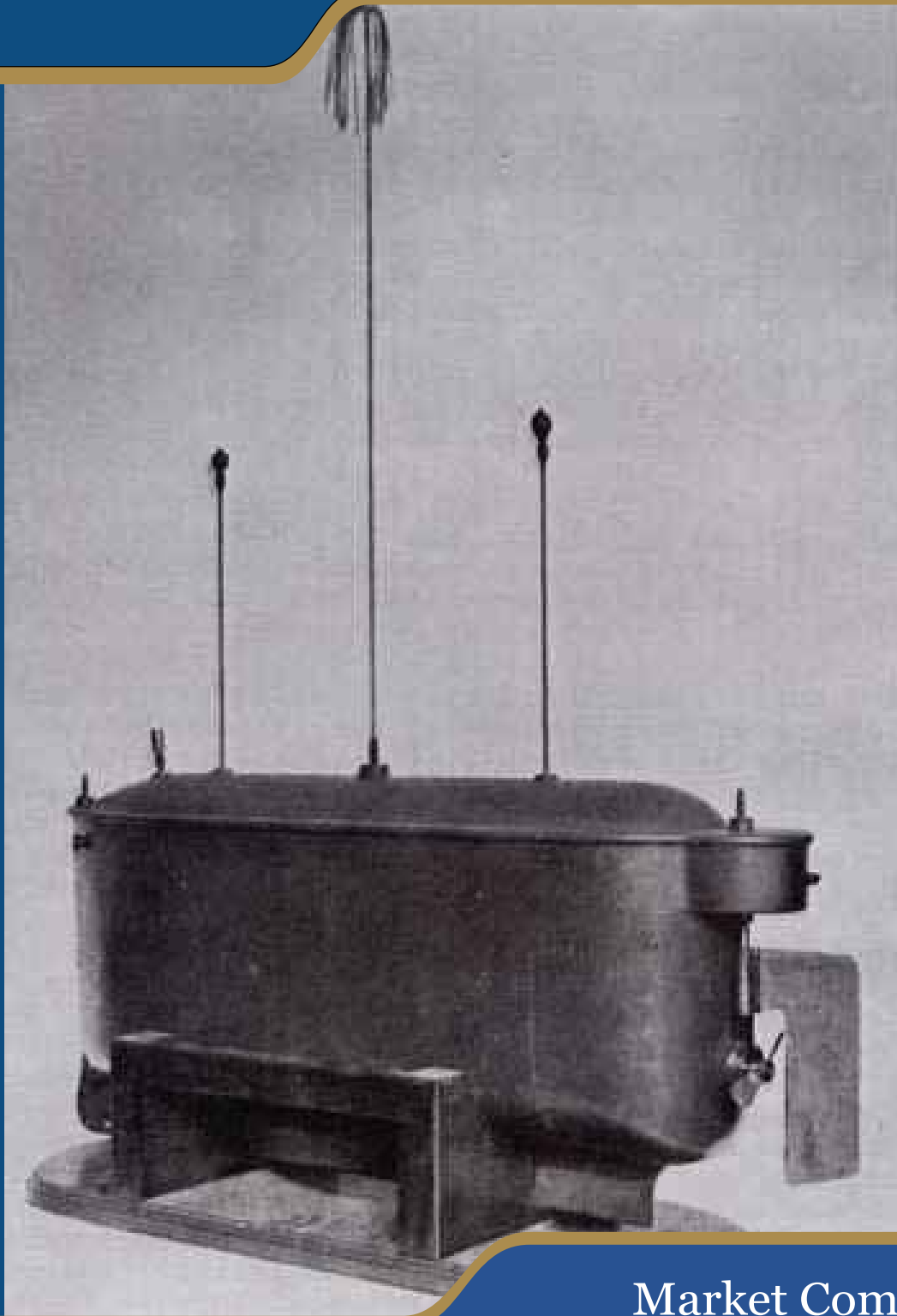




LLOYD TEVIS
INVESTMENTS, LLC

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Market Commentary
October 2023

