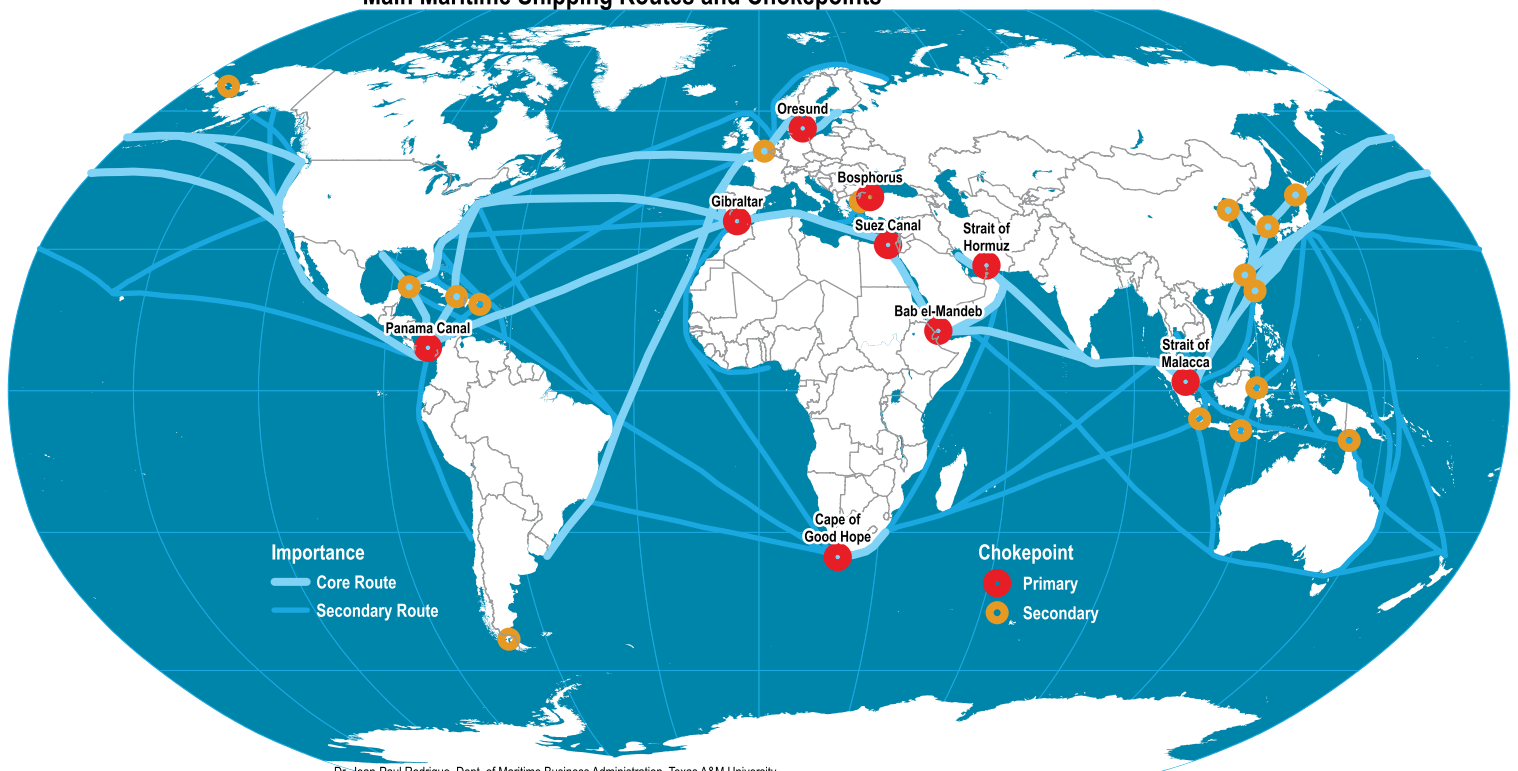


Main Maritime Shipping Routes and Chokepoints



Dr. Jean-Paul Rodrigue, Dept. of Maritime Business Administration, Texas A&M University



Executive Summary

There has been lots of changes in direction since Trump was elected. To a degree the players are pausing to take stock of where they are. The economy is likely softening. Markets have done a yo-yo since April – dropping then recovering even though nothing has been resolved.

We have published two research reports: one on the Supreme Court the other on AI.



