



Market Commentary

June 2025

Executive Summary

The Trump administration continues to strike out in every direction in an attempt to impose a radically new policy framework upon the US. So far its efforts suggest more “flailing about” than lasting reform, but the administration is still in its early days. Meanwhile other developments march along. Russia continues bogged down and bleeding, but determined to not admit that it has been checked. Green energy technologies continue to draw R&D funds for even long cycle projects, while notching up solid progress through deployment of current technologies. Our recommendation is that investors not withdraw from the capital markets, but that they engage with an emphasis on capital preservation and a careful assessment of risk and reward.

Domestic Politics

Trump attended the funeral of Pope Francis and then issued a meme of himself in the papal regalia. What an odd combination of respect and disrespect. Historically US Protestants, and in particular US Fundamentalists, were quite hostile to Catholicism. Within the Christian family Catholicism is distinguished by a pro-intellectual bent, a governmental organizational structure and a supranational orientation. Fundamentalism - with its more restricted view of the place of the intellectual life within the faith life, entrepreneurial organization and intensely local focus - is at the opposite end of the house. But mutually challenged by the rising tide of secularism and joined in opposition to abortion, Catholics and Fundamentalists pulled together to work for common purpose. With the abortion battle now partially won, it seems that this friendship of the trenches is fraying and old attitudes are reemerging. We could read Trump’s activities as the efforts of a savvy street politician to balance in this evolving situation. But maybe he simply thought the funeral was a gathering of powerful people he should be present at and he thought he looked good in white robes and a gold miter.

Qatar has offered Trump the gift of a Boeing 747 as his personal transport. Even among his supporters the gift is being greeted with raised eyebrows and muttering about open bribery. Qatar is probably wondering what all the brouhaha is about – there are many more discrete ways of bribing Trump. His family, for instance, is said to have seen their business dealings in the Middle East treble in volume since Trump was re-elected. The crypto-coins the President and First Lady have been issuing raise similar concerns.

Back in Washington the assault on the organs of national security appears to be gathering steam. A plan to cull flag officers is underway. Leading intelligence analysts have been cashiered for not supporting the administration’s line. National security staffers are being dismissed.

Equally troubling, trial balloons are going up about declaring martial law. This is couched in the obscurity of legal jargon “suspending the writ of *habeus corpus*.” Under the Constitution this step is permitted only in case of civil war and foreign invasion. To take this step in present circumstances would complete the move to an executive presidency government.

In one week Trump attacked the nation’s leading university (Harvard), company (Apple) and store (Walmart.) In doing so he sent a clear message that no one should consider themselves safe. This is an effective way of intimidating everyone else. Of course, people do not like being intimidated and powerful people particularly dislike it. Either this a masterly step forward in establishing the Trump autocracy, or it is another impolitic move in the crash and burn story of the Trump presidency. Opinions

differ. We favor the view it is just a random shakedown by an openly corrupt regime – not policy or strategy, but business as usual.

Biden has reemerged on the public stage. Democrats – feeling the heat for having abandoned him – have been out arguing the case for his senility. This fratricidal behavior looked even less attractive when it was revealed that Biden suffers from an aggressive cancer, which illness may have contributed to the picture of rapid aging which he exhibited at the end of his term of office. The insight here is that politicians who depart from ordinary standards of decency to engage in rabid partisanship may expose themselves to significant embarrassment when life hands out its inevitable surprises.

International Politics

A new pope was elected with the name of Leo XIV. He was born in the United States and is of Sicilian-Creole ancestry. However he has worked for many years in Peru as a missionary and holds dual US and Peruvian citizenship. He is thus very much a man of the New World. His college education was in mathematics and his clerical training culminated in a doctorate in canon law earned under the Dominicans. He comes out of the Augustinian tradition in the Church. This tradition strives to balance a commitment to the intellectual life with pastoral service and a communal life of personal simplicity. The tradition shares much in common with the previous pope's Jesuit tradition, but the Augustinian tradition is a notch closer to the Catholic mainstream. The new Pope served as the Prior General of the Augustinians for 12 years – an assignment which gave him a cross national perspective on a part of the Catholic Church. He then served for 9 years as Bishop of Chiclayo – a regional center in Peru. This assignment immersed him in the nuts and bolts workings of a very generic diocese within the Church. He was made a cardinal in 2023 and placed in charge of the department tasked with vetting candidates for promotion to Bishop. Thus he knows personally a cross section of the world's bishops. Pope Leo XIV is thus a well formed leader who will likely play a unifying role within a Church whose two previous leaders were well respected but seen as, to a degree, leading in personal directions.