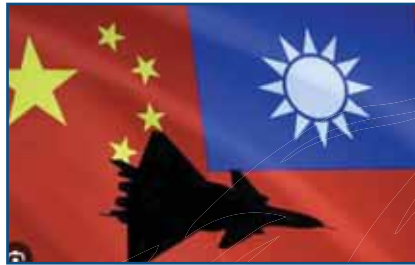


Russo-Ukraine War

The Ukrainians are attempting to turn the flank of the Surovikin line at its northern end just short of Verbove. Success here would set them up for a further major advance which pushes the Russians out of their best prepared line of field fortifications. Momentum, which had appeared in equipoise for most of September, may be shifting to the Ukrainians. A Ukrainian success will come as a severe disappointment to the Russians – who have transferred some of their best troops from Bakhmut to the Central sector in an effort to hold the line. The Russians simply seem overstretched and outgunned. Both forces are hungry for resupply - the Ukrainians from the US and Europe and the Russia from North Korea and Iran.

The Ukrainians have also had considerable success in naval actions. They destroyed a submarine and a landing ship, both of which were undergoing repairs in a dry dock. They claim that a missile attack on the headquarters of the Russian fleet in Sevastopol killed or disabled important commanders. They have harassed the Russian ships with drone attacks, both while in port and on the open sea. While most attacks fail, this new form of asymmetric naval warfare is probably catching the attention of admiralties around the world. One can afford to lose a lot of drones if one takes out a capital ship in the process. Russia's fleet began the war by utterly dominating the Ukrainians. But ship by ship, the Ukrainians have pulled the Russian fleet apart. The Russian fleet can no longer deny the Black Sea to Ukrainian shipping and longer term Russia's ability to project power into the Mediterranean basin is being seriously compromised. This defeat is one of strategic significance.

The UN's special rapporteur tasked with investigating treatment of POWs reports widespread rape and torture of Ukrainian POWs held by the Russians. The reports point to a practice so widespread as to be a standard operating procedure. If true this is a frank war crime of the most serious nature. In some circles it is common to discuss Russian crimes as the result of Asiatic influences some 600 years ago. Actually the Tsarist government was a consistent voice for injection of Christian and humanitarian influences into war and high politics from about 1814 to its own downfall. Russia's recent terrorist behavior is actually a legacy of the Communist era and especially of Stalin's many purges. As such it represents the heritage of European totalitarianism and the tendency to label it as Asiatic displays considerable cultural obtuseness.



China

A mini-purge has shaken up China's top foreign policy and military leadership. Retired officials include the foreign minister, the head of the Strategic Rocket force, his second-in-command and the defense minister. China has been opaque about the causes and allows the changes to be explained by personal factors. However, the possibility of policy disagreements should not be ignored. We are concerned that Xi is serious about preparing for war with the US over Taiwan and he was dissatisfied by the energy his officials displayed in this program. China has published a plan for reintegration of Taiwan with the mainland that envisions substantial resettlement of the Taiwanese population to Fujian province. This idea is in line with the resettlement of Ukrainians currently being implemented by Russia and the submerging of native minorities by Han migrants which has been Chinese policy in Tibet and Xinjiang. The plan leaves no doubt that China plans not only on the conquest and annexation of Taiwan but also on the destruction of a Taiwanese identity. In Taipei real estate

prices continue to rise and the government is building diesel-electric attack submarines.

China's propagandists responded to the wildfires which beset the Hawaiian island of Maui by attributing the fires to a US test of a weather weapon. Over the top rhetoric has long been a staple of Chinese propaganda. But even unfriendly powers usually show sympathy for each other's natural disasters. This particular farrago sounded to us like the sort of nonsense which emerges from the group think around a dictator, where the local reality distortion field becomes extreme.

Eager to apply its guidance to all of societies ills, China's government is criminalizing fashion choices which "hurt the feelings of the Chinese people." The party probably does not actually think the Han people are a crowd of neurasthenics unable to cope with rude T shirts. But it probably does see utility in vague laws that apply intimidation to self expression and provide cover for arbitrary arrest.