Iran and The Middle East

Israeli intelligence apparently believes Iran's inventory of highly enriched uranium is buried under the rubble of its various nuclear facilities. Israel is no doubt watching the suspected locations closely and would attack if it saw efforts at retrieving the material. Iran has blocked further inspections by the International Atomic Energy Agency (IAEA.) Hiding the degree of damage is one good reason for doing so.

As predicted political opinion in Iran has fractured into three directions: hard liners intent on continuing confrontation and pushing as hard as possible for a nuclear weapon, security forces focused on preserving privileges and authority, pragmatists focused on preserving the regime and favoring reduced confrontation. While outsiders naturally focus on Iran's conflict with Israel and the US, Iran's leaders have additional concerns: separatist movements in the minority Kurdish and Baloch communities, the unhelpful foreign policy of neighboring Azerbaijan, frustration with clerical rule among the educated urban population and general dismay at a collapsing currency, electric grid and

urban water supply. While external parties push to settle disputes, the regime may well feel that strengthening its position at home is necessary before dealing with foreigners.

The EU countries are threatening Iran with enhanced economic sanctions if it does not reach an accommodation with the US by the end of August. Israel and the US are generally keeping quiet, which suggests some back channel diplomacy may be underway. Which voice prevails in Iran will likely determine whether the war resumes active shooting, continues as covert conflict or achieves something of a diplomatic settlement. Given the difficulties Iran faces in forming a policy, covert conflict remains the most likely outcome.

Reportedly Iran is seeking defense systems and advanced warplanes from China. Although China ignores sanctions to purchase billions of dollars in oil from Iran, it realizes that Tehran's decision making could involve China is conflicts profitless to itself. It may also have some concern that through probing by Israel the US would learn enough about China's weaponry to severely reduce its effectiveness. As a result, China has been less than eager to make the sales Iran seeks.

Iran is seeking to maintain and even extend its influence in Iraq. There are various militias in Iraq which nominally belong to the government's paramilitary forces but which actually take direction from Iran. There are alternate plans for their future. One plan would more deeply integrate them to the Iraqi forces but break them up as units so that Iran's influence is weakened. The other plan would integrate them as units and promote their leadership to command positions within the Iraqi forces, which would increase Iran's penetration of the Iraqi state. This struggle is likely to go on for a number more months.

The Houthis attacked two freighters in the Red Sea. The Israelis shut their major port down. Trade flows through the Red Sea remain about 70% below normal. A solution for the Houthi quasi-blockade remains elusive.

Israel has manufactured a humanitarian crisis in Gaza. About 500 people, mostly children, have starved to death and about 1300 have been trampled to death at food distribution points. International anger towards Israel has swelled. France, the UK and Canada are moving ahead with plans to recognize Palestinian statehood. In the US opinion polls are swinging against Israel. Only 8% of Democrats and 20% of Independents continue to support Israel and support for Israel among those younger than 35 has largely vanished regardless of party orientation. Even Trump has acknowledged that the reality on the ground in Gaza is no

longer acceptable. Sensing a moment of opportunity, the key Arab states (Jordan, Egypt, Saudi Arabia) have called upon Hamas to surrender its weapons and political authority to the Palestinian Authority.

Unfortunately Hamas is an organization with an extremist philosophy. It will perceive western recognition of a Palestinian state as evidence that it is winning. It will happily condemn the Gaza population to starvation to win these political points. Additionally, it may have some personal doubts about giving up its weapons when surrounded by people it has led to into dispossession and starvation.

In response to the pressure the Israeli cabinet voted to allow more supplies into Gaza. The minister charged with running the police and other internal security apparatus, Itamar Ben-Gvir, was sidelined from this decision. He criticized the Prime Minister who he accused of a morally bankrupt surrender to Hamas and Ben Gvir articulated his preferred policy as: "The only way to win the war and bring back the hostages is to completely stop the 'humanitarian' aid, conquer the entire strip and encourage voluntary migration." Ben-Gvir's political party has long advocated extreme policies towards the Palestinians and his position is genuinely extreme within the Israeli political spectrum. However his viewpoint is pretty close to the one Trump has been paying lip service to, if not actually pushing. That policy is, at this point, pretty close to state sponsored genocide.

The IDF's plan is instead to construct concentration camps and move the general population of Gaza into them to break the linkage between Hamas and the general population. This step is long overdue and more likely to succeed than the current policy of starvation. Hamas will not voluntarily surrender its human shield and the world is increasingly less willing to accept the collateral damage to Gaza's people that results from attacking Hamas embedded in that population. Attempting to separate Hamas from the shielding population is Israel's only real hope of changing the dynamic.

