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The Market Commentary

January 2026

1 Executive Summary

A revolt has broken out in Iran. Trump raided Venezuela. Otherwise the holiday season had the world's troublemakers going through just their usual motions of being a pest. Domestic politics also continued discouraging in a low voltage sort of way with officials who have disappointed in the past continuing to meet expectations. The economy ground on. We pause to take a look back at the year that was. Some good things happened! We look forward to 2026 with the optimism which derives from the observation that idiocy washes out eventually while progress slowly accumulates.

2 Geopolitics

2.1 Continuing Operations

There were a lot of continuities over the past month. Russia, a country with vast land holdings relative to young men to exploit this economic opportunity, continued sacrificing the lives of its young men in an effort to steal a few more muddy acres from Ukraine.

Iran responded to its trouncing by the Israeli and US air forces with a declaration of victory and a push to rearm. Dismay greeted this demonstration of leadership inflexibility and the currency lost about 50% of its foreign exchange value. Widespread popular protests have broken out in the Western half of the country. In the Eastern half an ethnic separatist movement is slowly percolating anyway and so it is hard to say that public dismay has increased. The Iranian leadership announced its intention to be inflexible. The late shah's son, Crown Prince Reza Pahlavi, is urging the populace to overthrow the Ayatollahs. Hundreds of protestors are reported to be killed (many execution style,) while thousands have been arrested. But so far the protests are increasing and spreading. Hunger is apparently driving some on to the streets who normally avoid political action. Were the Ayatollahs to fall the geopolitical implications would be extensive.

Israel is dissatisfied with the efforts of the Lebanese government to disarm Hezbollah and is offering a helping hand with increasing vehemence. In Yemen the anti-Houthi forces are splitting along historic lines of division. In Syria US efforts to broker a settlement between the Damascus government and the Kurdish militia is floundering with fighting between the groups occurring in Aleppo.

The US sold \$11 billion in arms to Taiwan. China was ticked by this act and conducted a several day war game exercise to practice a naval blockade of the island. This demonstration appeared well calculated to encourage Taiwan in making follow up purchases. China is also reported to be covertly placing ant-ship missiles on merchant vessels. Covertly arming freighters is a long established naval tactic. It primarily threatens an adversary's trade and supply lines while stretching its navy to maintain blue water control. In short China is pursuing an aggressive tactic directly aimed at the US.

Both North and South Korea are building nuclear powered submarines.

2.2 Venezuela

The big news came from the US. Just after New Years a unit of US Delta force dropped into the presidential compound in Caracas, collected President Maduro and his wife and whisked them off to Manhattan to face an indictment dating from the Biden administration. We understand the US suffered no casualties and that perhaps as many as 32 of the Venezuelan Presidential guard (who in fact are Cuban mercenaries) were killed. Delta force is a special operations force trained for hostage rescue missions but apparently also pretty good at hostage taking. Delta force was assisted by about 130 US war planes which attacked airfields surrounding the capital city. Venezuela spent heavily on Russia and Chinese arms about 20 years ago, but its kit proved basically worthless. The closest it came to halting the US raid was when a soldier fired a shoulder hoisted missile at a special forces helicopter but missed.

Diplomatic reactions varied. Brazil was heated about the violation of Venezuela's sovereignty. Nations in Spanish speaking Latin America, which have reluctantly hosted millions of poor refugees from Venezuela, were enthusiastic at Maduro's fall. European nations gave lukewarm support. In fact no one liked Maduro who was that sad item an incompetent populist dictator. The only genuine mourner for Maduro is Cuba which heavily depended on his gifts of free oil to keep its power grid functioning. Venezuela holds the world's largest proven oil reserve, but has done so good a job of wrecking its industry that, according to the indictment, Maduro has had to make ends meet by acting as a shipping agent for drug cartels. The Venezuelan democratic opposition was prepared to lionize Trump until he announced he would be keeping the dictatorship in place but directing it from Washington and that what was left of Venezuela's oil industry would now be run for the benefit of the US. Bold words, but with no troops on the ground not results Trump can actually deliver. Currently the country is firmly in the control of the defense and interior ministers with Maduro's Vice President, a woman economist, window dressing the Head of State position.

It will take years of diplomatic engagement, arm twisting and substantial sums of money to return Venezuela to a functioning state.