Something of the Pope's likely focus is indicated by his choice of Leo as his regnal name. It harks back to Leo XIII (regnant 1878-1903.) That pope is remembered for developing Catholic social teaching. When offered it provided a middle way between the Social Darwinism of Liberalism and the Collectivism of Socialism. After World War 2 Western Europe turned to a Social Democracy which is closer to the Catholic teaching than the Liberalism, Fascism or Communism which had been the dominant political philosophies up until then. One key point of Catholic teaching is the principle of subsidiarity. This principle points out that society has many levels of organization from the family unit through the international order. It argues that problems should be resolved on the lowest level of organization which can deal effectively with the problem. It thus stands in contrast to Fascism or Communism which pushed all problems to the top level, or Liberalism which favored pushing problems to the bottom level. Another key principle was the relations of capital and labor where reciprocal obligations were emphasized as opposed to a focus on rights and entitlements. Overall the teaching is one which aimed for a humane and peaceful society as opposed to an exclusive focus on material progress. Besides Christian values, one also sees in the teaching a vast institutional experience with running a global organization. That these ideas should have captured the imagination of a generation weary of autocracy is unsurprising. That the next generation should become so secular minded as to forget the roots of their political commitments is surprising however. The new Pope may aspire to remind the world of those roots.

The Trump administration's negotiations with Iran are a combination of military feather ruffling and cheerful diplomatic communiques of progress achieved in closed door sessions. Feather ruffling took

the form of Iran demonstrating a new and improved missile which supposedly fixes issues with their ineffective spring missile campaigns. The US moved heavy bombers to Diego Garcia in response. A striking number of industrial facilities in Iran suffered accidents over a two day period in early May, which suggests either that Mossad does not take holidays or Iranian plant operators do. However the Iranian currency has gained nearly 20% in a month, so the market seems to favor some coming reduction in tensions.

The Trump administration announced a ceasefire with the Houthis. The US agreed to stop its air campaign against the Houthis. The Houthis agreed to continue their pause on attacks on shipping in the Red Sea which has been in effect since November. But they said they would continue attacking Israel and the US agreed this would not be a ceasefire violation. We do not see the US getting much more out of this than a headline and for that purpose it was willing to sell out its Israeli ally. If this is an indicator of what is to come, an equally vacuous “agreement” with Iran will emerge. Trump may announce victory and withdraw US forces from the region. The administration in our estimation is largely uninterested in the international world. Like Pontius Pilate it simply wants to wash its hands of distasteful conflicts it does not wish to take the trouble to understand.

The Damascus government is showing a combination of firmness, flexibility and practicality which leads us to think it will consolidate a unified Syrian state under a strong executive presidency based in the Sunni community and supported by Turkey. However, it also looks as if it will face a long term insurgency based in the Alawite community and backed by elements of the former Assad regime. Israel has been interfering militarily and is seeking to position itself as a protector of the Druze community, which is largely located along the border with Israel.

Israel has decided to crush Hamas. If Hamas does not release the hostages it is holding in short order, Israel intends to drive the Palestinians out of the ruins of Gaza City which it will occupy long term. Israel has cut off food supplies to the Palestinians for about a month and the situation in the strip is growing increasingly desperate.

Israel's food blockade is raising interesting questions in the law of war. Since time immemorial besiegers of hard points have cut supply lines. In World War I Britain blockaded Germany causing massive nationwide malnutrition. These were regarded as legitimate acts at the time. On the other hand pushing people in to concentration camps and not feeding them is the same as running a death camp. Here Israel is pushing the Palestinian population into refugee camps nominally run by third parties but is denying them supplies. Clearly this is somewhere in the middle between a frank death camp and legitimate siege warfare. So far the laws of war do not speak clearly to this situation. Probably in ten years time a ruling will come down from one of the international tribunals to clarify the situation. In the meantime friends of Israel will have to accept that its activities invite scrutiny, while enemies of Israel will have to accept that the customs of war are not entirely on their side in this controversy. It would be best if Israel moved to open concentration camps and ran them properly itself – accepting its humanitarian obligations to a powerless and desperate population.