We think medium range thinking should include a scenario in which China and the US are at war in the western Pacific. We would rate this scenario as currently only a 10% chance (i. e. the overwhelming probability is it will not happen.)



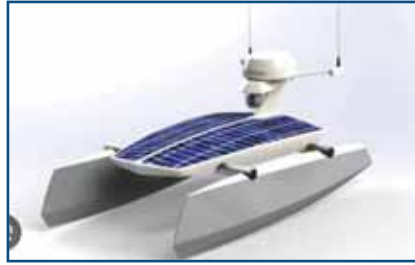
Domestic Politics

The polling in the Republican race for the presidential nomination indicates that party is split 75%-25% between a MAGA faction and a traditional faction. The MAGA candidates are led by Trump (55%) with De Santis (14%) and Ramaswamy (7%) displaying VP level strength. The traditional faction is made up of Halley (7%), Pence (4%), Christy (3%), Scott (3%) and Burgum (1%.) While Trump might implode as a candidate, the party seems likely to retain its MAGA orientation. Based on their inability to displace a candidate with Trump's level of baggage, we view the

traditional Republicans as largely finished as a political force. The dominant event over the last six months has been DeSantis shedding support to Trump and to traditionalists.

For a month the House has been paralyzed by a battle between the MAGA Republicans and the traditional Republicans. The MAGA faction sought to break the budget deal struck with the President in June and they were prepared to shut the government down to advance their agenda. The traditional Republicans realized this radical program would fail with the public who would be likely to exact vengeance at the polls next year. A stop gap funding bill was ultimately passed by an alliance of traditional Republicans and Democrats. The bill was supported by 209 Democrats and 126 Republicans, while 1 Democrat and 90 republicans opposed it. By this measure the Republicans are divided 58/42 between traditionalist and MAGA factions. Presidential primaries are strongly influenced by activists, so it is not surprising the MAGA faction appears stronger by that measure than it does when measured by the House vote.

The Attorney General of New York State obtained a summary judgment in her Martin's Act (civil) case against the Trump organization, Donald Trump and two of his sons serving as officers of the Trump organization. The judge found a decade long pattern of deceit and fraud which had been undertaken so as to secure lower interest costs on bank loans. The amount of profit disgorgement the fraudsters will need to pay will be determined at trial. Additionally the Trump organization itself has been banned from doing business in New York State. It will need to divest itself of its assets in the state. Further penalties and restrictions are also likely to be placed on the involved members of the Trump family. Trump has gone to trial three times before New York State courts in civil matters and he has lost three times. He still faces a fourth (criminal) case in the state for falsifying business records.



Technology Advancements: Maritime Drones

Earlier we alluded to the Ukrainians military use of drone (unmanned) ships. Here we briefly note some parallel developments. The US Navy has begun sea trials of two drone ships of approximately 190 foot length. Their immediate mission is intelligence gathering. The reduced observability of such vessels offers advantages for such missions as mapping radar installations of adversary powers since operators routinely turn off radar facilities when they know they are being observed. Submarines are, of course, the ultimate stealthy vessel but they are not so suitable for radar mapping.

In the commercial sphere a Japanese cargo line has demonstrated a full size autonomous freighter at all phases of the voyage from open ocean, to in port movement and even berthing and tie up operations. Crew costs represent about half the operating cost of cargo vessels but only about 10% of the combination of operating and voyage costs. Voyage costs are route dependent costs and include such items as fuel and facility fees.



Covid

A so far modest resurgence of the Covid pandemic is underway. Broad economic effects are not expected at this juncture. We take this moment to review how the recommendations for self protection have evolved.

