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Market Commentary
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Introduction

This month our Market Commentary both notes the significant developments of December and casts a look back over 2023. We round that consideration out with a review of a recent book. Finally, we close with our appreciation of the coming year 2024.

The Wars

In the Ukraine, winter weather is grounding drones and blurring radar. While both sides are effected, the Ukrainians rely more on precision fire. Thus they are comparatively more disadvantaged than the Russians. The Russians have switched back to the offensive along the line. As at Bakhmut, they are mounting horrendously expensive frontal infantry assaults in an attempt to take Ardivika. Reportedly Russian units are being asked to climb over heaped up masses of fallen comrades to advance. While the Russians are making some headway, Ardivka is unlikely to soon fall and if it falls the only consequence will be to tidy up a ten mile stretch of front line. The Russians are also mounting a vigorous propaganda campaign aimed at the Ukrainians and their allies seeking to portray Russian victory as inevitable and support for resistance as futile. In a counterpoint, the US notes that Russian casualties about equal its initial invasion force in numbers and amount to perhaps 30% of all forces engaged. Near month end the Russians fired a salvo of nearly 160 missiles and drones at Ukraine. Air defenses down 70% of the incoming. The missiles that got through damaged or destroyed a miscellany of civilian buildings and killed about 50 people. Mounting this attack is estimated to have cost the Russians more than $ 1 billion. However, with Putin standing for re-election the important thing is to look strong – not to be cost effective.

Still it must be admitted that the Russians have made some progress in 2023. The year 2022 closed with the Russian forces visibly shaken and ceding swaths of conquered territory. The Ukrainians, however, were slow to start an offensive and when it began their equipment and tactics proved unable to substantially breach the Russian's well developed field fortifications. The Russians withstood both the Ukrainian offensive and a mutiny by the elite Wagner mercenary company. They have consolidated both civil and military control. In addition their economy weathered a nearly crippling wave of sanctions and now appears to be growing again and directing an increasing share of production to military resources. By contrast, the Ukrainians are showing the signs of being checked. Internally morale has diminished and councils are divided. The critical US and NATO support is also in question as President Biden struggles to move a support bill through a divided Congress. We think the failure to capitalize on Russia's early weakness must be charged to Ukraine's allies – who have been acting as if it was ok for them to not win this war. In our assessment that is a false belief - this war is a must win for the US and NATO. We expect the allies to recommit to the war and to stock up for a second Ukrainian offensive in 2024. On the Russian side, the benefits of obvious fixes have been realized and the benefits of deep structural reform are not yet in the battlefield. Accordingly, their current momentum may crest by spring. Thus both sides will look forward to 2024 with a combination of hope and trepidation. We do not expect a negotiated settlement and regard pacifist inspired chatter along those lines as out of touch with reality.

In Gaza the Israeli Defense Force (IDF) has Hamas under intense pressure. The US think tank Institute For the Study of War estimates Hamas has 13 brigades in the northern and central sectors. It judges half that force seriously degraded and the other half intensively engaged on the battle field. Another month of conflict could see all of Hamas's units degraded and some pushed to their breaking point. Hamas has not yet received outcome changing aid from Iran and its various allies. Nor is world opinion, despite strong sympathy for the Palestinian Gazans, likely to deflect the IDF from its mission of destroying Hamas. We expect Hamas to lose in 2024 and for that defeat to ultimately weaken Iran. Political reconstruction of Gaza will be challenging, but the removal of Hamas from the board will open up possibilities that previously were foreclosed. It will take considerable time to see what the final outcome is. Bleak as the prospects for Israeli-Palestinian peace now appear, we note that the enmity between France and Germany was once as deep but now is just a relic for the history books.

