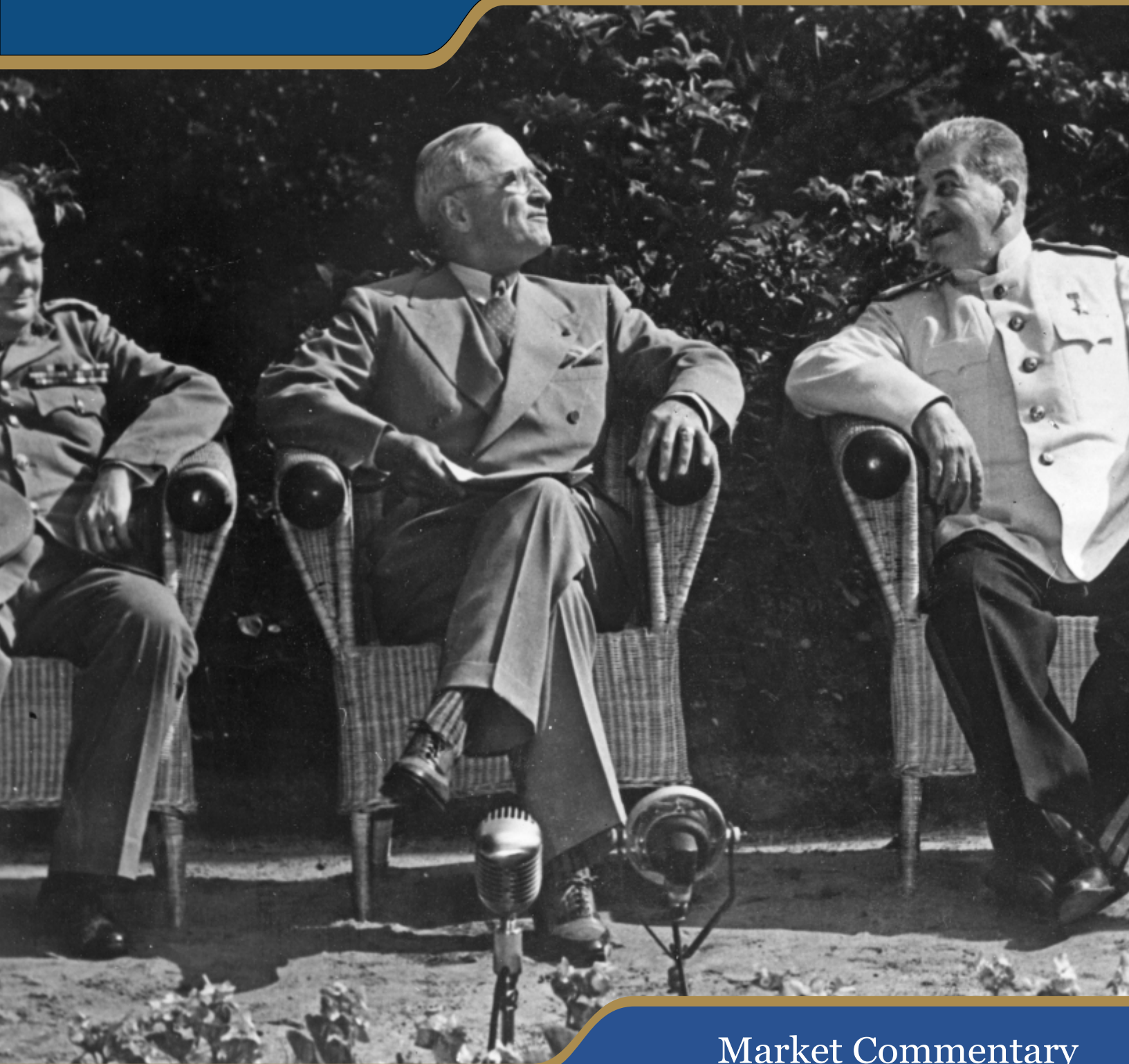


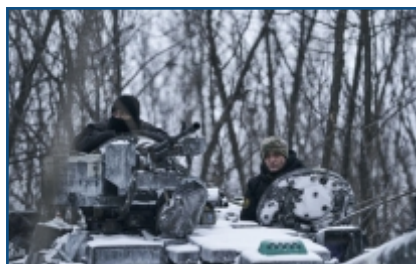


LLOYD TEVIS  
INVESTMENTS, LLC

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Market Commentary  
March 2023



