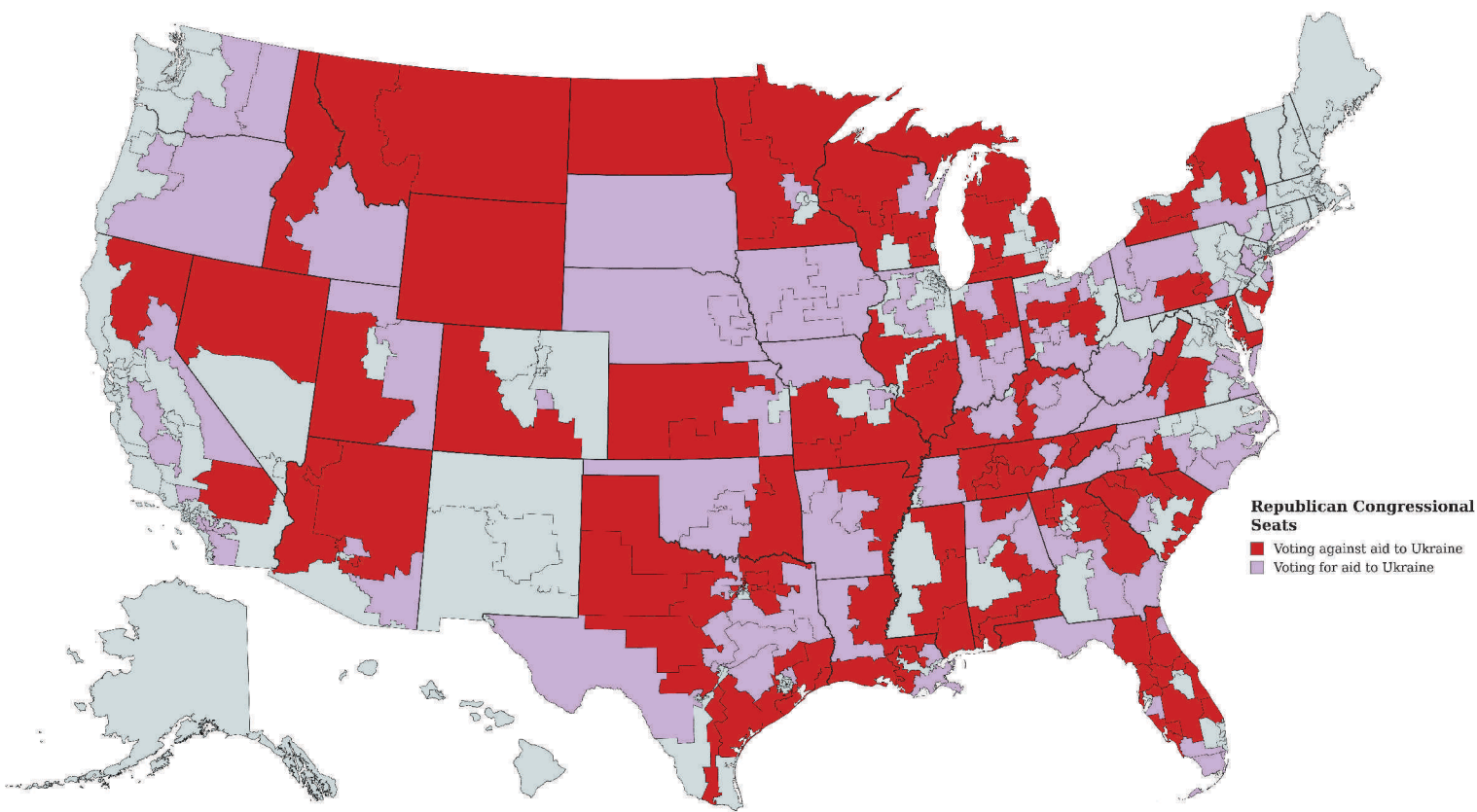




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Market Commentary

May 2024



Russia-Ukraine War

Ukraine's air and front line defenses have been slowly failing as a result of inadequate supply. For six months needed military supplies from the United States were held up by political allies of former President Trump in the House of Representatives. Over this period Ukraine lost men, territory and increasingly vital infrastructure. The United States was held up to the World as an unreliably ally – one that would abandon friends fighting for their survival. This spectacle shook the entire system of alliances on which US security policy rests. Finally, House Speaker Johnson brought the Ukraine bill to a vote and it passed with 73% support. The Speaker's party narrowly voted against the bill – 112 nays to 101 yeas. Passage was due to the Democratic party which supplied 210 yeas and 0 nays. We comment further on the US implications of this action in the Domestic Politics section.