The world's military establishments are watching these conflicts with keen interest. In NATO the thinking has been that heavy military assets should be stationed far back of the border to protect them from a first strike. As a corollary the Russians were expected to first overrun the border region before being pushed back by a counter punch. Ukraine's experience has educated everyone as to both how destructive a Russian overrun is and how hard it is to reverse. As a result, thinking is now moving towards hardening the border. China is watching the conflicts with an eye towards invading Taiwan. The effectiveness of field fortifications is coming as an unwelcome discovery and is turning Chinese attention to air assault and tactical airpower. On the other hand, Israeli success at urban warfare is encouraging China to think mass and determination can prevail. We suspect US attention is being caught by the emergent role of drones and that robotic war fighting will be a well resourced DARPA (Defense Advanced Research Project Administration) initiative.

China

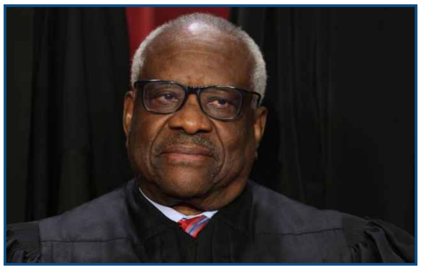
In 2023 we saw considerable aggression from China as it has sought to make itself the dominant power in its near abroad. We also saw significant continuing efforts on its part to disrupt the US led international order and to recruit friends and allies in Latin America, Africa and the Mideast – the far abroad. This activity on China's part provoked checking actions from the US, from its Asia-Pacific allies, from India and from Europe. This broad swath of peoples to a degree consolidated around the need to balance China.

At the same time China's economic growth slowed from the 8% level typical pre-Covid to a 5% level. This slowing has created enormous financial strains in the finances of real estate firms and local governments. Price stability may be giving way to deflation as pressured borrowers attempt to raise cash.

China's government appears to be rethinking its tactics – less abrasion towards powerful foreigners and more attention to the needs of the domestic economy may be the emerging approach. We doubt, however, that there has been any revision of strategic thinking. We expect tension with China to continue and the external world to continue “de-risking” its engagement with China. China's sustainable growth rate could slip further to a still healthy 4%.

If China falls into a sustained deflation, however, we would worry that its long running expansion cycle is ending much as Japan's did in a glut of misallocated capital and extended economic stagnation. In that circumstance we are concerned that the government could push harder on a nationalist agenda to distract from economic malaise at home.

The most likely future is a prolonged cold war between China and the US, with each side recruiting allies from third countries. Accordingly, we assess firms with current dependency on Chinese facilities or suppliers (e. g. Apple and Tesla) to face medium term challenges. We believe India will be a long term beneficiary as de-risking pushes firms to replace Chinese suppliers with alternates. India's foreign policy – still largely aligned with Russia's – is likely to go through a period of incoherence as a result.



Domestic Politics

Gradually it has become clear that Former President Trump attempted to do what no other US president has ever tried or probably even contemplated. He sought to remain in power by physically intimidating Congress into nullifying the election he had lost. President Biden might have thrown his predecessor in front of a military court and had him shot. That would have been the expected outcome in perhaps 85% of the world's nations, but it would not have been a typically American solution. Instead Biden has left his predecessor to be dealt with by the inexorable machinery of the US Justice System. That machinery is slowly crushing Trump. In 2023 the gears turned enough so that the ultimate outcome is little in doubt but the length of the process remains uncertain. The slowness of the process has set a dilemma for the Republican party. On the one hand, many Republicans love Trump as a forceful champion of their worldview. On the other hand, Republicans also hate losing power and Trump has lost three elections in a row since his attempted coupe. Notably, Trump does not stand for a coherent set of policy ideas which can carry on directing the party in his personal absence. So the party is stuck. We expect the Republicans to nominate Trump as their presidential candidate. We expect Trump to lose a close fought election and sometime in 2025 to enter into permanent house arrest. New Republican leadership and perhaps new policy thinking may first show up in the mid-term election of 2026.