Russia's campaign against Ukraine drags on. Russian casualties in April were estimated at 36,000. This amounts to 430,000 at an annualized rate. Each year approximately 480,000 Russian males fit for military service come of age. In other words, Russia is bleeding at the limit of its demographic capacity. Intent on expanding its military in the face of these losses, Russia is moving men out of the industrial workforce and in to the military. That necessitates importing labor from North Korea, China and Central Asia. Despite these measures, battlefield successes are limited. In April the Russians extended their zone of control by 83 square miles along a front that stretches for about 1000 miles.

As noted each year about 480,000 men age in to the pool of potential military recruits but about 700,000 age out of the pool. Russia, therefore, has a military potential which declines by about 200,000 each year from aging. Subtracting 400,000 casualties per year in addition leads to a declining military potential of about 600,000 per year. Russia's claim to be substantially expanding its military force in these circumstances seems doubtful.

As it demands increasing sacrifices from society, the Russian government is pressed to articulate an ideology to the country. The Tsars built an extensive empire by subjugating local peoples to Russian military and bureaucratic control. The Communists re-conceptualized this Empire as a voluntary union of soviets in which the symbolic presidency of a soviet was led by a local national but Moscow provided a discreet Russian adviser to actually control things. As such it bore some notional resemblance to the "native states" of the British Raj but with a good deal less local autonomy and a great deal more corruption. After 70 years of economic mismanagement by Moscow, the stronger local entities broke off as independent nations. The "new Russia" presents itself as a multicultural multinational democracy which practically is held together by the economic base of European Russia (Russia west of the Urals – the demographic center of the Russian ethnicity.) Russia's ultra-nationalists would see the state as the "Russian world" founded on the Russian Orthodox faith, language and culture. While the ultra-nationalists are a key constituency for Putin, their vision of Russian supremacy is at odds with the practical necessity of keeping a multicultural/multiethnic state running with critical financial and demographic support from Asians. The Kremlin's preferred vision is a Russia locked in conflict with its hereditary enemy "the West", as fighting off "encirclement" and as leading the world towards the blessings of "multipolarity." As a national narrative, this story hardly reaches Tolstoyian grip. Russia (still spanning 11 time zones) is surely the least encircled state on the planet. But as a repackaging of Cold War paranoia it is a workmanlike effort. With Russian politics moving in this direction, I think we can infer they have little interest in "doing business" with the West – at least until the next crop failure.

Meanwhile Ukraine continues to catch Russia flatfooted. Late breaking news reports that a daring raid deep behind front lines has destroyed a third of Russia's strategic air force.

Domestic Economy

Faced with pressure from Trump to resign as Chairman of the Federal Reserve, Powell gave the markets a policy speech. He assured them that he was not going anywhere, that he did not intend to raise rates if tariffs caused an upward blip in inflation and that he stood ready to stimulate the economy should tariffs slow the economy enough to cause mounting unemployment. We found it a rather dovish speech. But we were glad Powell did not plan on opening the spigots to wild monetary stimulus as Trump clearly would prefer.

We noted at the most recent auction of 10 year Treasury notes the Federal Reserve purchased 25% of the issue. We wonder if the motivation was to maintain a certain rate of quantitative tightening or if the motivation was to ensure an orderly auction after the market tumult of April. Incidentally foreign purchasers may have absorbed about half of the issuance. Uptake by domestic investors was unremarkable. Similarly the 20 year bond auction saw domestic investors take up only a third of the issue. To pay pensioners and soldiers the government has to sell its paper. If it had to rely primarily on domestic investors buying its paper, a major repricing of capital markets would need to occur. Recently Moody's cut the Treasury's credit rating from AAA to AA+. The AAA rating had been in place since 1917. The Treasury downgrade implies a downgrade of every other domestic issuer.

Reducing taxation of the portion of the population best able to pay is an *insane* response to this set of circumstances, but doing so is the *central* item in the Trump agenda.

Goldman-Sachs has estimated that inflation will rise to 4% per annum by year end. Thus they see tariffs as undoing all the inflation fighting efforts of the Federal Reserve over the 2022-2025 period. They point in particular to tariffs causing the substitution of cost efficient Chinese imports by more costly imports. This mechanism could, in fact, lead to sustained inflation and not just a one-time blip.

For the moment employment remains strong. The combination of increasing inflation and strong employment could potentially lead to a wage-price spiral. However, tariffs uncertainty has sufficiently paralyzed business decision making that the job market could be slowing – at least in effected sectors.