The primary recommendation is to get vaccinated and to take boosters as they become available for evolving viral strains. A

new vaccine against the latest strains of Covid was released in mid-September. Critics of the vaccination program argued that the vaccine was rushed out without adequate testing, while they asserted natural infection with the disease was low risk in the general population and would confer immunity similar to vaccination. Developed information has decisively supported the recommendation to get and stay vaccinated, while critics have been refuted on every point. The vaccines have proved safe and highly (but not absolutely) effective. Side effects have been either mild and transient or very rare. Few if any deaths can be conclusively attributed to vaccines. Covid infection by contrast has proved fatal in every age group and in populations exhibiting general good health. Immunity conferred by infections has proved temporary and inferior to immunity from vaccination. About 10% of Covid victims have suffered significant long term bad effects - a level of harm that would never be tolerated in a vaccine product.

Barrier methods have been recommended as a secondary protection for vaccinated persons and as a primary protection when vaccines are not available or are medically contraindicated. Barrier methods range from full containment suits to plexiglass barriers for workers dealing with the mass public to various types of masks. Controversy has swirled around the recommendation that the general population use masks in situations of elevated risk (unvaccinated persons, susceptible persons, all persons in crowded spaces, long term exposure in moderate density environments such as airplanes etc.) The issue became politicized because President Trump took a personal stand against masking, apparently for reasons of personal vanity, and his supporters followed him in attacking the mask recommendation. The latest study is a meta-analysis released by the Cochrane Institute in March 2023. It examined the efficacy of surgical masks and N95 masks. The underlying studies covered influenza, Covid and other infectious respiratory diseases. The study concluded that the evidence was moderate to weak on the issue of mask efficacy. It summarized its finding as A/B studies where the A group represented the control and the B group represented the proposed intervention. The relative risk measure RR summarizes the prevalence of infection in the B group as

compared to the A group, so the smaller RR is the more effective the intervention was. The uncertainty in RR is represented by a confidence interval CI constructed so that there is a 95% probability of RR falling in the interval. The findings are given in table 1. These studies all use disease status established by clinical criteria rather than laboratory test. Cochrane reported results for disease status determined by laboratory test, but the available data is only one tenth the size of the exhibited data set and it lacks statistical power. Accordingly, we are focusing on the results from the larger data set.

Table 1: Cochrane Meta-Analysis as of Jan 30, 2023

study situation	A	B	RR	CI	Quality of Evidence
clinical disease	no protection	surgical mask	0.95	0.84-1.09	moderate
hospital setting	surgical mask	N95 mask	0.7	0.45-1.1	very low
household	surgical mask	N95 mask	0.82	0.66-1.03	low

source: Physical Interventions to interrupt or reduce the spread of respiratory viruses. T. Jefferson et al
<https://doi.org/10.1002/14651858.CD006207.pub6>

One would like a test of no protection versus N95 in a household setting. Unfortunately no data spoke directly to that, but from the above data we would infer an RR of 0.78. The major finding is a lack of strong evidence and the secondary finding is that N95 masks could have some modest efficacy. We read this study as supporting the recommendation regarding mask wearing. Various parties are citing the study as finding that masks are useless. This characterization of the study is incorrect in our opinion and it is often made for blatantly partisan political purposes.

A third intervention that has been recommended is the use of an alcohol based hand sanitizer after manual contact with sites of potential infection. This recommendation was less politically controversial, likely because attention to good hand hygiene is an established part of ordinary life. The Cochrane study reported an RR of 0.86 with a CI of 0.81-0.90 and moderate quality of evidence. These numbers are comparable to those reported for masks, but no one seems to be claiming that the study shows hand hygiene to be a useless activity.

Our conclusion is that subsequently developed information is broadly supportive of the health recommendations issued during the intense phase of the pandemic. Contrary to belief held in some quarters, there is no indication the recommendations were substantially flawed, tainted by political agenda or ungrounded in scientific knowledge.

It is likely Covid will persist at a low level for decades with occasional local flareups. We recommend clients stay in touch with the situation in their community and take sensible precautions during periods of flareup. The most important self-protective measure is to maintain a vaccinated status when not medically contraindicated.