When Maduro comes up before US courts he will likely claim prisoner of war status. Granting of such status will halt any criminal prosecution, although it will permit his detention until the end of hostilities.

This demonstration of decisiveness on Trump's part has not gone unnoticed by the numerous other countries he has threatened. Notably Trump is currently putting considerable pressure on Denmark to cede suzerainty over Greenland to the US. However, as it becomes clearer to Trump what a tar baby he has acquired in Venezuela we expect his appetite for foreign acquisitions to diminish. The more significant lesson for many nations will be that Russian provided air defenses are no defense at all against the current generation of US air power. Whereas previously overcoming the Russian kit took many hundreds of sorties over weeks of time, the US now appears capable of knocking it out in a single wave assault. That will be a particularly troubling revelation in Tehran.

For the moment the US public appears bemused - pleased by the competence of its military but concerned that its political leadership is drunk on power. Some Republicans in Congress have had the temerity to join with Democrats in a legislative attempt to limit Trump's war powers with respect to Venezuela.

As for the booty Trump has been enthusiastic about, it is not such a great asset. Venezuela's oil reserves are a heavy tar like form of oil more suitable for paving roads than fueling vehicles. The world oil market is already glutted with prices slowly falling. US oil companies are unlikely to leap at the opportunity to invest billions in reviving Venezuela's industry while suffering hostility from their hosts and with the prospect of expropriation to look forward to once the US Presidency changes hands. In fact the Financial Times has estimated that Venezuela's oil industry could require \$100 billion in investment and take 8 to 10 years to recover to its former state. Exxon bluntly described Venezuela as "uninvestable" when invited by the White House to participate in a redevelopment consortium. Those who remember Trump's first term in which a former head of Exxon, Rex Tillerson, served as his first secretary of State wonder if Trump might not have learned this at an earlier point in the planning process. Then they remember the insulting treatment Trump meted out to his one-time advisor and they conclude, no, he probably could not have learned sooner.

We think some historical perspective may help put these dramatic events in proper focus. There is in fact a considerable build up to recent events. Chavez became President of Venezuela through free elections, but he revised the Constitution (1999) to give himself dictatorial powers. He followed left wing populist policies

and tilted diplomatically towards Cuba. Initially his policies improved Venezuela's social statistics, but ultimately they crashed the economy putting almost everyone in a worse off position. Obama first opposed Chavez with narrow sanctions on his government. While dying of cancer, Chavez selected Maduro as his successor. Trump in his first term extended the sanctions broadly on Venezuela. The sanctions accelerated the decline of Venezuela's economy. Trump also backed democratic opposition to the dictatorship, but the civilians could not prevail against the army and police which had (and continue to have) a firm grip on power. Biden indicted Maduro on drug trafficking charges. Trump in sending Delta force was simply implementing the Biden indictment. There is also the matter of refugees. Misgovernance by Caracas has resulted in 8 million people (about a fifth of the population) fleeing the country. Biden admitted a few of the refugees (mostly English speaking educated middle and upper class people) to the US and Trump wants to expel them. But obviously the root issue needs to be dealt with one way or another.

There is an even longer back story. When the Latin American states first declared their independence, then US President Monroe stepped forward as their protector telling the European powers that they should not intervene militarily in the affairs of the independent states. President Theodore Roosevelt issued an important addition to the Monroe Doctrine (1904.) He stated that when a Latin American state was misbehaving to the point where an aggrieved European power felt it should intervene militarily then 1. the US would deal with the misbehavior and 2. the European power should refrain from an intervention. In short, he recognized a US sphere of responsibility in Latin America.

The specific matter that led to this policy was Venezuela defaulting on debts to foreign creditors. Several of them sent gunboats to blockade Venezuela's ports until the country agreed to address its debt problem. One of the more pressing creditors was Germany. Roosevelt feared the consequence would be Germany converting the debt into a long term lease on a naval base in Venezuela, and Roosevelt (with great foresight) regarded that as something the US should try to prevent. So he had the US assume the role of debt collector on behalf of the creditors and the blockading force returned home.

Maduro acting as a shipping agent for drug cartels and sending large volumes of cocaine to Europe is a pretty clear case of governmental misbehavior. Delta force dropping by to put a stop to this is simply the US dealing with misbehavior in its sphere of responsibility. In short, we see this affair as more the result of long standing State Department policy than of Trump's own thinking. Trump's personal contribution to the matter is a couple of off hand remarks which are both inflammatory and probably irrelevant.