In Syria tentative cooperation between the Damascus government and the Druze minority in its southwestern quadrant broke down. Fighting between the Druze, the neighboring Bedouin tribes and the central government flared up. Israel intervened to support the Druze. However the Druze were themselves of two minds as to how to move forward. In this confused situation the US was able to intervene diplomatically in favor of restoring order through the central government. Similar troubles are brewing in the northeast where the government's accommodation with the Kurdish minority is also on rocky ground. Syria is not yet stabilized.

Although nominally under a ceasefire, actually low level fighting is continuing in Lebanon as Israel continues clearing Hezbollah from the southern border region. Hezbollah recently announced it was opening four additional branches of its financial arm. With bags of cash and foreign exchange and a substantial security force, Hezbollah is actually well positioned to enter the banking business. We were reminded of an Austin Powers film in which a new generation of leadership at a terrorist organization

discovers that its true opportunity lies in the coffee business. One can hope.



Russia-Ukraine War

Russia has been carrying out heavy missile and drone attacks in an attempt to saturate Ukraine's air defenses around its major cities. It is sometimes successful. The US cut off munition supply to Ukraine for a short period, but hew and cry persuaded Trump to allow Ukraine's EU allies to purchase arms from the US for transfer to Ukraine. Most importantly Ukraine will be able to improve its air defenses in this way. At least it will if Trump's latest policy is actually implemented and sustained for some time.

Russia is also busy fortifying its airfields after the smarting air attack delivered by Ukraine. It is subjecting the population of occupied Ukraine to forced Russification and is seeking to import population from Russia to strengthen its hold on the territory. Its summer offensive is pushing broadly along the front. It continues experimenting with tactics – a general indication of not having yet found an effective formula. It appears to be turning out more and better drones from its slowly ramping industrial base and that development is putting Ukraine's defenders under slowly rising pressure. In short, Russia continues serious about winning its war and it sees itself as engaged in perpetual conflict with the western powers.

Trump appears to slowly be coming to the realization that his personalized version of leader-to-leader diplomacy has no traction at all when it seeks to change the fundamental security policies of foreign nations, whether they be Russia, Israel or North Korea.

China informed the EU that it could not accept Russia losing its war in the Ukraine. This is the strongest diplomatic support China has given Russia to date. Tacitly it admits that Russia is not winning its war. China apparently fears a Russian defeat could unleash US aggression against China.

For its part China has been seeking a naval base in the South Atlantic. Its overtures to Gabon may have stimulated some outreach to Africa by Trump. But the public display of Trump's ignorance about the continent probably negated even the modest public relations benefits of the move. Meanwhile armchair strategists can muse about the possibilities of a Chinese-Brazilian-South African naval alliance in the South Atlantic. Such a development would be something genuinely new on the world stage.



International Trade

Trump yo-yo'ed the markets in the spring by declaring a global trade war and then pausing it for talks. So far these talks have produced trade pacts with three small countries and “framework” agreements with Japan, the EU and the UK. The frameworks allow Trump to boast of progress made, but actually it will take a year or more to hammer out the details at which point one can actually see what they amount to. For the moment, the frameworks give the markets some hope that Trump will not crash the global economy. However, agreements with China, India, Mexico and Canada remain elusive. China, in particular, has cut off supplies of vital minerals and thereby forced the US to make concessions on exports of AI chips to China. Experts had previously warned that the US was not prepared for a bare knuckles negotiation with China, whereas China had been preparing for years for its confrontation with the US.

Trump delivered a tariff address August 1 announcing new levels for many countries. These are about half the levels he announced in April but still massively increased from prior to his presidency. Trump continues using tariffs to interfere in other countries's politics – threatening Brazil over its prosecution of a former president suspected of planning a coup and Canada over its intent to recognize a Palestinian state. Markets fell about 2% worldwide in response to Trump's speech. One estimate is the typical American household will be paying \$2400 more per year in tariff fees – this is a striking tax increase without Congressional

authorization. If the figure is substantiated the possibility the Courts will dial back Trump's tariff authority exists.

Our assessment is that trade talks will muddle on interminably, continuing to generate episodes of market excitement, extravagant boasts from the Trump team and a mind numbing amount of detail which will actually define the “winners” and “losers” from this confrontation.



Domestic Politics

Support for Trump's deportation policies is waning sharply with the populace. The latest Gallop poll shows 80% disapproval. A federal district judge in California has issued an injunction against ICE stopping people without probable cause. In fact, immigration enforcement has been engaged in massive racial profiling and other violations of due process and civil liberties. The Trump Administration in Southern California is behaving more like an occupying foreign military power than like a legitimate national government. So far, however, the Supreme Court has mostly given the Administration a free hand with its deportation policies.

