process has been engaged in with varying levels of conviction by the parties. As usual, the goal remains reunification and stabilization of the country with power sharing arrangements that reflect the underlying tribal and religious affiliations of the population. In many ways, Yemen resembles Lebanon in its political troubles. But Aden has never had the sophisticated cachet of Beirut and the social fractures in Yemen are more tribal whereas in Lebanon they are more religious.

The population of Yemen is about 34 million. Various humanitarian crises have been caused by the civil war. In 2015 about 10 million people were reported in danger of famine. International relief abated this danger, but a further crisis in 2017 effected 17 million people. Civilian deaths, allegations of war crimes and acute suffering among the most vulnerable demographics are ongoing issues. This is one of the many nasty forgotten conflicts of the less developed world.

Cover Photo

The Chinese imperial dragon graces our cover in honor of Chinese New Year (February 10.) In fact 2024 is the year of the dragon. Chinese dragons have rather different personalities than Western dragons. Whereas Western dragons are fire breathing monsters, Chinese dragons are primarily spiritual creatures which hide in rivers or prance among the clouds. In particular, they are shape shifters who take on the appearances that suit their current mission. The wise old imperial counselor might be a dragon in disguise. Western dragons are notorious individualists, often single mindedly focused on pillaging the neighbors to create a massive golden bed on which the dragon can happily snooze away the bulk of its long life. Chinese dragons have a better relationship with human society. In particular, they exercise their powers over water in support of imperial authority.

Chinese and Western dragons have some commonalities however. Both have great long lives, acquire much knowledge in the course of it and have also the special wisdom of magical creatures. Both are able to converse with humans. Western dragons are altogether perilous for humans, however. Their blood is corrosive; their breath is incendiary; their eyes can enchant; their brute strength kills all but the greatest heroes and their conversation is both informative and dangerous to rely on. On the rare occasions in which a Western dragon forms a relationship with a human the human is transformed but the dragon is not. Chinese dragons could be equally dangerous, but generally are too little interested in humans to be such a peril.

Persons born in the year of the dragon are reputed to display courage, tenacity and strength. Power, luck, nobility and success are reputed to await these persons. On the other hand, “dragon persons” may struggle to control their innate powers – they can be crazy, impulsive, judgmental, tactless and impractical. Dragon women are thought to be prone to arrogance. Dragons come in 5 subvarieties. The year 2024 will belong to wood dragons who are more introverted and aloof than the rest of the dragon tribe. Overall, however, dragon years are good years in which to be born and there is often a surge of births in these years as parents follow astrological family planning. These ancient thought patterns will likely have a more pervasive impact on human affairs in 2024 than all the econometric models put together.