This month the Colorado Supreme Court opined on a District Court ruling which found that Trump engaged in insurrection but was not subject to the bar in the 14th amendment on insurrectionists holding office. The State Supreme Court reviewed the decision with respect to questions of process, law and fact finding. It affirmed the District Court on process and fact finding, but reversed on the determination of law. In our analysis last month we had indicated that reversal was likely. The effect of the affirmations and reversals was to bar Trump from the Republican Primary Ballot in Colorado. The State Supreme Court issued a two week stay in its order to give the Federal Supreme Court the opportunity to assert jurisdiction. In some quarters the decision of the State Supreme Court is being challenged as a denial of due process. We are unpersuaded by this argument. Due process forbids taking of private property without operation of law. Property is defined broadly enough to encompass such things as business licenses. But we are challenged to see the privilege to stand in an election as property even under a most expansive definition. Nor do we agree that application of the 14th amendment requires a prior criminal conviction for insurrection as some argue – against the historical record we believe. On its merits we find the Colorado Court's decision strongly reasoned and based on a careful analysis of fact. However, we think the Supreme Court may be troubled by each state independently determining a candidate's eligibility for the Presidency. Among other complications, a person might be elected whom some state had judicially determined to be ineligible for election. It would seem considerable legal difficulties must arise thereby. The Federal Supreme Court undoubtedly would have preferred this case to come up through the Federal courts. Unfortunately, the relevant Federal District Court refused to hear the case and returned it to the State Court. The simplest solution would be for the Federal Supreme Court to affirm the work of the Colorado Supreme Court and bar Trump from the Presidency. We are not expecting that solution but look forward to seeing what alternate resolution will be crafted.

Meanwhile, the slowness to clear Trump from the American political scene is creating questions for America's allies abroad. For them Biden is the President from Central Casting. His policies are totally understood and his commitment to them refreshingly vigorous. But is Biden just the last hurrah of his generation, or does he speak for America's deep and enduring understanding of its place in the world? We think a bit of both. We think Biden is aligned to enduring US policy and that his policies will endure. But we also think the US has a measure of confusion over its fundamental policies and a lack of clear understanding of what they are. A new generation is rising to power and it has yet to articulate core beliefs in language that will resonate with its age cohort. Allies will just have to put up with this process for a while longer.

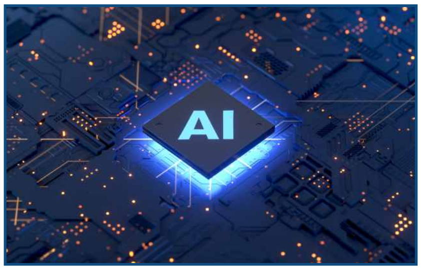
Congress is a good reflection of its country – confused, divided and often paralyzed. Leadership still lies in the hands of the older generation. But already the leadership must recruit support from younger colleagues and the leadership positions are gradually passing to the next generation.

Absolutely diagnostic of this situation is the Ukraine support bill. There is almost certainly a clear bipartisan majority in both houses of Congress for continuing aid to Ukraine. However, there is a MAGA ("Make America Great Again") minority which wishes to cut off support to Ukraine. There seems to be general agreement that doing so would lead to a Russian victory and a general discrediting of the United States as a dependable ally. In our view the defeat of Ukraine would massively encourage Russia, China, Iran and North Korea to aggressively push their territorial ambitions – likely leading to massive wars directly involving the US. In short this threat is similar to the earlier threat to default on the government's debt – its the sort of irresponsible action serious people would not discuss for a moment. But at present the MAGA faction controls the legislative machinery in the House and they are determined to hold the aid bill hostage for securing unrelated concessions on border policy. The Senate Republicans feel obliged by party loyalty to support this legislative gambit, while the Senate Democrats refuse to pay a price for advancing what they know to be a bipartisan policy essential to the nation's interests. So the bill is log jammed and Putin reaps a propaganda bonanza from US weakness. We think it apt at this moment to recall the words of General Douglas MacArthur to the Republican National Convention of 1952: “It is fatal to enter any war without the will to win it.”