3 Domestic Politics

3.1 On Capital Hill

Republican control in the House of Representatives has dropped to 218-213. If all Democrats vote together the Republican majority cannot afford to lose the support of more than two of its members if it is to pass a bill. This situation gives members some substantial bargaining power with their leadership. Predictably, legislation has slowed to a crawl.

The government was shut down for 6 weeks in October/November as Democrats withheld agreement to a continuing resolution required to keep the government funded. The resolution passed at the end of that shutdown is expiring in February and the entire exercise looks ready to be repeated.

The Department of Justice has stated that the heap of documents it previously released in the Epstein matter was 1% of the number of documents it has on file. Redacting the files looks to be a long term employment act for junior attorneys.

3.2 DHS ICE's a citizen

In Minnesota an ICE agent killed a white 37 year old mother of three as a result of escalating a verbal dispute with a citizen into an armed assertion of government authority. The political leadership immediately closed ranks behind the agent and asserted the powers of the FBI to squelch a local investigation of the killing. Secretary Noem's office was quick to issue a denunciation of the victim as a "domestic terrorist." By contrast when the the nearby killing of George Floyd occurred a few years earlier, the authorities carried out a careful investigation, refrained from divisive public statements until the facts were established and ultimately convicted the killer of murder. As with that case, multiple videos of the killing create a strong appearance of an unlawful killing. It will be interesting to see if an "American Lives Matter" movement is sparked by this event. It is evident to us that Secretary Noem has so infected ICE with polarizing political positions that eventually comprehensive reform of the department will be required - likely resulting in mass dismissals of agents who have hopelessly lost the trust of the public. Notably Border Czar Tom Homan, normally Noem's fiercest ally, initially broke with her in this matter and urged a full fact finding before rushing to judgment. But this burst of professionalism was not allowed to stand, and the next day Homan was singing from the company songbook about how "hateful rhetoric" was creating a toxic work environment for ICE agents. Indicating that the problems are systemic, ICE shot but did not kill a car driver and his passenger the same day in Portland. The incident occurred at 2 in

the afternoon. ICE claims that the wounded are illegal immigrants from Venezuela. Supposedly he is a gang member; she is a prostitute and the driver was not trying to flee the traffic stop but rather attempting to kill the ICE agent. Perhaps, but why should we believe an agency which describes a mom with the family dog in the backseat as a domestic terrorist?

A former head of ICE has pointed out that until recently the central mission of the agency was picking up migrants in the border deserts and that their training was not oriented towards interacting with citizens in metropolitan centers. He attributes their gunslinging to this mismatch of training and assignment. The implication, unfortunately, may be that they have been gunning down suspects for some time but previously they got away with it because there was no one to observe it.

3.3 When your popularity fades, redistrict!

Multiple polls report grave public dismay with the Republican party and foretell a classic shellacking at November's election. Apparently Republicans believe the polls as they are running around gerrymandering whatever in their states has not yet been gerrymandered. Governor De Santis of Florida was the most recent Republican governor to announce a sudden interest in cartography.

3.4 Make America Healthy Again

Kennedy's Department of Health continues to promote illness. After curtailing childhood vaccines it took down from its website advice that the public cap its alcohol consumption at two drinks per day. We presume the sudden discovery that motivated this change was the presence of liquor interests in the Republican party's donor base rather than new medical studies. We were heartened to think the public actually pays enough attention to recommendations on government websites that it was considered worth censoring them. The MAGA movement draws heavily from religious communities which encourage temperance. Trump himself is a well known abstainer from drink. The Kennedy family by contrast has had alcohol problems in its past. Presumably none of these issues matter when the issue is framed as one of keeping the Administration pro-donor (usually described as anti-woke.)

3.5 The Navy Flounders

The US Navy has been struggling to build the next generation of its surface fleet.

3.5.1 The Constellation Class



The *Constellation* was intended to be the first of a new class of frigate. The frigate is the smallest class of major warship. They are typically deployed in commerce protection/interdiction roles and as pickets to defend fleets from submarines. They would, for instance, be the first line of defense against China's armed merchantmen. Unfortunately design flaws and cost overruns have mounted and the US Navy has canceled the plan to build a class of such ships. While the US Navy currently has no frigates, the navies of our allies field several well regarded frigate designs. The idea of simply buying the frigates we need from them has been rejected however. Instead the current plan is to modify the design of an existing Coast Guard cutter.