## Russo-Ukrainian War:

The past month was much like the prior month – Russians, not all of them young, died in large numbers while acquiring a few square miles of muddy field. Ukrainian losses are a well kept secret which means most publicly available estimates are authored by Russian propagandists. Equipment losses are easier to count (table 1.) These show total Russian losses in the ground forces running

**Table 1: Verified Equipment Losses**

Item	Russian Total	Net	Ukrainian Total	Net	Russian/Ukrainian Total	Net
<b><u>Assault Forces</u></b>						
Tanks	1,769	1,698	468	194	3.8	8.8
Mechanized Infantry	3,419	3,221	1,316	809	2.6	4.0
Artillery	827	789	301	140	2.7	5.6
Helicopter	78	77	30	30	2.6	2.6
All Assault	6,093	5,783	2,115	1,172	2.9	4.9
<b><u>Support Forces</u></b>						
Command Posts	233	232	9	-35	25.9	n.a.
Engineering Vehicles	281	270	45	-10	6.2	n.a.
Anti-Aircraft	135	128	96	74	1.4	1.7
Electronic Warfare	48	43	52	44	0.9	1.0
All Support	697	672	202	73	3.5	9.3
<b><u>Logistic Train</u></b>	2,299	2,220	517	244	4.4	9.1
<b><u>All Ground Forces</u></b>	9,089	8,675	2,834	1,488	3.2	5.8
<b><u>Air Force</u></b>						
Manned Aircraft	73	73	59	59	1.2	1.2
Combat Drones	8	8	16	16	0.5	0.5
Reconnaissance Drones	186	171	66	21	2.8	8.1
All Air Force	267	251	141	96	1.9	2.6
<b><u>Naval Force</u></b>						
Capital Ships	1	1	1	1	1.0	1.0
Small Ships and Boats	11	3	23	23	0.5	0.1
All Naval	12	4	24	24	0.5	0.2

**note:** Total losses include destroyed, damaged, abandoned and captured equipment.  
 Net losses are total losses less one half of enemy equipment captured.

Source: [www.oryxspioenkop.com/2022/02/attack-on-europe-documenting-equipment.html](http://www.oryxspioenkop.com/2022/02/attack-on-europe-documenting-equipment.html)

3.2x the Ukrainian losses. We use this ratio to estimate Ukrainian personnel losses based on Russian casualties for which various estimates converge around 200,000. The analysis is in table 2.

The Ukrainians appear in no danger of collapse and their morale remains high. With the Russian political leadership inflexible, the Russian army appears headed for a 1917 type collapse in which endless losses in a dubious cause lead to mounting desertion and mutiny until an abrupt collapse of the front results. How much punishment the Russian army can absorb before that happens is anyone's guess. The Tsar's army absorbed three years of massive loss before breaking, but that army also had some significant victories which Putin's army has not had. Scattered reports of troops killing their officers are an early intimation of trouble in the ranks.

**Table 2: Estimated Engaged Forces**

<b>Russian</b>	<b>Number</b>	<b>% Total</b>
Separatist Militias	44,000	7%
Original Invasion Force	160,000	27%
Active Reserve Committed	40,000	7%
Inactive Reserve Mobilized	300,000	51%
Professional Mercenaries	10,000	2%
Convict Mercenaries	40,000	7%
<b>Total Committed</b>	<b>594,000</b>	<b>100%</b>
Casualties	-210,000	-35%
<b>Remaining Force</b>	<b>384,000</b>	<b>65%</b>
<b>Ukrainian</b>	<b>Number</b>	<b>% Total</b>
Regular Army	200,000	22%
Territorial Defense	700,000	76%
Foreign Legion	20,000	2%
<b>Total Committed</b>	<b>920,000</b>	<b>100%</b>
Casualties	-65,625	-7%
<b>Remaining Force</b>	<b>854,375</b>	<b>93%</b>

**note:** The Ukraine Territorial Defense force is not trained or equipped to military standards, but it serves as a manpower reserve for the Regular Army. Ukrainian casualties as a percentage of Regular Army are comparable to the overall Russian casualty rate (35%.) Ukrainian civilian casualties (about 10,000) are not included. They are small relative to a population of 38 million.