In contrast to Congress, the Supreme Court is on the move. The current court is the most activist since the Warren Court. Its goal is largely to reverse two generations of law and politics. It has made considerable headway in that mission, but is beginning to receive intimations that its activity has not actually solved any problems. We think this realization may slowly, very slowly, build some caution back into its thinking and diminish its certainty that it has found The Right Way.

Meanwhile a new scandal has broken concerning Justice Thomas. According to reporting by Pro Publica, Thomas was dissatisfied with his salary in 2000 and considering leaving the bench for private practice. This news was distressing to certain wealthy persons who considered Thomas an ideological ally. Accordingly they orchestrated an unreported flow of gifts and benefits to Thomas which expanded his lifestyle and persuaded him to remain on the Court. Thus, Pro Publica is claiming Thomas basically put himself up for sale. We had earlier opined that Thomas's personal ethics did not meet the standard of his office and that he should retire at the end of the 2022/23 term on the grounds of age. If the Pro Publica reporting can be substantiated Congressional hearings are likely to result and, if the Democrats recover the House, impeachment proceedings could commence.

The other American institution prone to thinking it has The Right Way is higher education. This year was one academic administrators would prefer to forget. First, the Supreme Court ordered them to halt their race conscious admission policies. Unchastened – many said the would evade the ruling. Next three leading college Presidents were called to Congress to explain the balancing they were doing between Israel and Palestine. When they failed to condemn genocide in clarion terms, a hew and cry went up for their heads. The effort to humiliate Harvard's president has been particularly vicious. In fact, these are not isolated matters. Academia is badly out of step both with the broad population and with the leadership of America's other institutions. We expect Academia to eventually find a New Way that it can gather broad support for, but we expect that to be the work of years. Public support may shrink meanwhile.



Technology

In 2023 AI burst on the scene with ChatGPT capturing users world wide. Breathless excitement and concern propelled governments into regulation. The EU really outperformed expectations with a comprehensive and – we suspect – mostly useless code of regulation. The UK attempted to set up a wide ranging process of consultation. The US – so far – has been moderate and practical minded. We think regulation would be best focused on consequences and harms rather than methods and capabilities. But concern about the potentialities of the technology were sufficient to launch a complete soap opera of a board-executive tussle at OpenAI – the parent organization of ChatGPT.

Meanwhile Google has rolled out its Gemini 2 product. The software is impressive for inputting a combination of hand written text and drawn figures, applying basic reasoning and knowledge look up and producing coherent reasoned output. The product has taken a clear step beyond ChatGPT in a matter of months.

At this point AI is showing real breakthroughs in handling unstructured data and in natural language processing. We have done some exploratory research in how quickly this technology might progress towards artificial general intelligence. We think a useful way point is the capacity for self education. By self education we mean a step beyond the current model fitting known as machine learning. Namely we refer to the organization of facts into a conceptual framework. Our earlier assessment saw this way point as achievable by 2028. Google's momentum encourages us to affirm that assessment.

The economic impacts of AI are likely to be larger than currently estimated. However the initial focus of effort appears to be tool building and scattershot productivity enhancement to existing processes. A full development of applications and re-engineering of processes in light of new capabilities is, we judge, just beginning. Consequently, it may be several years before we begin to see the true measure of AI's economic impact.

Next we switch to developments in the fusion generation of electric power. The National Ignition Facility (NIF) has been exploring the inertial confinement approach to fusion energy production. In this approach a capsule of fusion fuel is compressed by a powerful pulse of laser light delivered from every direction. The compressed fuel undergoes nuclear fusion and releases energy which can be captured and converted to electric power. Last year the NIF announced they had achieved scientific break even - meaning that the fusion energy released had exceeded the laser energy input. Initial attempts on their part to replicate this result were unsuccessful. However, this month they announced they had replicated science break even 3 more times. So far their best result is outputting power equal to 1.9x the input power.