The Economy

The US economy continues to chug along much as it has all year. Growth is broad but at a moderate pace. Inflation, measured by CPI, over the last six months has been at a 3.1% rate versus a target of 2%. Measured by PCRE (the Fed's preferred measure) the six month inflation rate annualized is 2.6%. The yield differential between Treasury bonds and TIPS at the 10 year horizon indicates an expected mean inflation rate of 2.5%. High Tech firms which were overcapitalized in the pandemic continue to trim workers and pause growth plans. On the other hand, excitement about AI is very high and recalls early days of the internet. Inflation has stirred the embers of labor unrest and social tension after nearly three decades of torpor. Banks and commercial real estate continue very nervous, but so far problems remain localized. Plans for increases in defense procurement are being made, but contracts are not yet flowing. Now is neither the best of times nor the worst of times.

Overseas, parts of China's economy are in a deflationary recession – specifically real estate and construction. China's manufacturing for export sector continues to grow. However, the weak overall economy has reduced imports and spread weakness to supplier countries.



The Markets

Markets fell across the board in September (see table 2.) Factors weighing on the market were perceptions that Federal Reserve tightening would be maintained longer than expected, continuing factional fighting among the Republicans, the recession in China and a slowing economy in Europe. Investment grade bonds in the 6 month perspective have returned to a falling trend. However in an annual perspective they continue to range trade. Considerable momentum has left the equity market which is now mixed between a rising and range trading trend. Overall the markets are waiting for the tightening cycle to crest.

Table 2: Recent Market Performance

Category	Asset Class	6 month trend	3 month return	1 month return
Equity	US Large Cap	rising	-3.65%	-5.14%
	US Large Cap Growth	rising	-2.67%	-4.96%
	US Large Cap Value	rising	-4.56%	-5.09%
	Growth – Value	rising	1.89%	0.13%
	US Mid/Small Cap	range trading	-5.32%	-5.74%
	Intl Developed	range trading	-4.94%	-3.65%
	Intl Emerging	range trading	-4.07%	-3.11%
Fixed Income	3-7 Year Treasury	falling	-1.82%	-1.48%
	7-10 Year Treasury	falling	-5.19%	-3.39%
	TIPS	falling	-3.62%	-2.22%
	Muni	falling	-3.93%	-2.77%
	Investment Grade	falling	-3.99%	-2.85%
	Medium Grade	range trading	-1.80%	-2.07%
Commodity	Preferred	range trading	-2.52%	-1.95%
	REIT	range trading	-9.74%	-8.05%
	Euro	range trading	-3.98%	-2.83%
	Gold	range trading	-4.60%	-6.46%
	Oil	range trading	25.15%	2.46%



Advice

This is what normal looks like. Continue to hold your normal portfolio. Traders may wish to consider the long bond. Although we judge the bond market likely to be in a long term bear trend, the current interest rate looks like a peak for this cycle.



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, we 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

Nikola Tesla's radio controlled boat. Tesla demonstrated this boat in a large tank set up in Madison Square Garden in 1898. The date is remarkable. The first patent on radio was not issued until 1900 (to Tesla.) The system relied on detection of pulsed radio waves by a tube filled with ground iron. A detected pulse advanced a wheel by a set amount. Contacts distributed along the wheel corresponded to various programs of activity (e. g. left rudder propellor ahead) Thus by sending the requisite number of pulses the desired program could be selected. Tesla attempted to commercialize his invention for military purposes but was unable to interest the navy in the project. One wonders if he would have had more success with radio controlled toys. Tesla's considerable talents as a showman suggest he could have achieved much in that direction. Tesla was both a brilliant electrical engineer and a successful inventor. Edison originally developed electrical power along DC lines. Tesla created the AC motor which made possible the AC electrical power system we have today. Hertz discovered radio waves, but it was Tesla who received the patent on the radio three years before Marconi. Unfortunately, Tesla was unable to form the necessary alliances in the business community and his later efforts failed to build on his early success. More recently the careers of Seymour Cray and Gene Amdahl have had similar but less tragic arcs despite ample financial backing. The engineering frontier is as difficult a place to make a life as the frontier of the Old West.