For Putin, the passage of the US support bill is a major setback. Russia had been gearing up for a major summer offensive to break the back of Ukrainian resistance. Those plans now will not succeed. At best Russia can press forward heavily for the next month before US aid materially stiffens the line. Perhaps Russia can improve its own lines and gain better positions to defend against an eventual counterattack. Russia's successes over the past six months have mostly been attributable to political success at holding up US aid and that success is now reversed. On the ground there has been no impressive improvements in Russian war fighting. More troubling, the political battle in the US may have formed a national consensus to defeat Russia. If so, this development would be not a setback but a major strategic defeat. The

Russians will hope this is not the case and will maintain publicly the face of confidence in their ultimate victory. The Chinese have been edging towards deeper and more explicit support of the Russians. Immediately after the bill passed, US Secretary of State Blinken paid a visit to Beijing. While there were many items on the agenda, it seems likely he encouraged the Chinese to trim back their support for Russia.

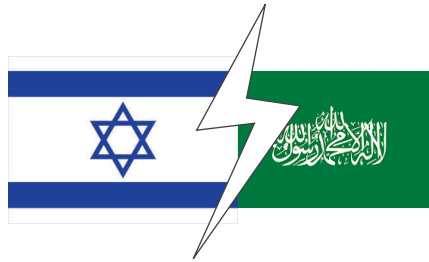
The US has confirmed use of chloropicrate by Russia in Ukraine – a violation of the Chemical Weapons Convention. Chloropicrate is a soil fumigant that can be weaponized. It is toxic and carcinogenic. It presents danger to human health at one-fifth the level at which Chlorine gas does. Thus its not as deadly as nerve gasses but it is definitely a banned weapon.

Russia has completed the process of displacing the US from alliance with Niger. It is targeting Chad and Iraq for similar action. So far Chad has asked the US to reduce its presence to a token force. Iraq's prime minister has been trying to handle Iranian pressure to expel the US by comprehensively restructuring the Iraq-US relationship.

Havana Syndrome is a collection of neurological symptoms apparently resulting from brain damage of unknown etiology. It gets its name from the first reports which came in from US diplomats posted to Cuba in 2016/17. However, it has subsequently cropped up worldwide – although remaining concentrated among US officials. There has been considerable debate as to whether it is a real medical entity or whether it is actually an assemblage of unrelated cases. Assuming it is a real phenomena, there is debate as to whether the underlying agent is acoustic or microwave. Assuming one of those agents, there is then debate as to whether a weapon is involved or whether it is an (unintended) side effect of some form of remote surveillance which is being reported. A joint investigation of three media organizations - 60 minutes (US), der Spiegel (Germany) and Insight (UK) - concluded that a Russian government assassination team is using a non-lethal directed energy weapon to attack US personnel who hold key roles in organizing resistance to Russian foreign policy goals. An attack on a country's diplomats is a classic cause of war. Unsurprisingly, the US government – officially – continues to express doubts about the Russian involvement.

Last month we noted that US water companies were easy targets for foreign hackers. This month Russian hackers briefly took control of equipment at a Texas water plant and caused some plant scale flooding.

Pretty clearly Russia sees itself as engaged in conflict with the US on a global scale at a sub-military level of intensity outside the Ukraine and at the level of total war within Ukraine.



Israeli-Hamas War

Carelessly, Israeli forces killed a team of seven international aid workers distributing humanitarian supplies in Gaza. These seven deaths stirred public opinion in a way that the deaths of about 15,000 Gazan civilians had failed to. President Biden applied heavy pressure on Prime Minister Netanyahu to get more serious about the humanitarian mission in Gaza. Israel has made modest but important efforts in that direction and has pulled its armed forces back from an immediate assault on Rafah - Hamas's last stronghold in the Gaza strip.

Simultaneously, Israel has killed two Iranian officials in Syria. Iran claims the officials were in a consular building at the time of their killing and that diplomatic immunity was violated. Israel denies the consular status of the building being publicly known and asserts the officials were acting as liaisons to terrorist groups. Iran launched an air strike in retaliation consisting of at least 320 drones, cruise missiles and ballistic missiles. It is stated that an additional but unknown number of missiles failed to launch. Israel and its allies (US, UK, Jordan, France) shot down the attack and no meaningful damage was done to Israel. Iran had signaled the nature of its reprisal ahead of time and declared itself satisfied with the result after the fact. Both steps suggest an effort to contain escalation of the conflict. Iran probably did not expect its attack to be so completely neutralized, but it is hiding its disappointment. The failed attack gave Israel a free

option. It could have ignored the attack or it could have made a heavy counter attack on Iran's nuclear, conventional military or oil export facilities. After some internal debate, it limited its response to destroying an air defense position protecting Iran's nuclear facilities. This step avoided immediate escalation while demonstrating to Iran that it cannot effectively protect its nuclear assets should Israel (or the US) decide to destroy them.