As always, economists remain two handed – able to identify possible scenarios but less certain which way the economy will move. What seems clear is that none of these scenarios point to an increase in general prosperity. The administration's policies are focused on redistributing a contracted opportunity in the short to medium term. The claim to be creating the conditions for enhanced long term prosperity cannot be evaluated until the policies are better defined.

A cautionary view was issued by Jamie Dimon. Referring to the possibility that tariff driven disruption would lead to a recession he noted “I think there have been 15 years of pretty happy-go-lucky credit, a lot of new credit players, different covenants, different leverage ratios, the leverage on top of leverage, things like that.” We have, in the past, been skeptical of some of Dimon's bearish assessments, but as head of JP Morgan Chase we think he is in a position to speak authoritatively about the tone of the credit market and we note his remarks with with due respect.

International Economy

The UK has negotiated trade deals with the US, India and the EU. An agreement with Japan is expected shortly. Primarily these deals are re-settings of its trade relationships after Brexit. The deals may help reinvigorate the UK economy which has been struggling to cope with Brexit.

Trump is eager to close trade deals. Some foreign countries have been quick to capitalize on that eagerness by crafting good headlines for the President while pocketing more substantial back ends for themselves. But core trading relationships remain up in the air. The market is understandably nervous. Announcement that the US and China had gotten their conversation back to planet earth after a brief excursion to lunar orbit was enough to lift the Dow Jones Industrial index by 1000 points in a day. But any substantive deal is likely many months in the future.

China announced that its annual emission of CO₂ had declined for the first time ever. This is a significant tipping point. In 1961 the world emitted 9.4 gigatons of CO₂ per year, while in 2023 that figure had risen to 37.8 gigatons. Of the total growth of 28.4 gigatons China accounted for 11.3 gigatons or 40% of the increase. Over the same period US emissions increased from 2.9 gigatons to 4.9 gigatons. So the US contributed 2 gigatons of increase, which is 7% of the total increase. China's wind and solar generation now accounts for 20% of the electric power production and it is growing rapidly. Its growth appears sufficient to supply all incremental increase in power demand and to begin to nibble at the installed base of largely coal fired generators. In addition a secular slowdown in the construction sector has reduced demand for steel and concrete. Both of those industries are massive CO₂ emitters. China's progress in controlling emissions has positioned it well in this key growth technology sector.

Fusion Energy

Commonwealth Energy Systems

Commonwealth Energy Systems is a start up fusion energy company capitalized with \$2 billion in private funding. They have a project under construction in Massachusetts termed SPARC and a project termed ARC in design phase for deployment in Virginia. SPARC is a technology demonstrator which aims to reach “ignition” in a deuterium-tritium plasma, while ARC is intended to provide grid connected power. The approach is based on the Tokamak design. Its distinguishing design feature is high magnetic fields produced by electromagnets built from high temperature superconductors.

The easiest way to take the measure of this project is to compare its design to the ITER facility under construction in France. Both are Tokamaks designed to reach ignition. Use of higher strength magnetic fields allows a more compact design which is cheaper and faster to build. But the less frontier design of ITER means it faces less technical risk. However, the longer construction time means greater risk of technological obsolescence and budget overrun.

project	SPARC	ITER
magnet field strength		
...toroidal (T)	20	12
...poloidal (T)	unknown	6
plasma volume (cubic meters)	20	840
Input heating power (MW)	25	300
thermal output (MW)	140	500
Q	11	10
cost (B\$)	2	45-65
estimated first plasma	2026	2034

Here Q is the ratio of fusion power created to heating power present in the plasma (not the power required to create that heating power.) It is the most basic figure of merit for the design. So far the best achieved Q is 1.3 in the JET Tokamak and 1.5 in the laser implosion design at the US National Ignition Facility.

If SPARC is successful the follow on ARC project is intended to deliver 400 MW of grid connected electrical power. Its physical footprint is described as similar to a “big box” retail outlet. Other than grid connections it should not have any limiting site needs. The capital cost of a similarly sized gas combined cycle power plant is about a half billion dollars. Lifetime fuel costs are comparable. Modular nuclear fission plants are estimated to cost ten times the gas fired plant initially. All three plants deliver continuous (base load) power. The gas and fission plants have much more restrictive siting requirements, however. Initially fusion looks to be cost competitive with fission for providing green base load energy. It does produce radioactive waste, mainly in the form of the reactor vessel and other components which are exposed to a high neutron flux. The half life of this waste is sufficiently short that it does not require waste to be disposed of in the deep geological depositories required for fission waste.