Casualties include wounded, missing and killed. Killed and seriously wounded account for about half of casualties.

As quality of forces is variable on both sides, we provide the following subjective estimate of first quality troops currently on both sides

Russian	100,000
Ukrainian	155,000

Source: composite of news reports

While many observers consider the war to be stalemated and expect it to end in either a frozen conflict or a peace deal which recognizes Russia's conquests, there is another viewpoint. US Defense Secretary Lloyd Austin, himself a four star general with a background in infantry assault, has stated that NATO is outfitting Ukraine with an assault division and that he expects that force, when deployed, to break the Russian lines. It is possible there is a more dynamic end to this war than through the process of exhaustion we described above.

As the first anniversary of the war came, pundits were out in force to express their views. We think it worthwhile to highlight the comments of Colonel General (ret) Leonid Ivashov. We do not intend to endorse Ivashov's views but we present them because we regard them as an interesting perspective on the war. In his career, Ivashov rose to three star rank and served as a senior assistant to Marshall Ustinov, the Soviet Defense Minister under whom the Soviet military attained its peak power. Ivashov continued his military career after the break up of the USSR until 2001. He then served as President of the Academy for Geopolitical Problems (a Moscow international relations institute) from 2004 to at least 2015. At age 79 he remains active as Chairman of the All-Russian Officers Assembly, an association of retired military officers known for their hard line, indeed sometimes extreme, views and close relations with the military intelligence (GRU.) Ivashov is thus a committed military nationalist on the outer periphery of current power structures, but he is also an unusually informed and still respected voice.

Shortly before the commencement of the war in February 2022 he published an open letter condemning the coming war and calling for Putin's resignation. Let us start by revisiting his then remarks, which we edit it for brevity but leave unchanged as to their meaning:

“Russia faces an existential threat with a collapsing population and an inability to attract neighboring countries into alliance with ourselves. This threat is the consequence of a failed internal political system which only promotes incompetence. It is not an external threat. To be sure, some

western powers continue hostile, but the military situation is in balance and there is no agenda to translate hostility into action. An attack on Ukraine will be solely for the self serving purposes of Russian actors. It is inconsistent with Russia's prior diplomacy, which recognized the independence of Ukraine and its suzerainty over the Donbas. Russia's earlier acquisition of the Crimea remains unrecognized by the International community and they will not accept our further actions. Attempting to bully neighboring states into alliance with us is senseless and extremely dangerous. Attacking the Ukrainians will transform them into our mortal enemies forever. Tens of thousands of men will die on each side and we may find ourselves at war with NATO. We run grave risks. Turkey could take advantage of our preoccupation to seize Crimea or to extend its influence in the Caucasus. The Americans could cut a deal with the Chinese over our heads partitioning the world between them. In any case Russia's illegal aggression will make it a pariah nation without influence in the world. We believe the government has fomented this crisis solely to maintain its hold on power and to weaken the nation to the point that it cannot revolt against its leadership.”

It will be seen that the general was remarkably prescient but that some of his darker fears have not yet come to pass. This year he assessed the situation as follows (again edited):

“The assessment of a year ago was the work of a committee performing a bottom up analysis according to general staff methods with expert input on specific questions. However, everything turned out much worse than expected. That our military would fail to conquer the Donbas in a year's campaign was the consequence of unforeseen military ineptitude. Nor was the high casualty rate and profound physical destruction foreseen. That we would lack diplomatic support from any consequential country was unanticipated. That Europe should consolidate against us is a disaster which turns the European energy market over to the Americans and gives them a choke hold on Europe. Finally we didn't anticipate for this situation to push China and the US so close together. Recently US Secretary of State Binken was supposed to fly to China to present a plan for greater cooperation, or, in other words, for a redivision of the world.

The 20th Congress of the Chinese Communist Party, in fact, declared and even implements the idea that China, along with the United States, is responsible for the world order on our planet. Russia is not mentioned as a political player at all in this picture of the world. Thus, now they will create a bipolar world, but without our participation....In this conflict, one country (Russia) is conducting mass mobilization seeking to prevail by mass superiority on the battlefield. The other (Ukraine) is mobilizing intelligence, the smartest people in all areas of life. I am convinced that mobilized intelligence will defeat mobilized millions. If the intelligent members of society are muzzled you only become dumber and more corrupt, not stronger in any way. In such a situation (Russia) will lose and does not have long to live.”