3.5.2 The Zumwalt Class



A different ship - the Zumwalt - was intended to be the first of a new class of amphibious warfare vessels. As such it was loaded up with every cutting edge design idea. Enough of these proved to be a bad idea in practice that this class of ship also has been canceled. Currently there is no successor design to the Zumwalt.

3.5.3 The Arleigh Burke Class



The *Arleigh Burke* class of destroyers were first designed in the early 1980s. They have been progressively upgraded and, with about 80 currently afloat they are the second backbone of the fleet (along with the aircraft carriers.) The planned successor of the *Arleigh Burke* is known as the DDG(X). It is in design phase and is understood to be behind schedule.

3.5.4 The Ticonderoga Class



The *Ticonderoga* is a class of cruiser - the largest conventional (non-carrier) warship currently in the fleet. It was designed at the same time as the *Arleigh Burke* and it also is due for replacement. There are currently 6 active cruisers in the fleet and 10 in reserve out of a total class build of 27. However, four are to be retired this year. The Navy's plan is that a variant of the DDG(X) can serve as a Ticonderoga replacement.

3.5.5 The Ohio Class

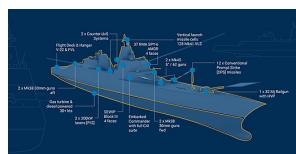


The *Ohio* is a class of nuclear powered submarine. It was initially designed as a ballistic missile submarine in the early 1970s. A treaty limiting strategic nuclear arms resulted in four of the class being converted to a cruise missile armament, in acronym terms from SSBM to SSGN. The class is small - just four boats - but incredibly potent with 154 missiles each. However they also are at the end of design life and a decision is needed. Currently the Navy does not intend to replace the *Ohio* as such. Instead it plans on a variant of its existing *Virginia* class attack submarine to be modified to the cruise missile role. These will have one-quarter the firepower of the *Ohio* class

and will cost B\$ 4 each. The *Columbia* class is planned to replace the *Ohio* in the ballistic missile (SSBN) role at a cost of about B\$ 10. To fully replace the existing capability with *Columbia* class boats would cost about B\$ 40, whereas replacing it with *Virginia* class boats would cost about B\$ 64. However when time to launch, benefits of redundancy and actual capacity need are considered the Navy's plan becomes more comprehensible. The current plan is for 10 submarines which will provide about 2/3rds of current capability at a cost of about B\$ 40.

An alternate idea has been to transfer the cruise missile role to a surface ship - the so called Arsenal ship. However, the vessel would be a large high value target largely limited to accompanying carriers. Accordingly the submarine has always seemed the more flexible solution at the end of the analysis.

3.5.6 The Defiant Class



There is some speculation that as its design evolves, the *Defiant* will morph into the Arsenal ship concept. This speculation is driven by the fact that a substantial part of its projected armament (rail guns and lasers) are still in research phase.

It has been recognized for about a century that surface warships are vulnerable to air attack. Larger ships are especially choice targets and the huge cost of building them ensures that the fleet never has very many of them. For that reason the direction of naval design has been towards submarines (hard to detect and thus less vulnerable), battle groups based on aircraft carriers (which provide air cover) or numerous smaller ships (e.g. frigates) which at a fleet level may provide the same punch as a single large ship while being less vulnerable to catastrophic loss. The *Defiant* is defying this teaching of history as well as the Chinese fleet.

3.6 The Bottom Line

What is clear is that the US Navy has gotten itself into serious trouble. Its core surface fleet is being retired from age, the fleet is already under supplied (perhaps by 200 ships according to some estimates), the replacement pipeline is broken and confidence in the Navy's ability to design warships is shaken. The apparent problem is that budgetary restrictions have forced too many objectives on to a single class of ship resulting in bloated designs which prove costly to build and complex to operate. A search for revolutionary progress instead of incremental progress also appears to be a problem. We regard the battleship concept as a way to do something splashy without really accomplishing much towards fixing the core problems. It is concerning to see things this aho in the Navy - particularly when a political rival is directly challenging the Navy in its core operation area (the Pacific.) Navies rise and fall on possession of an Admiral who can combine strategic vision with a deep knowledge of naval engineering and the ruthless determination to drive a building program over all opposition and distraction. Past exemplars of the type - one of the rarest type of military man - would be Admirals Fischer (RN) and Rickover (USN.) The US Navy needs to find such an Admiral - quickly.