The next milestone on the road to creating a useful power generation technology would be engineering break even. Engineering break even requires power output at the system level to exceed power input at the system level. Current lasers achieve only about a 1% efficiency in the conversion of electric power into laser power, so reaching this break even point requires a nearly 132x increase in power gain. However, early design work at the lab suggests free electron lasers could raise the laser efficiency level 14x-18x. If this result proves out, then an increase of only about 8x is required in the fusion process itself to reach break even. If all of that gain were achieved only by increasing the size of the fuel capsule while maintaining the efficiency of the rest of the system then a doubling in fuel capsule radius would be required. These are back of the envelope calculations for quite exotic technologies, but they suggest a road to engineering break even could exist for this approach to fusion power. The hopeful aspect of this situation is that while only the NIF has the capability to work on the fusion problem, the laser problem is within the capability of several labs to work on.

The Economy

The US economy grew at an annualized rate of 4.9% in the third quarter, down slightly from 5.2% in the second quarter. Inflation, measured by the Consumer Price Index for Urban Consumers (CPI-U) over the last six months, increased at an annualized rate of 2.5%. The Federal Reserve is undoubtedly quite pleased with these results. Its public position was more restrained, however, and and its guidance was for short rate reductions starting in a few months time. The country continues at near full employment. Consumer spending is a touch weak and home sales are much slowed but business investment is strong. The public continues to gripe to pollsters about the economy, but professional economists have seldom seen numbers so good. How can we understand this difference in viewpoint? We think the griping reflects economic insecurity in the strata of modestly skilled technical employees. Pockets of economic cooling put members of this group at risk of losing the jobs their skills support and then only being able to find jobs as unskilled labor at a fraction of their prior wage rate. Thus, the low unemployment rate and strong GDP growth rates are not fully capturing the degree of economic insecurity in the economy.

Capital Markets

December was a jolly month for investors, with positive contributions from both equities and fixed income. Only oil fell and gold paused to mark time. Otherwise everything went up. Let us put that performance in a longer term perspective.

The S&P500 – a US Large Cap index - hit an all time peak in December 2021 of 4766. It gradually slipped to 3585 in September 2022. That represents a decline of 25%, which is on the mild end of bear markets. Since then the index has been gradually rebuilding and currently it is just above the previous high at 4769. During this recovery leadership has moved back and forth between Growth and Value stocks resulting in a healthy breadth to the advance. We expect the bull market in US equities to continue into 2024. US Large Cap has generally led the other equity sectors: US Mid/Small Cap, International Developed and International Emerging. As the bull market gains momentum we would look for those sectors to gradually accelerate their advance. Indeed in the past month Mid / Small cap turned in the best performance of the equity sectors.

Table 1: Recent Market Performance

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	rising	11.22%	3.58%
	US Large Cap Growth	rising	9.48%	3.10%
	US Large Cap Value	rising	13.03%	4.18%
	Growth – Value	rising	-3.56%	-1.08%
	US Mid/Small Cap	rising	12.68%	6.33%
	Intl Developed	rising	9.33%	2.97%
	Intl Emerging	rising	5.96%	1.21%
Fixed Income	3-7 Year Treasury	rising	3.51%	1.46%
	7-10 Year Treasury	rising	5.24%	2.50%
	TIPS	rising	3.63%	1.92%
	Muni	rising	5.72%	1.45%
	Investment Grade	rising	5.54%	2.50%
	Medium Grade	rising	4.98%	1.84%
	Preferred	rising	3.45%	1.20%
Commodity	REIT	rising	17.09%	4.76%
	Euro	rising	5.42%	1.42%
	Gold	range trading	12.65%	-0.95%
	Oil	falling	-19.10%	-4.10%