We wish to pay the general some respect – all analysts who estimate future events find their crystal ball to be imperfect, but few are so honest about it as Ivashov. Reading between the lines, Ivashov's apparent fear is that the US and China are currently negotiating the partition of Russia. There is, after all, not much else to settle about respective spheres of influence. We reproduce the general's remarks in full in our research note for the benefit of interested readers at <https://www.lloydtevis.com/web/resources.htm>.

Turning from the geopolitical fate of the planet to the state of Moldova we note an interesting situation. Moldova is a small country between Romania and Ukraine. The region was once known as Bessarabia and before that as the Principality of Moldavia. It spun off from the USSR in 1991, but even before achieving independence it had an internal split between its western part and its eastern parts. The western part has a population of 3.5 million of whom 1 million are expatriates.

It maintains an army of 5,000. The eastern part calls itself the Pridnestrovian Moldavian Republic, but is not recognized as an independent country by any member of the United Nations. It has a population of 350,00 and maintains an army of 7,500. It also hosts a Russian garrison of 2,000. In mid-February Ukraine uncovered a plot to smuggle Russian mercenaries into Moldova for the purpose of carrying out a coupe in the western part. The government promptly fell (by

parliamentary means) and the Moldavian defense minister has formed a new government. This situation is largely a consequence of Moldova's constitution which requires the country to remain neutral. Unfortunately, that aspiration is proving naive.



### **US Politics**

In Great Britain it is traditional for the king to open parliament with a speech from the throne outlining the matters of business the parliament should take up. This ancient tradition continues to the present day with considerable pomp and ceremony. The framers of the US Constitution chose to adopt this practice by requiring the President to make a periodic address to Congress. George Washington set a republican tone to the proceedings by limiting his address to 1000 words delivered in person. His successors continued this modesty by largely submitting written addresses to be read to the Congress by a delegate. This custom continued to Theodore Roosevelt's day. TR notoriously labored on his 1907 address for a month and sent the Congress a 27000 word analysis of the nations socioeconomic situation. The reading of this message wearied the legislature into the early hours of the morning. Sensing the need for a change, Woodrow Wilson reintroduced the practice of delivering a short address in person, and – until this year – the Congress has largely treated the speech as a solemn moment of national reflection. With weighty geopolitical considerations potentially on the table there was certainly reason for sober reflection this year. However, this year's address will more likely be remembered for the display of buffoonery by members of the audience. What times, what customs.

The process of legal discovery in the Dominion Systems libel suit against Fox News has uncovered a policy of deliberate lying by the executives and leading anchors of Fox News. Although privately convinced that the 2020 election had

been fair, they feared losing their audience, and so gave trumped up stories of election fraud public credence. The mechanism of corruption is noteworthy. Trump threw his endorsement to News Max when Fox had the temerity to report that he had lost the election. Fox's share price was dented and we would infer the key employees' stock option holdings cratered accordingly. In an apparent effort to rescue the share price, the network began voicing doubts about the validity of the election. Indeed they did so with such effect that about 70% of Republicans now tell pollsters the election was stolen. In an email Lachlan Murdoch, CEO of Fox Corporation, pungently described the show of one of his anchors [Lou Dobbs] as less subtle than North Korean broadcasts. In our view, Fox was ill advised not to have settled Dominion's claim which is for a comparatively piffling \$1.6 billion. Even helping to stir up an insurrection is not the greatest of Fox's potential legal exposures. The network took exactly the same approach with the pandemic – even going so far as to assert that Italy's decision to order a public health lock down was somehow the consequence of meddling by the American Democratic party. With over a million dead in the US from the pandemic, one would think that several blue state attorneys general will be eyeing the opportunity to confiscate the Murdoch media fortune given the journalistic malpractice now documented. The purpose of stock options is to align the interests of employee and employer. However, the case of Fox reminds us that for some classes of employees this alignment may not be in the best long term interests of the corporation.