At this point Iran probably has the capacity to construct one or two uranium based atomic bombs with yields comparable to the Hiroshima weapon. The Hiroshima weapon was utilized with no prior testing as the builders considered the design sure to work. Accordingly, no inference can be drawn from Iran's not yet having tested a weapon. It is likely Iran will refrain from publicly demonstrating its nuclear capability until it has constructed multiple weapons and secured them in dispersed locations. For Iran to have an effective nuclear weapon capability it needs not just warheads but also a delivery capability. Iran has developed long range missiles capable of reaching Israel and Europe, but as recent events demonstrate it cannot count on those missiles getting through. Iran probably hopes to acquire better missile technology from Russia. The first generation nuclear weapons which Iran may possess, however, are really too heavy for delivery by missile. Iran's most credible delivery vehicle remains the moving van driven by a suicide bomber.

It is encouraging that neither Iran nor Israel are looking to escalate further at this time. Although it momentarily appeared to be at the point of failure, Biden's policy of containing conflict in the Middle East may be working.

The US operation to build a pier in Gaza to supply humanitarian aid is expected to reach partial operational status in early May. Hamas has announced its intent to attack the facility. A direct attack by Hamas on US military engaged in a humanitarian mission is surely the deepest erotic dream of the Israeli war cabinet. Hamas probably expects a successful attack would bear fruit much as did the killing of 241 US military at barracks in Beirut did in the Reagan administration – namely in causing the US to withdraw. Times have changed. Where Reagan flinched from conflict

the Bushes inured the US to Middle Eastern wars. We think a green light to Netanyahu to proceed with the elimination of Hamas would be the minimal US response to an attack by Hamas. It is notable that Hamas is so determined to make itself the only conduit of supplies to the Gazan population. It evidently fears that its hold on the population would not survive the arrival of an effective alternate protector. The US should take serious note of Hamas's threat and press ahead with its humanitarian mission.

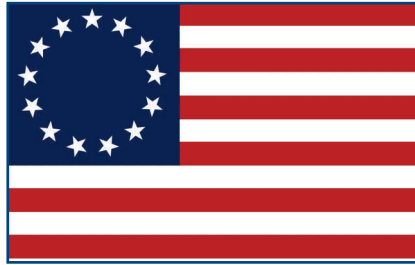
Talks revolving around freeing hostages and bringing about a ceasefire in Gaza have apparently failed. The US continues to try in a last ditch attempt to hold off an Israeli offensive into Rafah. But Hamas appears to be negotiating in bad faith solely as a public relations move. Most likely its aim has been to build anger in Israel and to provoke the government into some rash act. So far it has succeeded in building anger. The tragedy of the Palestinian people has been built by a century of stunningly poor Palestinian political leadership.

Meanwhile Russia and China are attempting to bring about a reconciliation between Fatah and Hamas. Success would create a unified Palestinian National Front. Fatah is unlikely to surmount the concern that Hamas would kill the Fatah leadership at the first opportunity. Nor can Fatah and Hamas easily agree on whether a Palestinian state would be Islamic, jihadist or secular. Finally current Fatah leadership shows more concern for the welfare of the West Bankers than Hamas has exhibited for the Gazans. National reconciliation looks like an obvious step in Moscow and Beijing. It is less obvious in Ramallah.

Outside of Gaza peripheral attacks occur from Lebanon, the West Bank and the Houthi's. They serve to remind Israel that it is in an existential war while otherwise mainly constituting a nuisance. In the case of the Houthi's it is a global nuisance.

Pro-Palestinian protests have roiled a number of US college campuses. Protesters are attempting to frame the conflict as Israeli/Zionist/Jewish apartheid against the Palestinian people. The reasoning is that Israel is the de facto ruler of mandatory Palestine but it is depriving the Palestinian population of civil rights and confining them to ever more

restricted districts which are termed homelands but denied any functional autonomy or security. Framing the issue in this way allows the protesters to call on the network of alliances, stances and methods which eventually resulted in a potent global anti-apartheid movement. The end state sought by the protesters would be the grant of full civil rights to the resident Palestinian population and a right of return by the Palestinian diaspora to a state in which they would then constitute the majority population. This outcome would end Israel as a state for the Jewish people and would effectively dispossess its current citizenry. Clearly no Israeli government would ever accept this framing or outcome. Clearly the protesters are being disingenuous in their current demands which are more modest but serve as a “thin entering wedge.” Fundamentally this turmoil is the launching of a political offensive against Israel in the US to supplement the ongoing military operations in Gaza. Various US conservative politicians and university donors have been quick to attack university presidents for their failure to snuff out this political offensive. That is an ungenerous response. We would suggest that they should close ranks with university management and deal more effectively with the political problem before them. While the ultimate political goals of the protesters may be extreme, the protests draw sustenance from the genuine dismay felt by good hearted but casual mainstream observers of the conflict. There is also a Palestinian diaspora in the US. It is mainly Christian and moderate Muslim. Its primary concern is for the safety of family in the “old country.” Part of it supports Palestinian national aspirations, but very few support Hamas's vision.