This month we are publishing our annual review of Supreme Court decisions as a research note. The radicalism of the Court was to a degree tempered this term. There was a general absence of big majority decisions authored by the radicals. We felt the Chief Justice was exerting more control over the Court and appeared to be trying to keep it out of politics – neither confronting Trump nor creating new judgments to support his program.

The Republicans in Congress passed Trump's “One Big Beautiful Bill Act.” The bill sets the government's budget. In his first term Trump passed a number of tax reductions which were set to expire. The benefits of those reductions overwhelming flowed to the nation's wealthiest demographic.

The primary purpose of the OBBB was to prevent the scheduled expiration of the tax cuts. Many of the tax cuts were not just extended for a further term of years but were made permanent. Some additional tax cuts were added to make the policy more broadly appealing. To pay for this tax relief substantial reductions had to be made in government

spending. Most of the cuts were made in poverty relief – in particular food and medical assistance to the poor. The general budget also was squeezed to come up with cuts. Scientific and medical research was one area hit particularly hard, consistent with Trump's general hostility towards intellectual endeavor. The programs Biden instituted to support the decarbonization of the economy were another casualty of the bill. Some new spending is authorized. The biggest beneficiary is Homeland Security's border security and deportation programs. Some minor chunks of new money flowed to the military to address known deficiencies. In general, however, Trump is uninterested in US foreign policy and negligent of the sinews that support it.

Trump has started a pressure campaign against the Chairman of the Federal Reserve Jerome Powell.

This campaign is part of Trump's general effort to control all the levers of power.

Having first tried cajolery and insults, Trump has moved on to innuendo and allegations of malfeasance. Powell has a nearly invulnerable position and has mostly ignored the President – as have the markets. We think they would react quite badly if Trump actually looked to be succeeding in his campaign. However, Powell's term is up next summer and Trump is likely to nominate a pliant chairman who will indulge his desire for soft money. Perhaps with a bit of hyperbole, Trump said he would like to see interest rates below 1% again. Change in leadership at the Federal Reserve is a medium term risk factor for the markets. More quietly in backrooms the Trump team is loosening bank regulation. When the Bush team did this the result was a global financial crisis. Hopefully the Trump team will have learned from that experience.

Cracks have started to appear between Trump and some of his more ardent followers. His two vanity projects (the 747 gifted him by Qatar and the military parade in Washington, DC) were not popular with his base. After months of whipping up speculation about links between Jeffrey Epstein and prominent individuals, Attorney General Bondi had to report there were no interesting materials to release from the investigation. Inevitably this looked like a cover-up and suspicion that Trump was protecting himself was inevitable given his conviction for covering up his act of solicitation with Stormy Daniels. Probably Bondi has in hand reams of gossip and innuendo against anyone and everyone, none of which could be released since none of it would support criminal charges. The basic message here is that politicians who feed the rumor mill should not be surprised when it turns on them. Finally flash floods in Texas killed between 130 and 300 people including at least 36 children.

Responsibility for this heartbreak most likely lies with Texas's concept of limited government. It was only four years ago that another entirely foreseeable natural event (a freezing winter storm) took down Texas's electrical grid and caused between 246 and 702 deaths. However, cuts to the National Weather Service and radical reorganization of the Federal Emergency Management Agency (FEMA) were two recently enacted Trump policies which naturally raised suspicions that these changes were contributing factors to the disaster. Finally sale of Trump's cryptocurrency on military bases is unpopular with those who are pro-military but regard cryptocurrencies as a swindle.

New York City Democrats were offered quite a choice in the primary election to pick a candidate for mayor. On the one side was the badly discredited former Governor Andrew Cuomo and on the other a 33 year old democratic socialist who urged raising the city income tax on the wealthiest inhabitants as part of his campaign to make wealthy white neighborhoods pay more. In a city where 12 percent of the population is Jewish he also refused to condemn the phrase "make the intifada global." The electorate plunked for the fresh face in the eternal triumph of hope over experience. Jamie Dimon, head of JP Morgan Chase and sometimes supporter of Democratic politicians, castigated the Democrats for being soft headed and soft hearted. We felt he put his finger on the current political situation. The electorate is currently offered a choice between hard hearted hard headness and soft hearted soft headness. Politicians who successfully blend the American traditions of pragmatism and imaginative large heartedness are scarce on the political landscape and a party which does so is entirely absent. Quite consistently the electorate tells pollsters they dislike politicians and distrust the political process. The natural response from such an electorate is strategic vote splitting with the object of disempowering the political leadership.