From an investment perspective it is clear that once the Navy gets itself sorted out, the shipyards will be busy for many years basically rebuilding the fleet.

4 Domestic Economy

The economy appears stable and in the late stage of an economic cycle. The basic factors effecting employment are more workers retiring than entering the workforce, the number of entry level positions declining, caution in hiring at businesses. The result is that hiring is slowing, but unemployment overall is not rising while recent graduates report a disappointing job environment. AI has raised the productivity of software engineers considerably. Senior developers report gains on the order of 3x. This factor is constraining jobs in the sector even as the business opportunity expands. Similar productivity gains in slower growing sectors would lead to net job losses, but AI penetration of such sectors is likely to continue gradual overall outside of call center support operations (already mostly outsourced.) Disruption of trade, tariffs, exporting of foreign workers and massive government borrowing are all feeding inflation. So far the Federal Reserve has been just enough of a restraining influence that we have not seen an inflationary breakout. Trump, however, is keen to load the board up with supporters of soft money. He probably hopes they will stimulate the economy enough to produce favorable results for the Republican party

at the midterm.

5 Medical Technology

A team of British doctors has reported success in treating a previously incurable type of acute lymphoblastic leukemia (a blood cancer.) The specific disease is fortunately rare but the technique is most interesting. The doctors harvested T cells from a donor and modified them. The modifications caused the cells to attack cancer cells while ignoring normal cells. The modifications also made the T-cells resistant to the chemotherapy drugs the patient was relying on to control the cancer. Finally the cells were modified so they were not attacked themselves. Once the cell line was established the modified cells were injected into the patient. Over a period of about a month they killed off the patient's cancer cells and in the process destroyed the patient's immune system. A bone marrow transplant then rebuilt a healthy immune system. What is interesting about this report is that it may point to a general technique that could potentially be deployed against a broader class of cancers. In essence surgery is being taken down to the cellular level to cure a previously intractable disease.

6 The Year in Review

We pause for a moment to take in the year as a whole. Each of the world's main political actors: Russia, EU, China and US currently faces a major strategic issue. Over the course of the year each made some progress in dealing with its problems.

6.1 Russia

Russia is currently the sick man of Europe. Its economy is about the size of Texas while its population is five times bigger and its landmass is about 24 times larger. It is bordered on one side by China - the world's second power and on the other side by the EU which is simultaneously the world's third largest power and a powerful magnet for aspirations among part of the Russian people. A quick look at the fundamentals of power show that Russia is weak and overstretched on every measure.

Table 1: Density of Military Age Men For Select Countries

Country	GDP (T\$)	Land Mass (M sq miles)	Population (M men)	Density (men/sq mile)
US	29.18	3.8	23.5	6.2
China	19.4	3.7	83.8	22.6
EU	18.0	1.6	19.0	11.6
Russia	2.2	6.6	6.5	1.0

Note that the Russian population figure is the 2022 figure adjusted for war deaths and emigration.

Can the Kremlin's leadership hold the country together long term or will it instead be partitioned between the EU and China? Putin's survival plan was to restore Russian power by rebuilding its empire in Eastern Europe. However, his invasion of Ukraine miscarried and his agenda is bogged down in the mud of Ukraine while his country's strength seeps away. Rather than going in for the kill, the US is trying to rescue him by giving him a small victory in Ukraine. Europe is not happy about this but so far has not signed up to the effort required to give Putin the stinging defeat which might cause a reset of Russia's national policy. As a result we expect Russian pressure on Europe's eastern frontier to continue long term as Russia itself gradually sinks into the status of a Chinese client state. The more attractive strategy of a gradually deepening association with Europe which allowed European capital and manpower to help develop Russia's potential was tried but broke down, probably because it ultimately threatened the hold of Putin's coterie on power.

6.2 Europe

Europe faces multiple pressures. Besides the Russian threat, its economy is performing unevenly. As a result costs of living are high relative to earnings and Europeans are not having enough children to sustain themselves long term. Europe's model of pooled governance means it addresses structural problems only very slowly. The Russian pressure, however, is goading the Europeans into working better with one another. Of all the four regions, Europe is perhaps in the best relative shape currently.