Domestic Politics

As noted former President Trump had been blocking military aid to Ukraine for six months through the agency of his supporters in the House. The conflict grew heated. The Republican head of the House Foreign Affairs Committee, Michael McCaul (Texas), said that Russian propaganda has infected much of the Republican party's voting base. He was supported in that statement by the Republican head of the House Intelligence Committee, Mike Turner (Ohio), who added that some Republican members of the House were spouting Russian propaganda lines. Finally Speaker Johnson spoke in support of the bill saying "Look, we know what the timetable is, We know the urgency in Ukraine and in Israel, and we are going to stand by Israel, our close ally and dear friend, and we're going to stand for freedom and make sure that Vladimir Putin doesn't march through Europe." Opposition was led by Marjory Taylor Greene, a junior congresswoman from rural north Georgia. She threatened a motion to remove Johnson from the Speaker's Chair. This strong stance earned her the sobriquet of "Moscow Marjory" from detractors. If successful the House would once again be paralyzed by warfare within the Republican party. In response unnamed Republican congressmen have threatened to resign in sufficient numbers to give majority control to the Democrats. This threat appears to have stalled Greene's attack for now.

In the Senate notoriously 33% of the chamber can exercise a veto over legislation known as the filibuster. In the House apparently 26% is enough to veto vital national security legislation. This is a clear structural problem.

Our cover picture this month shows how Republican Congressman voted on the Ukraine bill. It gives a nice snapshot at this moment in time as to how the Republican party divides between Traditional and MAGA Republicans.

Our thoughts on this graphic are contained in the About the Cover section below.

While his supporters fight in Congress, the former President fights in Court. The New York criminal trial known as the Hush Money Case is underway. Long dismissed as a salacious bit of legal showboating, the unveiling of the prosecution's case has revealed it as a more substantive case of election finance fraud with a dash of tax fraud thrown in as well. Former agents of Trump's admit that they paid or contemplated paying money to two curvaceous ladies who were peddling stories of dalliances with Trump to the tabloid press near the end of the 2016 election campaign. These payments were intended to keep these scandals from breaking during the campaign. To keep the payments themselves secret elaborate steps were taken which involved cooking the books of the Trump family business. Those actions are low grade misdemeanors. However, prosecutors argue the intent was to hide a violation of Federal Campaign Finance law and that raises the nefarious acts to the level of nonviolent felonies. The acts are not in question. The key evidentiary question is how deeply Trump was involved in all this and how clear is the intent to hide the violation of Federal Finance law. While that battle rages, Trump's attorneys continue the fight to preserve his wealth. Recently the \$83 million judgment against him in the E. Jean Carroll defamation case finalized. The larger \$450 million judgment in the bank fraud case is in procedural limbo. Finally, his attorneys appeared before the Supreme Court to argue that he was shielded by Presidential immunity in the insurrection case. Under cross-examination by Justice Barrett his attorney conceded that some of the acts for which Trump is indicted are private acts not sheltered by Presidential immunity. Signaling by the Court suggests that it may act to uphold some Presidential immunity but do so in a way which grants Trump only limited legal aid. A decision affirming immunity for official acts while denying it for private acts and providing a test for trial courts to apply in distinguishing the two classes of acts appears a likely outcome. Trump's position is growing increasingly tattered.

Biden is out campaigning. He will not be remembered as an inspiring stump orator. But he does not need to be. Enough energy and appearances to give the lie to smear campaigns

will be all that he needs to do. Meanwhile the Democratic party's machinery will gear up to do the rest. The 250,000 member strong North American Building Trades Union announced that its members would be out canvassing for Biden. The union head chose to remark that Trump had stiffed his members on numerous jobs over the decades, whereas Biden had delivered a job creating infrastructure boom.

Governor Noem of South Dakota is said to be on the short list for Trump's running mate. To buttress her credentials Noem shared with the public an incident of her past which according to her demonstrates her capacity for tough minded action. Her account is that she took a 14 month old puppy to a pheasant hunt so he could learn to be a hunting dog. But he was overexcited and disturbed the hunt. On the way home she made a social call. The puppy had absorbed the idea that the day was about killing birds and so it killed the host's chickens. Angry with the puppy, Noem turned on it and it tried to bite her. Noem drove home and gunned the puppy down. Where she sees a tough minded decision we see an emotional decision where Noem took out her social embarrassment on a defenseless creature for which she was responsible. In her account we see no self reflection that she might have made some errors in taking a puppy to a hunt or in leaving it unsupervised near a chicken run. Reacting to the public dismay her story has generated, Noem explains the dog was her worker. To our mind that choice of words reveals more than intended. Governor Noem is neither someone to whom we would entrust the nation's nuclear launch codes nor someone for whom we would wish to work.