Economics

China's second quarter GDP growth was 5.2%, only slightly down from the first quarter's 5.4%. Exports to the US in the second quarter were partly impacted by tariffs, but the damage to the economy as a whole was slight. In fact, the US only absorbs about 15% of China's exports. The data suggests the impact of tariffs on China will be less disruptive than many had assumed.

In the US inflation appears to be stable at 2.7%. Apparent month-to-month variation is likely mostly due to rounding effects. GDP figures are more open to interpretation because tactical moves ahead of tariffs has muddled the data. Under the hypothesis that GDP also is steady, then the real growth rate is apparently 2.5%. The details suggest some caution on spending and hiring by businesses in an environment of heightened uncertainty. If so, that caution might release in the third or fourth quarter to produce a small economic stimulus. The Federal Reserve is holding its policy steady. This is probably the technically correct decision, but given Trump's pressure campaign it had very little alternative as a rate reduction at this juncture would have cost the central bank a great deal of credibility.

The July employment figure was weak and the May and June figures were revised substantially lower. Basically there has been a three month absence of job growth. Trump's response was to fire the statistician in charge of preparing the figures. His evident intent to cook the government's statistics causes us grave concern.

This month we are releasing a research note on AI. It covers the history of the field, the current technologies, some of the players and the applications which AI has been put to so far. While no subject is treated comprehensively, a reasonable “soup-to-nuts” overview is provided.

The Trump administration hopes that its policies of tax relief, low interest rates, reduced regulation and tariff driven manufacturing stimulus will generate an economic boom. We think it may generate a stock market boom as the rich continue to apply their high cash flow to bidding up stocks and other capital assets. However, we are more skeptical of a broad based economic expansion resulting. Fiddling with interest rates and regulations can produce a burst of over stimulus but rarely sustained prosperity. A manufacturing stimulus will only succeed if there is a bipartisan commitment to sustaining the policy for a decade or more. Consensus building is not a skill in the administration's toolkit. Frankly what we fear is efforts to engineer faster growth could instead result in a late 1920s type phony boom giving way to a very real bust.



Capital Markets

Basically the markets went nowhere in July. US equities have completed recovering from the tariff swoon of April but lack a

compelling reason to move ahead. International equities have been the strongest performer of late but appear to be at their ceiling for the moment. Fixed income is largely directionless. Oil managed an up month within a falling trend but failed to convince us it had bottomed. Otherwise commodities were uninteresting.

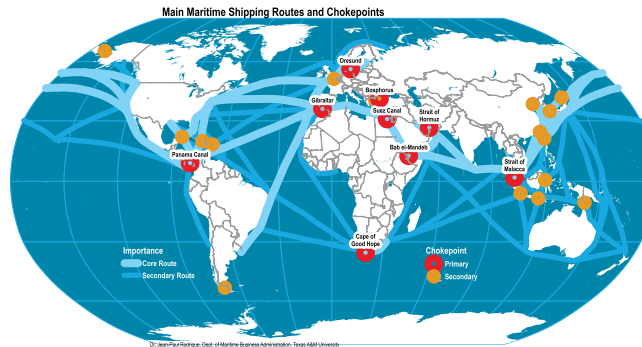
Table 1: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	flat	13.84%	2.38%
	...Large Cap Growth	flat	20.49%	3.23%
	...Large Cap Value	flat	7.63%	1.19%
	...Growth – Value	outperform	12.85%	2.04%
	US Mid/Small Cap	flat	11.94%	2.04%
	Intl Developed	rising	3.27%	-2.06%
	Intl Emerging	rising	10.97%	0.71%
Fixed Income	Treasury 3-7 year	rising	-0.99%	-0.74%
	Treasury 7-10 year	rising	-1.32%	-0.97%
	TIPS	rising	-0.77%	-1.00%
	Municipal	falling	-0.85%	-0.60%
	Investment Grade	rising	1.05%	-0.47%
	Medium Grade	flat	2.19%	-0.41%
	Preferred	falling	3.58%	2.02%
	REIT	flat	0.13%	-0.08%
Commodity	Euro	rising	0.78%	-2.77%
	Gold	rising	2.03%	0.95%
	Crude Oil	falling	8.87%	3.12%



Investment Advice

We have no confidence in the administration's economic management. At the same time the economy is naturally expansionary and can withstand some degree of political mismanagement. Our advice is to maintain ones correct strategic positioning with a tilt towards higher quality assets (i.e. those with lower than average valuation risk.) Maintaining healthy liquidity reserves and addressing points of weakness in real asset holdings should be secondary objectives. More venturesome accounts may seek exposure to opportunities which offer return potential proportionate to an environment of above baseline risk.