6.3 China

China is working through a massive internal financial/economic problem. Ultimately this problem results from China having outgrown its earlier growth model. It is hard to track how well China is dealing with its internal problems. Indications are that China's leadership understands its problem and has a plan for fixing it. But how quickly they are succeeding is unclear. Meanwhile China has cultivated a hostile relationship with the Western powers. This appears driven by an odd combination of self-confidence and sense of vulnerability. Self-confidence says China should get its way more often. Vulnerability says China should project an image of strength to mask its internal issues. Really nothing threatens China and there is no reason they cannot overcome their internal issues and continue to prosper. Unfortunately Chinese progress is simply likely to make them a more difficult power for foreign nations to deal with.

6.4 US

In the US Trump dominates the headlines. He is a fundamentally weak president. He is not supported by the old guard of his party (about 20%). His party controls Congress by the narrowest of margins. On the Supreme Court, there are only two sure votes Trump can count on, although on specific issues his support can rise to 5 or 6. His cabinet is largely staffed with light weights. And the certainty of his retirement in three years due to age and term limits make him an inherent lame duck. However, Trump has made up for that weakness through a super high level of aggression, a willingness to break the political norms and deploy the massive powers of his office, and a loyal faction of supporters he can call on to intimidate fellow members of his party. Primarily Trump has relied on executive orders to impose his policies and create a momentum that hides his weakness.

Trump's declared goals are noble. He wants to rebuild the prosperity of the working class and deploy American power to further world peace. No one could object to the goals. But the measures he turns to: tariffs, deportations, dissolving long standing alliances, imperialism, defunding social support programs and scientific research programs are throw backs to the policies of the 1890s. These policies were abandoned in the past because they were found to not work. There is scant evidence that reviving them will accomplish anything useful. And for sure they will not do anything useful unless they are in place long term. But for none of his policies has Trump gone through the hard political work of building an enduring consensus for them. Their long term sustainability is very much in question. Particularly this is true in the area of green energy, where he diametrically reversed prior policy and

is pursuing an economically irrational goal. Trump's penchant for offending people and making gratuitous enemies weakens his ability to unify America behind national policies or to form more than transnational working relationships with foreign powers. In short Trump pursues noble goals with deeply flawed execution.

So the core problem the US faces is that the office of the Presidency has amassed so much power as to become a source of instability in the country's core policies. Primarily this is bad news for the US economy and for Americans. But the US's role as *de facto* guarantor of global stability also makes it a major problem for much of the rest of the world. While Congress can partially address the problem by reducing the President's emergency powers and the Supreme Court can modestly restrict his discretionary powers, only Constitutional reform can fully address the issues Trump's second Presidency has created. Constitutional reform being the slow moving process it is, we fear the US may be in for an extended and erosive period of policy instability and political infighting.

The economy has slowed markedly during the first year of Trump's Presidency. Policy instability is probably the major cause of that slowing, as the economy was on an improving trend at the end of the Biden administration. Government finances have also deteriorated in a serious degree as a result of policy choices and political infighting. Partially offsetting these sources of weakness, AI has moved ahead strongly. At home Trump has seriously disrupted biomedical research and has tried to halt the movement towards the green economy. However, these growth drivers remain active abroad.

7 Capital Markets

We make our normal review of the month's action. It was a very quiet month in the market. No asset class made an important move. The only notable return was oil which mounted a small rally in a falling market.

Last month we reported a Treasury operation to push down long rates. This month Trump announced that the mortgage pool operators (Fannie Mae, Ginnie Mae etc) would join the concert party in its effort to manipulate the market. The political motivation is to make home ownership more affordable by reducing mortgage interest rates. As a tool for promoting home ownership or stimulating the housing market this one does not strike us as particularly effective. Its main virtue appears to be the limited need for Congressional action.

Table 2: Market Performance to December 31, 2025

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	4.15%	1.96%
	...Large Cap Growth	rising	2.26%	0.23%
	...Large Cap Value	rising	2.79%	0.36%
	...Growth – Value	rising	-0.53%	-0.13%
	US Mid/Small Cap	rising	0.53%	0.03%
	Intl Developed	rising	3.09%	1.38%
	Intl Emerging	rising	2.45%	0.79%
Fixed Income	Treasury 3-7 year	flat	-0.13%	-0.18%
	Treasury 7-10 year	flat	-0.24%	-0.55%
	TIPS	flat	-1.18%	-0.53%
	Municipal	flat	0.58%	0.22%
	Investment Grade	flat	-1.07%	-0.60%
	Medium Grade	flat	-0.69%	0.20%
	Preferred	flat	-2.30%	1.01%
Commodity	REIT	flat	-3.16%	-0.35%
	Euro	rising	-0.38%	0.86%
	Gold	rising	13.02%	1.57%
	Crude Oil	falling	-2.44%	2.58%

7.1 The Markets in 2025

Results are more interesting when we put them in a year long perspective.