Trump also is out campaigning. He declares his intent to deport 5% to 7.5% of the US population and to eviscerate the Federal civil service. If carried out the results would be a sharp economic contraction compounded by a collapse in governance. No doubt the plan will grow over the campaign. We will not be surprised to see a plank aimed at the annexation of Canada and Greenland added to the platform.



Tesla

Tesla is the leading US manufacturer of electrically powered passenger vehicles. Whereas Tesla's sales rose 38% in 2023, in the first quarter of 2024 they fell 9% compared to 2023. Earnings dropped 55%. Meanwhile sales of electric vehicles were up 50% at Audi, BMW, Mercedes and Rivian. At Ford sales were up 86%. Tesla has multiple issues. Its sedan models are 5 and 7 years old. Its light truck appears more an aficionado vehicle than a mainstream entry. The design of its cars makes fixing the dings and bangs of minor accidents quite expensive and that translates into higher insurance rates. Emerging competition from China threatens to displace Tesla from price sensitive markets. The common denominator linking these issues is limitations in Tesla's manufacturing technology. A car company must master both car design and manufacturing technology. Major traditional car companies have been very successful supporting a wide range of models tuned to the needs of different market segments based on a highly capable manufacturing technology. Tesla has yet to demonstrate a similar skill level. The company's price is down about 40% year to date. After the earnings announcement company CEO Elon Musk projected that the sales debut of its budget priced model could begin in 4 quarters rather than the previously indicated 5 quarter time frame. The stock price pipped upwards 13% in illiquid after hours trading. Musk has previously shown himself a master of the well timed press release and we would discount his comments accordingly.



Electricity Grids

Electricity usage is expected to grow as electric vehicles substitute for carbon fuel powered vehicles, as the digital economy grows and as utility supplied electricity substitutes for combustion provided building heat and industrial process heat. In addition electricity harvested from the environment as solar and wind power is expected to represent an increasing fraction of electricity production. Both trends imply significant need for electric grids to grow in terms of capacity, flexibility and reliability. Capacity is measured by sustainable peak power deliverable to end markets. Flexibility represents the ability to source power from where it is most cheaply available and to deliver it where needed. Reliability of a grid stems from having multiple delivery paths with adequate spare capacity so that if a link goes down service can be sustained.

North America has five regional grids: Eastern, Western, Quebec, Texas and Alaska. Both the US and Canada participate in these grids, but interlinks between the three main grids are capacity constrained. Texas maintains an isolated grid to avoid Federal regulation. Alaska is geographically isolated. The European countries initially built national grids. The EU has introduced the interlinks necessary to create a unified Pan-European grid. The UK and Ireland have a shared grid similar to the US and Canada. China and Japan each have national grids.

Regional grids are typically AC grids based on overhead power cables. DC transmission serves several different purposes: long line transmission, connections between separate regional AC grids and submarine/subterranean links. The current standard for DC long line transmission are 800Kv overhead cables which can deliver up to 3.5 gigawatt hours (Gwh) per two cable link. As power electronics improve, higher DC transmission voltages become possible.

China has deployed a 3300 km DC link which operates at 1100 Kv. This line delivers up to 12 Gwh. A line currently under construction is expected to carry 24 Gwh of power. That one line will be able to carry 2.5% of China's electric power consumption.

An emerging technology is superconducting cables. This technology has several demonstration projects running at lengths of up to 1km. Initially accessible commercial niches are submarine cables and capacity increases in congested urban areas. A build out of offshore wind power could stimulate demand for short link submarine cables in particular. Ultimately transcontinental superconducting cables could deliver massive amounts of power. With conventional cables there is a line loss due to electrical resistance. This loss is minimized in high voltage DC systems, which is why they are preferred in long line applications. In a superconducting cable refrigeration expense substitute as a cost factor for the cost of power lost in transmission along conventional cables. Superconducting demonstrator systems are currently operating with refrigeration costs about 85% of the cost of line loss power.

While the economic case for grid expansion is strong, these projects face a number of hurdles. Overhead lines attract political opposition. They are definitely an unattractive addition to the landscapes and their rare breaks can start wildfires in the wrong terrain. Additionally there are mostly unsubstantiated fears about the medical effects of living in their near vicinity. Final links into cities often require use of right-of-ways that are already utilized to their limit. Lines which cross political borders (either domestic or international) can draw scrutiny from multiple authorities. Finally the industry in the developed economies is geared more towards maintenance and incremental expansion than to large scale initial development.