SPARC builds on a research program at MIT which commenced in 1976 and which has brought 4 experiments to power on in the 50 year program. A combination of technical and funding issues have controlled the rate of progress. One key technical challenge of the project is the magnet. In 2021 SPARC demonstrated a 20 Tesla prototype magnet based on yttrium barium copper oxide superconducting cable operating at 20 kelvins (liquid hydrogen temperatures.) Other challenges include - acceptable reaction vessel wall erosion behavior under high neutron and temperature fluxes

- acceptable means for removing waste product from the reaction vessel
- adequate stability in the magnetically confined plasma

The complexity of these issues means modeling and prototype work can carry one only so far.

Ultimately the experiment must be run at scale to see if the technical issues are fully understood.

Fusion research is notorious for surprises as projects scale up. These surprises take the form of both nonlinear behavior and new phenomena.

Fuse Energy Technologies

A different approach is taken by Fuse Energy Technology – a Montreal based start up with about \$52 million in funding and a different engineering and commercial approach. Their commercial approach is to proceed in stages to a working fusion power plant with each stage generating commercial by products that will fund the next stage. As a result the massive venture/government investment required by traditional R&D programs is avoided. This strategy is smart because lack of funding has been the primary obstacle to progress on fusion. The engineering approach is termed magnetic pinch confinement fusion. It is based on a technology demonstrator developed at Sandia Labs termed the Z machine. Like the National Ignition Facility at the Livermore Labs, the primary purpose of the Z Machine is nuclear weapons R&D in the absence of treaty limited testing of full weapon systems – the innocuously named “Stock Pile Management Program” tucked away inside the “National Nuclear Safety Administration” which made last months commentary for having been accidentally shut down by DOGE in its ignorance of government naming conventions. What the Z Machine does is generate a massive pulse of electricity which flows through a small metal capsule generating a massive magnetic field that compresses the capsule enough to cause the fusion fuel pellet inside to reach critical parameters of heat and density for fusion reactions to occur. This is the same idea as the National Ignition Facility, but it uses electrical currents and magnetic fields rather than lasers and radiation pressure to generate the compression of the fuel pellet. This is a good idea if your goal is a commercial power plant because high power lasers are currently monstrously inefficient at generating output from input. Electrical currents and magnetic fields present much less engineering challenge. So although the NIF is currently the Q leader, it may not be the best road to fusion power production.

Fuse’s technical road map is first to create pulsed high current electrical generators. These have multiple commercial applications. Next it intends to couple them to fusing fuel pellets to generate neutrons. Neutron sources also have commercial applications. The third step is to use the neutron source to irradiate a blanket of spent fuel from nuclear power plants. This induces fission reactions in the fuel which is useful for two purposes: first creation of thermal power to drive a steam plant for creating electricity and second to transmute waste product into less radioactive material that can be disposed of with less trouble. The final step is to increase the size of the fusion reactions and replace the fission fuel blanket with a blanket for breeding fusion fuel. Unlike other fusion projects, the challenges of this road map are mainly integrating/refining existing technologies rather than developing new technologies. However, like all pulsed designs there are substantially engineering challenges in creating components with the durability to sustain a fast cycle rate.

At this point good progress has been made on the pulsed current generator. The technology is a refinement of the Marx generator first invented in 1924. Banks of capacitors are charged in parallel from standard high voltage equipment. Fuse’s Titan current generator uses 75kV DC input to charge 80 nF capacitors. Multiple capacitor units are stacked into a cylindrical assembly. These are then discharged in series through spark gap switches. A six stage unit has demonstrated a 330 GW current pulse. The engineering refinements demonstrated in this first step were efficient synchronization of capacitor discharges and effective pulse shaping by controlling air pressure across the spark gap switches. Fuse’s design goal is a 14 stage unit capable of delivering a 1TW pulse into a 2 ohm

impedance matched load. Fuse plans on combining 16 such units in parallel to deliver a 12 MA current with power in excess of 15 TW to drive its pulsed fusion machine. The engineering challenges along this route to commercial power generation are straightforward – capacitors capable of millions of discharges over their lifetime, fast cycle times (one discharge per 10 seconds) and a cost efficient assembly line for TITAN units. Considerable R&D will be required, but technically it looks like an achievable program.