Table 3: Market Performance in 2025

Asset Group	Asset Class	12-month return
Equity	US Large Cap	18.41%
	...Large Cap Growth	21.40%
	...Large Cap Value	9.26%
	...Growth – Value	12.14%
	US Mid/Small Cap	6.45%
	Intl Developed	25.07%
	Intl Emerging	29.98%
Fixed Income	Treasury 3-7	3.28%
	Treasury 7-10 year	4.01%
	TIPS	2.55%
	Municipal	0.83%
	Investment Grade	3.19%
	Medium Grade	1.47%
	Preferred	-2.49%
Commodity	REIT	-1.31%
	Euro	13.59%
	Gold	60.57%
	Crude Oil	-22.03%

It was a great year to be a precious metal. Silver rose 253%, while platinum tagged along at 227%. Gold more sedately managed a 60% return. Copper by contrast only returned 32%, so the action was very much in precious metals specifically rather than metals generally. The enthusiasm for precious metals is almost certainly a vote against the dollar by the world's most conventional investors - central banks. By contrast, investment grade diamonds were basically flat in 2025. In general individual investors bid up both precious metals and diamonds when they are hedging fiat currency, whereas central banks have little interest in gem stones.

In equities the top performers were international, with both developed (+25%) and emerging strong (+30%). The close tracking to copper is perhaps a result of all three holding steady while dollar denominated assets were out of favor. In fact US Large cap growth was up 21% powered by expectations around AI. Large cap value stocks turned in less than half of that - 9% and the Middle/Small cap was

disappointing with a 6.45% gain. In fixed income assets basically paid their coupon with little change in yield curves available to power price changes.

It was another sad year for Oil - down 22%.

Foreign investors control a lot of capital and they do not like Trump. Dollar denominated assets may be in for a period of sustained underperformance.

8 Advice

The geopolitical situation sees an explicitly anti-American coalition working against our interests in an arc from Eastern Europe through the Mideast to Taiwan and Korea. In general Great Powers expand their zone of control until checked by physical boundaries or by the countervailing pressure from another Great Power. When both powers accept the common border it can be peaceful. More commonly, however, it sees pressure and border wars that continuously test the other side's commitment to the defense of the present border. Moving the border generally just relocates these testing conflicts rather than eliminating them. The US should expect to be continuously tested in this way. It can minimize the burden and aggravation by demonstrating a firm resolve to protect its defense perimeter. Currently that resolve is not clear to our adversaries.

The economic situation is disrupted by the new policy directions Trump has pushed through. Car companies for instance are taking multi-billion dollar write-downs as Trump diminishes the value of their investment in manufacturing electric vehicles. Offshore wind farms, another active investment area, have seen their licenses abruptly canceled. Trump intervenes erratically in strategic business decisions for many industries. Overall this creates an atmosphere of confusion and caution. The market can shrug off these factors for some time. But stagnation, if it deepens, is something which it cannot successfully ignore.

Overall our assessment remains cautious. Specifically we advise readers to

1. Approach investing with an emphasis on capital preservation rather than capital enhancement.
2. Maintain robust liquidity. Be prepared to commit some of that liquidity should a panic create a buying opportunity.
3. Emphasize high quality assets (those with clear pricing models and good retention of liquidity even in troubled markets.)
4. Ensure real assets can handle any likely economic downturn.

5. Once the core position has been fortified one may consider growth initiatives, but these should be kept very well diversified in terms of the growth drivers.

9 About Our Cover

Our cover exhibits the coat of arms of Greenland - azure, a polar bear rampant argent. Greenland is an autonomous division of the realm of Denmark. Juridically the realm embraces three such divisions: Denmark proper, Greenland and the Faeroe Islands. Greenland's arms are very similar to the arms of the Danish royal house. However in the royal arms the polar bear lifts his right paw, whereas in the arms of Greenland he lifts his left paw. The difference reflects an Inuit tradition that polar bears are "left handed."