It seems likely that the coming decade will see some significant grid expansion in North America and Europe. North America's best renewable electricity resources are in the Southwest (solar) and plain states (wind.) There is also significant offshore wind potential – particularly on the Atlantic and Gulf coasts. These resources will require

significant long line transmission development to get to market. As with coal trains and natural gas pipelines, we are confident these transmission systems will get built. In Europe the best wind power is in the Northern countries, while the best solar power is in the Southern countries and in neighboring North Africa. Complementary seasonality applies to these two sources. Design studies indicate that a long line DC “supergrid” could be overlaid upon the existing European grid with substantial savings in the cost of power. Currently Europe faces a need to reduce dependence on Russian natural gas, both for political and green energy reasons. But making that shift puts Europe at a cost disadvantage for supplied power and that cost disadvantage threatens Europe's industrial economy. Considerable attention can be expected to flow to grid improvements in consequence.

China faces the fewest political obstacles to grid expansion. China's grid has in any case been building out rapidly as part of the country's economic development. China's best power resources are in its west, while the heaviest electrical use is on the eastern seaboard. China will doubtless continue to build out its long line transmission network. It is likely to remain the technology leader here for some time. India is similar to China in being a single country and expanding its grid as part of its general economic development. Other national grids likely to see more measured build out are Japan, Australia and Indonesia. However, these smaller regions do not have the same incentives for very long line transmission as North America, Europe and China.



The US Economy

Electricity grids have been a mostly forgotten niche of the industrial economy. However new needs and technical advance are creating some ambitious projects in this sector.

This month's figures were full of gloom and doom for the stock market. The inflation gauge was 2.7% instead of the 2.6% expected. GDP growth which had been roaring along at 3.5% suddenly stalled to 1.6% in a quarter filled with bad weather. Pundits threw their crystal balls away in despair and suddenly everyone was talking about stagflation – a word which no one under age 60 can recall having heard before. The stock market, measured by the Dow Jones 30, shed 5%. In short, not much happened but headline writers had to make it seem like something had.

At its most recent rate setting meeting the Federal Reserve elected to keep short rates steady in view of continued inflation. But it slowed the pace of quantitative tightening. This step should allow long rates to move gradually lower. Trump is signaling a desire to replace Powell as Chairman of the Federal Reserve and to make the President ex officio a member of the rate setting committee. These proposals are simply part of the Maga agenda of seizing control of the levers of power. If these ideas looked like they were going to be put into practice the result would be considerable turmoil in the capital markets and likely a sharp weakening of the US dollar.

First quarter earnings reports are coming in. They paint a more detailed picture of what we care more about – actual business results. The first quarter has generated strong business results. For S&P 500 member companies which have reported results 60% have reported revenue growth ahead of expectations and more than 75% have beaten profit expectations. On average revenues are up 4% and profits are up 3.5%. The IT, Financial Service and Commercial Service sectors are notably strong. Weakness also exists – in energy, materials and health care services. Profit margins are holding up, which indicates that companies have adequate pricing power to deal with inflation generated cost increases. The forward looking price-to-earnings ratio is 20, or equivalently a 5% earnings yield. For comparison, the 30 year TIPS rate is 2.36% so the corporate yield is 2.1x the government yield. We take this valuation as indicating confidence that the business expansion will continue for several quarters but not indicating “bubble time” optimism. Good results and rational valuations are a combination we like to see.



Capital Markets

Every asset class fell in April except for Gold. Gold rose to \$2400 per ounce as Iran and Israel took swipes at each other but ended the month at \$2310 – up only slightly from the march close of \$2236.

In the equity group international equities did better than US as US equity exhibited disappointment with the macro news. In fixed income risk taking was punished with REITS making the worst showing at -7.75%. TIPS by contrast exhibited relative strength at -1.70%. The euro was mostly steady while oil fell 5.37%.

Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	5.27%	-2.85%
	...Large Cap Growth	rising	4.74%	-4.19%
	...Large Cap Value	rising	2.83%	-4.07%
	...Growth – Value	rising	1.90%	-0.12%
	US Mid/Small Cap	rising	3.41%	-4.80%
	Intl Developed	rising	4.40%	-1.94%
	Intl Emerging	rising	6.85%	-0.32%
	Fixed Income	Treasury 3-7 year	flat	-3.15%
Treasury 7-10 year		flat	-5.21%	-2.25%
TIPS		flat	-2.15%	-1.70%
Municipal		flat	-1.96%	-0.64%
Investment Grade		flat	-4.70%	-3.24%
Medium Grade		flat	-1.54%	-0.95%
Preferred		flat	-3.43%	-3.46%
REIT		flat	-5.05%	-7.75%
Commodity	Euro	flat	-1.27%	-1.20%
	Gold	rising	12.03%	1.61%
	Crude Oil	flat	7.02%	-5.37%

The combination of lingering inflation and escalating geopolitical tension seems to have stalled the rally that commenced six months ago. These issues, however, will not last and we would look for the rally to resume in due course.