A Chinese balloon traveled over the United States until it was shot down offshore of South Carolina. The balloon was apparently motorized and thus capable of some navigation. It was thus technically a drone airship rather than a free balloon. Its apparent purpose was to gather signals intelligence, although public disclosure on that point is unclear. The event brought to a boil American hostility towards China and led to the postponement of Secretary Blinken's planned trip to China – the very trip so carefully watched by General Ivashov. Dislike of China is one of the few matters on which America's political factions agree. The Trump Republicans hate China for offshoring manufacturing jobs. The corporate Republicans are unhappy with China's



massive industrial espionage effort and unfair trade practices. Democrats loathe China's abuse of minorities and patronage of the world's worst regimes. Foreign policy wonks focus on China's expansionism and protection of North Korea. Americans of Chinese origin mostly favor Taiwan. Emotion aside, the incident underlines the growing importance of drones. A research note discusses this newly prominent technology (see <https://www.lloydtevis.com/web/resources.htm>.)



### **The Global Economy**

Last month we took an in depth look at the US economy. This month we consider the global economy divided into 4 major regions and 2 smaller regions (table 3 next page.) These six regions account for 93% of World GDP. The largest omitted regions are Africa (3% of World GDP) and the Commonwealth of Independent States (2%.) These regions are omitted as they are more geographical entities than coherent economic groupings. The largest region is the North America Free Trade Area (NAFTA.) The region is dominated by the US but results were fairly uniform across the region – moderate growth (2.8%) with moderately elevated inflation (6.8%.) Europe is about 82% the size of NAFTA. Its results were worse, with minimal growth (0.3%) and higher inflation (8.5%.) A differential exposure to the economic consequence of the Russo-Ukraine war accounts for most of the difference in performance between these two regions. In addition, the UK turned in a particularly poor performance as it continues to work through the consequences of Brexit. The third largest region is China at 70% the size of NAFTA. China had no growth with low inflation. After decades of fast growth, the combination of Covid and real estate overbuilding has succeeded in stalling the Chinese economy. The fourth region is the Indo-Pacific at 57% the size of NAFTA. This sprawling region is much less unified than the other three. It is enjoying moderate growth

(2.5%) Among its components India is growing strongly at 5% per year, which growth rate is expected to accelerate in 2023. By contrast, South Korea and the Emerging Indo-Pacific (6 countries) are in a mild recession mostly driven by the slowdown in China. The Indo-Pacific enjoys somewhat lower inflation (5.4%) than NAFTA and Europe. The final two regions are the Mid-East and South America. They are much smaller regions, being only 14% and 11% the size of NAFTA. In the Mid-East the petro-states are growing strongly with moderate inflation, while Egypt and Turkey are struggling. In South America growth results are widely scattered while inflation is high to very high. However the largest country, Brazil, turned in a decent result with growth at 1.6% and inflation at 5.8%. Broadly speaking, performance in NAFTA, Indo-Pacific and Mid-East is fair, while performance in Europe, China and South America is weak. The size of these two groupings is approximately equal.

Looking forward to 2023, the bad outcome would be for the US to fall into recession while Europe and China remain weak or weaken further. The good outcome would be slowing inflation in the US with any concomitant slow down in growth offset by recovery in Europe and China. At this point we expect changes to be modest and for there to be relatively little change in the world growth rate and only modest improvement in inflation. An end to the Russo-Ukraine war should lead to an improvement in world economic performance, but currently we expect the war to carry on for most of 2023 at least. Its earlier end could be a positive surprise. Negative surprises would be substantially increased international tension with China coupled to increasing economic weakness in China's economy. However, we expect China's leadership to prioritize domestic recovery above geopolitical ambitions.