The population of Greenland is about 56,000 people. The official language is Greenlandic - a member of the Inuit family of languages. Danish is the language of higher education as a consequence of a lack of resources in Greenlandic (textbooks, teachers, technical vocabulary.) Public administration is bilingual Greenlandic and Danish. The breakdown of the population is

Table 4: Language Competence in Greenland

Language	Numbers	Percentage
Monolingual		
...Greenlandic	39,200	70%
...Danish	8,400	15%
Bilingual	5,600	10%
Trilingual	2,800	5%

The bilingual speakers are all in the official languages of Greenlandic and Danish. Among those who speak three languages, English is the most common third language followed by French and German. Ethnically the country is overwhelmingly Inuit with a smaller population of Danish descent.

Approximately half the adult population is employed by the government which is heavily subsidized by the central government of Denmark. Fishing is the main private employer and largest export earner. Hydro power provides 70% of the electric power and is not yet fully developed. The interior of Greenland is covered by a massive ice sheet. Only coastal regions, amounting to less than 20% of the island, are free from permanent ice cover. The ice free land is about 170,000 square miles - modestly larger than Montana. However there are no roads connecting these coastal parcels.

All inter-regional transport is by sea or air. In the winter many sea connections are shut and air connections often disrupted. As a result Greenland is one of the most internally isolated regions in the world. Minor industries are agriculture, tourism and mining. Most mining activity is at the prospecting stage. Climate warming is causing some retreat of the ice sheet and opening up new land to prospecting activity. So far, however, no unique or highly valuable deposits have been discovered. Europe is Greenland's main trade partner - accounting for 60%-70% of trade, with China and Japan providing 22% and 5% respectively. Trade with the US is minimal, but the US maintains military facilities on the island. Formerly the US had a number of bases, but they were expensive to operate and served little purpose once the cold war ended. Currently the US operates a single base located at Thule at the northern tip of Greenland. The base is operated by the US Space Force with a population of about 700. It is officially known as the Pituffik Space Base. Its primary mission is operating radars to give early warning of an over the pole attack on the US. The GDP of Greenland is B\$ 3.326 resulting in a per capita income of \$58,500. About 20% of that GDP is the central government subsidy.

Trump has proposed that the US acquire Greenland - preferably by purchase but by conquest if necessary. Reasons put forward are 1. to keep it out of the hands of China or Russia 2. to enhance US security 3. to exploit mineral resources. None of these reasons make any sense. The US already has all the economic and military access it could desire. As a territory covered by NATO, Greenland is unlikely to be attacked by any outside power other than the United States. If acquired by the US, Greenland would be far below the population threshold for statehood. Its status would be similar to American Samoa or Guam - a far flung possession of no interest to Americans outside of a few military posted there. Meanwhile Trump's threats of military action create considerable tension between the US and Europe. Indeed, one must consider the bizarre scenario that the NATO treaty would be activated to protect against a US invasion. On Trump's part this seems to be one of his vanity projects as he attempts to write himself into the history of the country. Who originated the project is less clear. The only obvious beneficiary is Russia, and so one might suspect the handiwork of an agent of influence trying to create disharmony within NATO. But perhaps its just some venture capitalist looking for a profitable exit from a prospecting venture with marginal results.

There is probably no good reason for a change in Greenland's status. Home rule was granted in 1979. There is some hankering after full independence, but sacrificing the Danish subsidy would be costly and disruptive. As an independent nation Greenland would have a population comparable to the small nations of the Caribbean, but with much lower density. If Greenland were to join another nation

the culturally compatible choice would be Canada. Here fusion with Nunavut would create a polity embracing most of the Inuit world. But economic ties to Canada are currently minimal and Canada has little desire to acquire territory in need of subsidy. Closer association to the EU is probably the only change in status which makes much sense. Currently Greenland is not in the EU, but it is classified as one of the 13 overseas territories of the EU. Previously Greenland was fully incorporated in the EU, but with the granting of Home Rule it withdrew from full membership as it wished to control its fishery policy separate from the general EU fishery regime. However citizens of Greenland retain citizenship within the EU and can resettle freely within the EU. In 2024 polls showed 60% of the population favored fully rejoining the EU. There seems to be considerable resistance to the idea of becoming a US territory.

10 About Lloyd Tevis Investments, LLC

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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.