US TIPs peaked in July 2021 and have been in a bear market since. They are currently down 20%. Long Treasuries peaked a year earlier (July 20) and are currently down 45% - a clear indication of the lower risk in TIPs. Intermediate Treasuries are down 24% over the same period. Investment Grade Corporates have done a bit better (down 20%.) Medium Grade Corporates have followed a more equity like pattern – peaking in 2022 and down 15% at present. Unsurprisingly the income equity classes were similar: REITS are down 26%, and Preferreds are down 22%. We think the cyclical fixed income bear market has ended. Long Treasuries could mount a good trading recovery, but longer term we think they will remain challenged by the secular bond bear market we think is establishing itself. Accordingly better results may continue to come from Medium Grade Corporates and Income Equity. TIPs will remain interesting as a lower risk way of diversifying from equities.

Gold has been enjoying a bull market – it has increased 53% over the past five years. Continuing political and fiscal instability are likely to continue its gradual rise. Oil is down 32% from its peak in April 2022. That peak was driven over fears of disruption to Russian supply as a result of the Russo-Ukraine war. We wonder if the switch to electric vehicles will be quick enough to make that oil's last peak or whether prices will recover on faster global growth. The Euro has mostly recovered from the dip it took on the outbreak of war, but it is still 12% below its 2021 peak against the dollar. The US remains both the secure haven in troubled times and a still important growth engine for the world economy.

Book Review

Peter Zeihan is a well known consultant and widely read author on geopolitics and the economy. Here we review his recent (2022) work: The End of the World Is Just The Beginning. The book makes two separate contributions. First, it assembles a great deal of data about how the modern world came about and works. Particular attention is paid to logistics, finance, energy, manufacturing and food security. We can warmly recommend the book for providing a highly readable and informative overview of these core issues.

Zeihan's analysis leads him to the insight that this world of interlocked systems is both unprecedented in world history and completely dependent on reliable cost effective maritime transport. Zeihan correctly points out that maritime security rests entirely on the US Navy which has had uncontested control of the blue waters since the end of World War II.

Zeihan's second contribution is an exploration of what happens if the US Navy goes home. To be sure, Zeihan does not present this as a hypothesis. Rather he claims, with relatively little explanation, that the US Navy is going to voluntarily withdraw from its current mission and focus simply on protecting the homeland. Zeihan foresees, in four words, all hell breaking loose. He expects secondary naval powers to balkanize the world ocean resulting in the collapse of world trade. The global economy shrinks massively and billions of people starve to death – or at least fail to raise a successor generation – resulting in a less dramatic but equally profound decrease in world population. Through this apocalypse Zeihan sees China as particularly hard hit and he expects the country to break into several parts. North America, by contrast, is so little touched that it struggles to understand the travails of the rest of the world. Europe is a mixed lot that muddles through one way or another. For the emerging world in general the result is a retrocession to conditions circa 1800.

We found the assessment of the points of vulnerability for each country insightful. As to the premise of this analysis, we are skeptical. It is popular in the United States to view its government as staffed by the lightly talented. Actually the portions of the US government which deal with the outside world – the State Department, Navy and Intelligence services – are very mature organizations with huge resources and hard to comprehend reach. It seems unlikely to us that they would fail to understand the impact of their current mission or that they would blithely agree to its abandonment. Nor do we see emerging economic pressures in the US which could force such a change in policy. Accordingly, we read Zeihan's analysis more as an interesting thought experiment than as a possible scenario for the future.

An Appreciation of 2024

The year 2024 will see some elections held: Taiwan in January, Russia in March and the US in November. We expect incumbents to be returned in all three. The basic geopolitical situation is unlikely to change much. Perhaps by mid-year Ukraine will resume its counter-offensive and possibly meet with greater success than in 2023. China is likely to continue its assertiveness but to keep its activities at the level of heavy harassment rather than spiraling up to an international incident. Israel is likely to have crushed Hamas by the end of the first quarter but to have no real idea how to bring peace or even stability to its relations with the Palestinians. Iran will have been weakened by the adverse outcomes for its proxies. It may try to compensate by testing a nuclear device.