Investment Advice

We do not recommend market timing – a game best left to select professionals. But we are not adverse to buying the dips. Between two wars, multiple elections and simmering great power rivalries this year has plenty going on to generate volatility. But absent major surprises, none of that volatility is likely to effect the course of the economy. Accordingly, our advice is to form your long term investment program and stick to it. To the extent you have cash waiting to invest and the market is dipping, go ahead and invest. Do not wait for an upward pip to reassure you that the end of the world is not at hand.

It almost never is. Baseball fans have their encyclopedias of records and statistics. Investment managers have an equivalent book. Ours is titled “The Triumph of the Optimists” - a title that reminds us that returns are only earned by those who invest.

About Cover Page

The map on the cover shows US Congressional districts color coded by how the incumbent voted on HR 8035 – the Ukraine military aid bill. Districts held by Democrats are shown in gray. All Democrats voted for the bill except for a few seats not voted and one seat voting present. Seats held by Republicans who voted against the bill are shown in brick red. Seats held by Republicans voting for the bill are in light violet. Opposing Russia and supporting national security is a traditional Republican position, so we refer to the violet districts as Traditional. For a Republican taking the opposite position is typical of Trump's followers and so we refer to the brick red seats as the Maga party.

Political analysts often look at such maps, e.g. to see how the public voted in Presidential or Congressional elections. The first observation is that this map is unfamiliar – it looks nothing like such familiar political maps. A second

observation is that there are no obvious regional distinctions. There is plenty of violet on both sides of the Mason-Dixon line. There is as much red to the west of the Mississippi river as to the east of it. The two color groups are notable for interpenetrating each other.

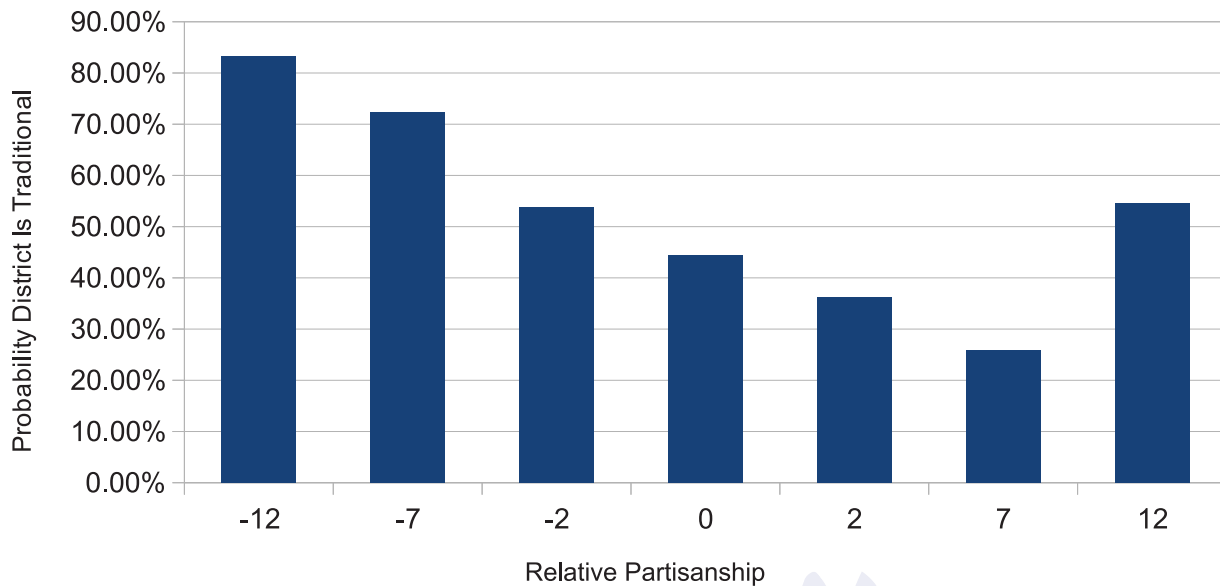
This interpenetration is confirmed when we look at statistical measures of Congressional districts. The Cook Partisan Voting Index (CPVI) indicates whether a district has leaned more towards the Republican or the Democratic candidate than the national average in recent presidential elections. We define a measure of relative partisanship RP for district k by

$$RP[k] = CPVI[k] - \text{mean} \{CPVI[j]: \text{district } j \text{ and } k \text{ are in same state and both are held by Republicans}\}$$

More partisan districts have some tendency to be Maga districts (see figure next page.) In this chart a negative figure indicates that the district is less partisan than the typical Republican seat in that state, while a positive figure indicates a district that is more Republican than the state average. Seats at the negative end tend to pick their representatives in competitive general election contests, while seats at the positive end tend to pick their representative in the primary election. Representatives elected in the general election must be acceptable to the typical voter, while representatives picked in primary elections must find favor with the committed party electorate that dominates those elections.