Sea Bed Mining

Trump has issued a license for sea bed mining in international waters. This is a slowly developing conflict of long standing. The United States along with a number of other seafaring nations devoted substantial effort in the 1970s to negotiating the UN Convention on the Law of the Sea (UNCLOS.) This international agreement codified a great deal of international customary law regarding maritime affairs. It established the regime of 200 mile exclusive economic zones offshore. And it made provision for mining the seabed beyond the 200 mile limit. Specifically it declared the seabed of the open ocean to be a global common and it established the International Seabed Authority to regulate and license its use. The treaty was opened for signature in the Reagan administration. The US decided not to adhere to the treaty despite having been a prominent player in the crafting of the treaty. Specifically the US objected to the proposed treatment of the seabed. To meet the objections of the US a supplemental protocol was negotiated. Both President's Clinton and Bush recommended that the US adhere to the modified treaty. But Republicans in the Senate refused to do so. Meanwhile essentially every other nation did so. The United States's opposition to China's appropriation of the South China Sea is based on UNCLOS – which puts the US in the odd position of claiming rights under a treaty it did not sign. From the Reagan administration to present the United States's position has been odd in that its objection is to a regulatory regime for a nonexistent activity. Deep sea bed mining has never reached the point of economic viability. A few proof of concept projects have been carried out. These have shown that seabed mining would be ecologically disastrous and quite unprofitable. But the US is eager to assert the right to invade a global common and exploit it for its own ends with no respect shown to anyone else. Naturally Trump cannot resist this opportunity to be offensive and so he has issued a license to a US company to proceed with a mining project in international waters. For the record – the last time Congress held hearings on the matter the heads of all six military services urged Congress to ratify the UNCLOS. As all the testifying officers had four stars, their presentation was dubbed the 24 star testimony. Trump's view is that the US has too many 4 star officers and he has ordered their numbers to be reduced. So we have another stupid unnecessary conflict with the rest of the world. We seem determined, in the face of keen competition from Russia, China and Iran, to win the title of world's biggest jerk.

Capital Markets

Equities recovered from their slide induced the previous month by the announcement of Trump's tariff policy (table 2 next page.) The order of advance well shows current relative strength in the sector: US Large Cap Growth (mostly big name tech stocks +9.43%), US Mid/Small cap (+5.56%), international developed (+4.79), international emerging (+4.02%), US Large Cap Value (+3.03%). The spread between growth and value in the US large cap group is notable at 6.4%. We think the strong performance of US Large Cap Growth represents bargain hunting by "buy-the-dip" investors impressed by the sharp sell off in this high beta group. The ranking of the other equity components reflects continuing concern about the tariffs and an effort to diversify equity exposures. The improved strength in Mid/Small cap and international emerging is notable in this respect. We have highlighted Mid/Small Cap previously as a more resilient sector in the face of trade wars. Emerging economies are, in terms of international trade, primarily supplier of raw materials. However Trump sets tariffs, they face relatively low risk of being displaced by domestic supplies. Eventually, in fact, one would expect the

Administration to awaken to the fact that there are no domestic suppliers of jute, palm oil, tin or hundreds of other products and to remove (no doubt quietly) the across the board tariffs on these goods. That expectation might be disappointed if it turns out the Administration's covert motivation is to pivot from income taxes to consumption taxes and protection of domestic industry is merely political cover for an otherwise unpalatable move. We will continue to watch the situation. In the meanwhile, it is comprehensible that the market is seeing increased relative strength in the emerging market sector.

Fixed income was weak across the board. This weakness reflects inflation concerns first and capital flight worries second. Medium grade credits and REITs are seen as potential beneficiaries of inflation, however, and so those groups limped along after US Large Cap Value. In the Commodity group the Euro and Gold inched ahead. Another, perhaps more informative, way to describe this is to say the dollar paused its decline. Oil, however, continued to fall as the markets look forward to decreasing world GDP growth in the short term and secular decline in demand over the mid/long term. If the US or Israel attacks Iran, however, oil could well spike up on fears of Iran blocking tanker traffic through the straits of Hormuz.