About The Cover

This month's cover features the world's great shipping routes. Broadly speaking there are four classes of cargoes: hydrocarbons, grains, bulk commodities and containers. The map presented is a superposition of these four.

The great export ports for hydrocarbons are the Persian Gulf ports of Ras Tanura (Saudi Arabia), Fujairah (Oman), al Basra (Iraq), Sea Island Terminal (Kuwait) and Kharg Island (Iran). This traffic all flows through the straits of Hormuz. After the strait about 70% flows eastward through the great transshipment port of Singapore at the straits of Malacca before fanning out to Ningbo-Zhoushan (China), Gwangyang (South Korea), Chiba-Yokohama-Osaka (Japan) and many secondary destinations. About 20% transits the Bab el-Mandeb and Suez Canal to reach either the Mediterranean

ports or to continue through the straits of Gibraltar to reach Rotterdam. Only about 10% of the volume makes the long trek around the Cape of Good Hope to reach the New World. Secondary export ports are Houston (US), Novorossiysk (Russia- Black Sea) and Primorsk (Russia – Baltic.)

The great export ports for grains are New Orleans (US), Vancouver (Canada), The St Lawrence Seaway

(US and Canada), Santos (Brazil), Rosario (Argentina), Odessa(Ukraine), and Novorossiysk (Russia – Black Sea.) This traffic flow out to the great population centers in Asia, Europe and Africa.

Bulk cargoes consist primarily of ores and chemicals. The ores are mostly sourced from the South (Australia, Africa, South America) and flow north to the manufacturing centers of China, Japan and Europe. Chemicals and refined metals flow out of the manufacturing centers (China and Europe) to agricultural centers (if fertilizers) or further manufacturing centers.

Other than vehicles, most manufactured goods flow by containers. China is the center of the world's container traffic

with half the world's capacity in the great ports of Shanghai, Ningbo-Zhoushan, Shenzhen, Qingdao, Guangzhou, Tianjin and Xiamen. Significant supply also comes through Busan (South Korea), Keihin (Japan) and Singapore. The westward branch of this flow is destined for the main ports of the Europe (Rotterdam, Antwerp, Hamburg, Piraeus, Trieste, Genoa, Marseille, Barcelona, Algeiras, Le Havre and London.) Secondary ports in this flow are Ho Chi Minh City (Vietnam), Mumbai (India), and Dubai (UAE.) The eastward branch of the flow heads for the west coast ports of the United States (Los Angeles, Long Beach, Seattle, and Oakland) where it joins the rail and road heads for distribution to the interior. A small part of the flow continues on to Colon where it transits the Panama Canal or continues down the west coast of South America. The west coast of South America is blocked by the Andes from becoming a road head to the interior of the continent, and so in contrast to North America, the west coast of South America is a fairly small purely local market. On the eastern seaboard of the US the ports of New York and Savannah serve as similar junction points with internal communication for container traffic originating in the EU or coming through the straits of Gibraltar.

Although the United States is the world's largest economy, it represents only about 5% of its container traffic – comparable to Malaysia, South Korea and Vietnam. There are two reasons for this. First, a great deal of the US's domestic traffic flows by rail, road, pipeline and river barge. Second the main exports from the US are grain, hydrocarbons and services. The first two move by bulk carriers, not containers, and the later by telecommunication cable.

Another point to note is how canalized the world's shipping is. The combination of great circle sailing routes, navigational choke points and the inclement weather of the high latitudes confine the traffic to just a few primary routes and a fan of secondary routes. The vast stretches of the South Pacific are nearly devoid of shipping and of the great ocean basins only the North Atlantic can be said to have a dense network of routes.

Lastly the reader has probably noted that our list of ports includes both familiar and unfamiliar names and some once great maritime names are absent. Modern ports and rail marshalling yards require vast acreage which is simply unavailable at many long established but now well built up ports. As a result there has been a relocation of freight volumes to newer places which have the necessary raw land in adequate supply.

Map Source: Ports Economics Management and Policy Organization



About Lloyd Tevis Investments, LLC

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 TM 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.