**Table 3: Economic Performance of Major Regions in 2022Q4**

<b>Region &amp; Subregion</b>	<b>GDP (T\$)</b>	<b>GDP Growth (%)</b>	<b>Inflation (%)</b>
<b><i>NAFTA</i></b>	<b>26.58</b>	<b>2.8</b>	<b>6.5</b>
...Canada	1.99	2.9	6.3
...Mexico	1.27	1.6	7.9
...USA	23.32	2.9	6.4
<b><i>Europe</i></b>	<b>22.02</b>	<b>0.3</b>	<b>8.5</b>
...Euro Area	15.03	0.4	8.5
...EC ex Euro Area	2.54	0.0	
...EFTA	1.31	0.9	4.6
...UK	3.13	0.1	10.1
<b><i>China</i></b>	<b>18.10</b>	<b>0.0</b>	<b>2.0</b>
...China	17.73	0.0	2.1
...Hong Kong	0.37	-10.0	2.0
<b><i>Indo-Pacific</i></b>	<b>15.36</b>	<b>2.5</b>	<b>5.4</b>
...Japan	4.94	0.6	4.0
...India	3.18	5.0	6.5
...AUSNZ	1.80	2.6	7.8
...S Korea	1.81	-1.5	5.2
...Emg IP	3.63	-0.4	5.1
<b><i>Mid-East</i></b>	<b>3.65</b>	<b>4.7</b>	<b>19.6</b>
...Turkey	0.82	-0.5	57.7
...Israel	0.49	1.9	5.4
...Egypt	0.40	na	25.9
...S Arabia	0.83	na	3.4
...Gulf States	1.10	9.7	5.1
<b><i>South America</i></b>	<b>3.01</b>	<b>2.0</b>	<b>22.8</b>
...Argentina	0.49	7.0	98.8
...Brazil	1.61	1.6	5.8
...Chile	0.32	-4.6	12.3
...Colombia	0.31	2.7	13.3
...Peru	0.22	1.8	8.7
...Uruguay	0.06	3.7	20.0

Source: Economist, Eurostat, Economic Times of India



## The Markets

Last month markets advanced strongly; this month markets partially reversed the prior months move. Among domestic equity classes about 1/3 of the prior move was given up. Among emerging market equities and bond asset classes, most of the prior month's move was erased. Among commodities, the Euro more than reversed the prior month gain and Oil moved up a bit.

**Table 4: Recent Market Performance**

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	range trading	0.07%	-2.53%
	US Large Cap Growth	range trading	-0.90%	-1.80%
	US Large Cap Value	range trading	1.52%	-2.89%
	Growth – Value	range trading	-2.41%	1.09%
	US Mid/Small Cap	range trading	2.86%	-2.11%
	Intl Developed	range trading	5.44%	-3.09%
	Intl Emerging	range trading	1.60%	-7.64%
Fixed Income	3-7 Year Treasury	range trading	-0.71%	-2.40%
	7-10 Year Treasury	range trading	-1.42%	-3.47%
	TIPS	range trading	-0.05%	-1.36%
	Muni	range trading	-0.07%	-2.46%
	Investment Grade	range trading	-0.57%	-2.89%
	Medium Grade	range trading	0.39%	-2.38%
Commodity	Preferred	range trading	2.93%	-2.68%
	REIT	range trading	1.18%	-6.02%
	Euro	range trading	2.41%	-2.36%
	Gold	range trading	6.43%	-3.43%
	Oil	range trading	1.65%	0.72%

The market appears to be reassessing how quickly the Fed will gain control of inflation, with this month's assessment more dour than last month. We expect to see a continuation of low conviction wishy-washy trading until US Dollar inflation is on a clear downtrend.



## Advice

The press is always eager to convince us that we live in a moment of high drama pregnant with ruin and/or unparalleled opportunity. By contrast, we see the present as largely normal times. Some things are going well; other things are going poorly; important evolutions in politics, technology and the economy are occurring, but the pace of change is normal. In such an environment one should be hewing close to ones normal investment posture formed from a thoughtful consideration of ones personal circumstances and objectives.



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**Cover Photo :** The Crimean scene whose memory troubles General Ivashov. Winston Churchill, Franklin Delano Roosevelt and Joseph Stalin relax on the grounds of the Livadia Palace during the Yalta Conference. Held on the eve of Germany's defeat in 1945, the conference agreed on the dismemberment of Germany, establishment of a Soviet sphere of influence in Eastern Europe and Soviet support of the US in its ongoing war with Japan. Churchill, who championed the absent French and the pre-war democracies of Eastern Europe, was largely ignored and the conference has been taken to mark the moment when the British Empire ceased to be a power whose opinion mattered. In fact, the dissolution of the British Empire swiftly followed that of Germany and has proven more definitive. The Americans, who ended up not needing Soviet aid, came to feel they had made a bad bargain. After the fact, some blamed their infirm (in fact dying) president and the bugs which the Russians had copiously sprinkled through the Livadia palace. While both issues were factors, of more importance were Stalin's 200 odd divisions then occupying Eastern Europe.