Table 2: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	falling	0.26%	6.13%
	...Large Cap Growth	falling	4.29%	9.43%
	...Large Cap Value	falling	-3.02%	3.03%
	...Growth – Value	outperform	7.31%	6.40%
	US Mid/Small Cap	falling	-0.96%	5.56%
	Intl Developed	rising	9.22%	4.79%
	Intl Emerging	rising	5.37%	4.02%
Fixed Income	Treasury 3-7 year	flat	0.55%	-1.01%
	Treasury 7-10 year	flat	-0.53%	-1.56%
	TIPS	flat	-0.65%	-1.11%
	Municipal	falling	-3.46%	-0.84%
	Investment Grade	falling	-1.40%	-0.19%
	Medium Grade	flat	-0.53%	1.23%
	Preferred	falling	-5.03%	0.17%
	REIT	falling	-2.24%	1.34%
Commodity	Euro	rising	9.72%	0.38%
	Gold	rising	15.78%	0.75%
	Crude Oil	falling	-15.66%	-2.69%

The President is reportedly distressed that traders have rechristened buying the dip as the TACO trade, where the acronym stands for “Trump Always Chickens Out.” This is no new discovery. Trump's lack of spine was amply demonstrated in his negotiations with the Taliban in his first administration. Far from being the powerful and effective deal maker of his image, Trump is actually an impetuous amateur who plunges in to complex situations unbriefed, bangs around for a while to no net purpose, loses interest, perceives threat to his image and withdraws with token gains he can hype having actually purchased those bragging rights with substantive concessions. The TACO trade blithely assumes this dynamic will have no long term consequences however. We are not so sanguine. Even an unlucky amateur may chance to push the wrong button and either crash the economy or stumble unprepared in to a major war. Indeed even experienced statesmen have been known to make such blunders.

Advice

Our basic assessment of the political process is that politicians rarely build prosperity but they often diminish it. We see the current administration as a combination of amateurs, opportunists and ideologues who are receiving intense on the job training, primarily in the limitations of US and presidential power. Apologists for the administration describe its chaos as a masterly move to create strategic uncertainty and extract maximum concessions for the United States from its counterparts. Perhaps, we will hope to be pleasantly surprised. But we are in the job of investing people's money and we will not shut our eyes to naked incompetence in every function other than rent collection.

We repeat our advice – the appropriate focus at the present time is capital preservation. The following steps should be taken:

1. Form and stick to a sound strategic plan for ones personal circumstances
2. Maintain broad diversification.
3. Emphasize asset quality.
4. Carry generous liquidity reserves.
5. If necessary, strengthen wobbly real asset positions.

Despite the temptations of in and out trading, it is better to wait for the return of an investment climate suitable for wealth creation. At the present time only higher return opportunities can justify increased exposure to the considerable systemic risks that exist. Select opportunities in venture capital, real assets, the green economy and listed firms able to exploit the opportunity for import substitution may present the combination of being micro-economically sound, robust against trade and capital market turmoil and with inherent high returns. Even so it is important to stay maximally diversified by source of return and to be mentally prepared for some rough sledding. In our experience substantial cash reserves are the best bolster for investor fortitude in rocky markets.

About the Cover

In these commentaries we have referred to the “fat lady” as a personification of the capital markets. The phrase originates from an obscure but beloved quotation from Yogi Bera, a storied American baseball player and coach. Who specifically Bera had in mind is unclear, but a reasonable assumption is that he was referring to the generic Wagnerian heroine. The demands Wagner's operas place upon his lead singers generally require well developed diaphragms and substantial reserves of stamina. Our cover features the redoubtable Birgit Nilsson in full song with the Stockholm orchestra in July 1963. While more svelte than some Wagnerians, her splendid career makes her the natural representative of her type. She debuted in 1946 and by 1953 had risen to international stardom. She continued to grace the leading Opera stages until 1984 – a career of 38 years. Many opera singers are fussily careful of their voices. Not so Nilsson, who would confidently tuck into a meal before going onstage. Such habits combined with the length of her career earned her the title of “The Indestructible.” Indeed she continued singing until age 64 and survived to the age of 87. A canny businesswoman, she negotiated top fees for her appearances not by the histrionics typical of many stars, but by a pleasantly disarming coyness and a sense of humor which could deflate the most redoubtable egos of her world. But it is, of course, for her voice, presented without aid of amplification, that she is remembered. Soaring above a Wagnerian orchestra in full stride, it electrified her audience with its unmatched upper register firmly in control of portraying the evening's role. Her Brunhilde of *Götterdämmerung* would bring down not just the house but the whole universe which Wagner had laboriously constructed over the twenty hours of his four opera cycle. As Bera said, “Its not over until the fat lady sings.”

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.