However the most extreme partisan seats are also the “safest seats” and thus most likely to be held by a long time incumbent first elected before the Maga movement developed. This effect, while pronounced, does not carry much explanatory power however. Its R-squared is in fact only 4%. Clearly much more is going on to shape the choice between Maga and Traditional.

Relationship of Relative Partisanship to Classification As Traditional



When we look at the cover map in detail, however, we may begin to make out certain features. We note substantial regions of violet in California, Texas, Utah and Southern Arizona. We would expect those areas to be redoubts of Reagan-Bush-Romney-McCaine Republicans and all of those leaders were strong traditional national security voices. By contrast, we note plenty of red in Florida and Atlantic city – locations associated with Trump. There is a pocket of violet along the Appalachia, in Kentucky, in North Carolina and in the Florida panhandle – geographies associated with military service and military bases. Indeed, the sole splotch of violet in Colorado is centered on Colorado Springs – home of the Air force Academy and North American Air Defense (NORAD.) All areas where traditional national security positions would be expected to run strong. The banks of the Mississippi river, by contrast, are strongly Maga. That may reflect the importance of the right to life issue in that part of the country – an issue strongly aligned with Trump. Also prominent and most interesting are the strong Maga running in areas of Texas associated to the oil industry (the Houston-Amarillo axis), in Wyoming and in North Dakota. Maga is also prominent in the wheat growing states along the Canadian border, while running weaker in the corn growing regions of Nebraska, Iowa and parts of Kansas. We find these patterns interesting as the US Oil industry and Wheat farmers have both been prime beneficiaries of a war which has sanctioned a major

competitor and pushed up product prices. One would have expected these regions to want the war to continue and to not be rooting for a Russian victory. The only explanation we can think of is intense partisanship. The US Oil industry sees an existential threat in Biden and is viscerally opposed to whatever positions Biden champions – even if the positions happen to be enriching US oil companies. Finally Maga is notable for its absence from the Rio Grande border. Trump has championed spending Federal money in the border region like no other – but that willingness to spend has bought him no friends. In part the xenophobia inherent to Trump's policies are off putting in this heavily Hispanic region. In part also this region knows illegal entrants first hand and is not prone to being captured by drummed up political hysteria as may happen in regions further from the border with less access to ground truth. A final feature one may note in the middle of the country is islands of gray surrounded by red and violet – so many holes in the donut. These islands of gray are major Metropolitan centers where Congressional district lines have been carefully drawn to concentrate the Democratic voters into as few Congressional seats as possible.

Each district represents about 770,000 voters. The Republican voters are split about equally between Maga and Traditional. Given the interpenetration, there are only a handful of states Maga can carry without Traditional support. Prevailing in the big, because thinly populated, districts of Western states buys Maga lots of map real estate but few electoral votes. Absent a recovery of party unity, the Republicans are unlikely to prevail in the 2024 Presidential election. With Traditionalists accusing Maga of being Russian tools and Maga deriding Traditionalists as in the pocket of the Democrats there is some considerable work to be done to create party unity.



About Lloyd Tevis Investments

Lloyd Tevis Investments LLC is a registered investment adviser offering its services over the internet to US individual investors and their families. Our Precision investing™ service provides clients with highly personalized investment solutions tuned to the client's specific circumstances and objectives. We believe the strategic asset allocation decision is the key decision faced by our investors. Accordingly, our monthly commentary focuses on matters which can shape the longer term performance of asset classes. We do not time market swings or pick individual stocks. Discussion at this level of detail is made for the light which it throws on relative valuations and such discussion should not be read as an investment recommendation. Indeed, our investment focus is on maximizing diversification, careful risk budgeting and maximizing implementation efficiency. These are the proven builders of long term investment success.

In evaluating political and social developments our perspective is that of long term investors. We believe the investor's interest is best served by a stable environment in which change occurs incrementally as broadly supported policies rather than by an environment of abrupt changes and frequent U-turns driven by transient partisan advantages. Finally, our assessments should always be read as what we consider likely to occur and not as expressions of what we would like to see come about. To learn more about our firm visit us at lloydtevis.com.