Turning to the US economy we note that the last business cycle was given a unique texture and rhythm by COVID. Going forward, we expect a much more normal business cycle to play out. Already technological developments in AI are launching a wave of company formation and capital investment projects. We expect declining interest rates to increase and broaden the business momentum into a multi-year expansion in the US.

Abroad already strong economies such as India are likely to increase their strength, while cyclically recovering economies, as in Europe, also will strengthen. Traditional laggards and war effected economies are unlikely to get much relief, however.

Overall we expect 2024 to be a good year for investors.

Advice

Most months our advice to investors is to hold to their strategic allocations. The past year was a fine demonstration of why we give that advice. For most of the year headlines were dominated by cautionary remarks from economists, business leaders and other pundits. Routinely investors were warned that recession, a collapse in valuations, global war or crippling shortages of baby formula were just around the corner. Indeed the stock market had occasional fainting spells as it succumbed to fears that the Federal Reserve would prove more hard line than expected. But despite all this noise the stock market advanced strongly over the course of the year – rising a total of 24%. Investors who sat on their hands, held high cash balances or went looking for performance in exotic assets for the most part missed out on an important rally right under their nose. We keep reaffirming the importance of sticking to ones strategy because all the other commentary investors are exposed to tends to distract them into chasing fata morganas.

This month our advice is that most investors should maintain their normal portfolios. Investors with a speculative edge can try overlaying a bet on the rally in long bonds continuing. We wish them well but will not be playing that game ourselves.

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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.

Cover Photo

A fleet of US warships sailing into the sunset provides a metaphor for the alleged decline of US power in the world. This story line is much pushed by Russia and China and is uncritically accepted by others – including some in the United States. There is some substance to support this storyline. The US navy's operational force is currently about half the size it was under Reagan. Supporting operations in terms of shipyards and pathways for training sailors are similarly reduced. At the same time, the Chinese navy has greatly expanded. The PLAN (Peoples Liberation Army Navy) has more absolute vessels than the US Navy. While it is currently more a green water than blue water force, it clearly has ambitions to transform itself. The PLAN has begun building sizable aircraft carriers. China's Road and Belt initiative have given the Chinese access to some 60 ports around the world. Finally China's stated national ambitions – to annex the South China Sea and Taiwan are only achievable if it can defeat a US naval intervention. China appears to be quite deliberately building that capability. But there are also facts which undermine this narrative. Technology is changing at sea as much as anywhere else. As such, hull counts do not readily translate into a comparison of capabilities. In the key strategic dimensions of submarine and naval aviation US dominance is as yet unquestioned. Nor is there much evidence of a decline in the United States's capacity to project power. Its interventions in Korea and Vietnam exhausted the country's appetite for war in just a few years. By contrast, its interventions in Iraq and Afghanistan rolled on for 15 years and were shut down by policy changes rather than through popular protest. Finally the very fact the US had a much larger navy recently indicates that it could fairly easily rebuild if it was convinced of the need to do so. Even at a time of across the board internal partisan political warfare, the need to counter China and thus to protect the navy enjoy support across the political spectrum. The Chinese, by contrast, in attempting to create a blue water navy are creating an institution for which there is very little precedent in their long history. They are likely to encounter a host of novel issues in that process. To state just one example – naval power typically requires greater delegation of decision making power than typical in armies and that necessity implies important changes in officer education and formation. It also implies changes in political command and control – changes which could be especially challenging for a highly centralized bureaucratic autocracy such as China is. In short, there is no certainty to the story of declining US power. The push and shove of great power rivalry is more likely to remain a story of a slowly evolving equilibrium, rather than a swift retrocession of power such as the United Kingdom experienced after World War II.