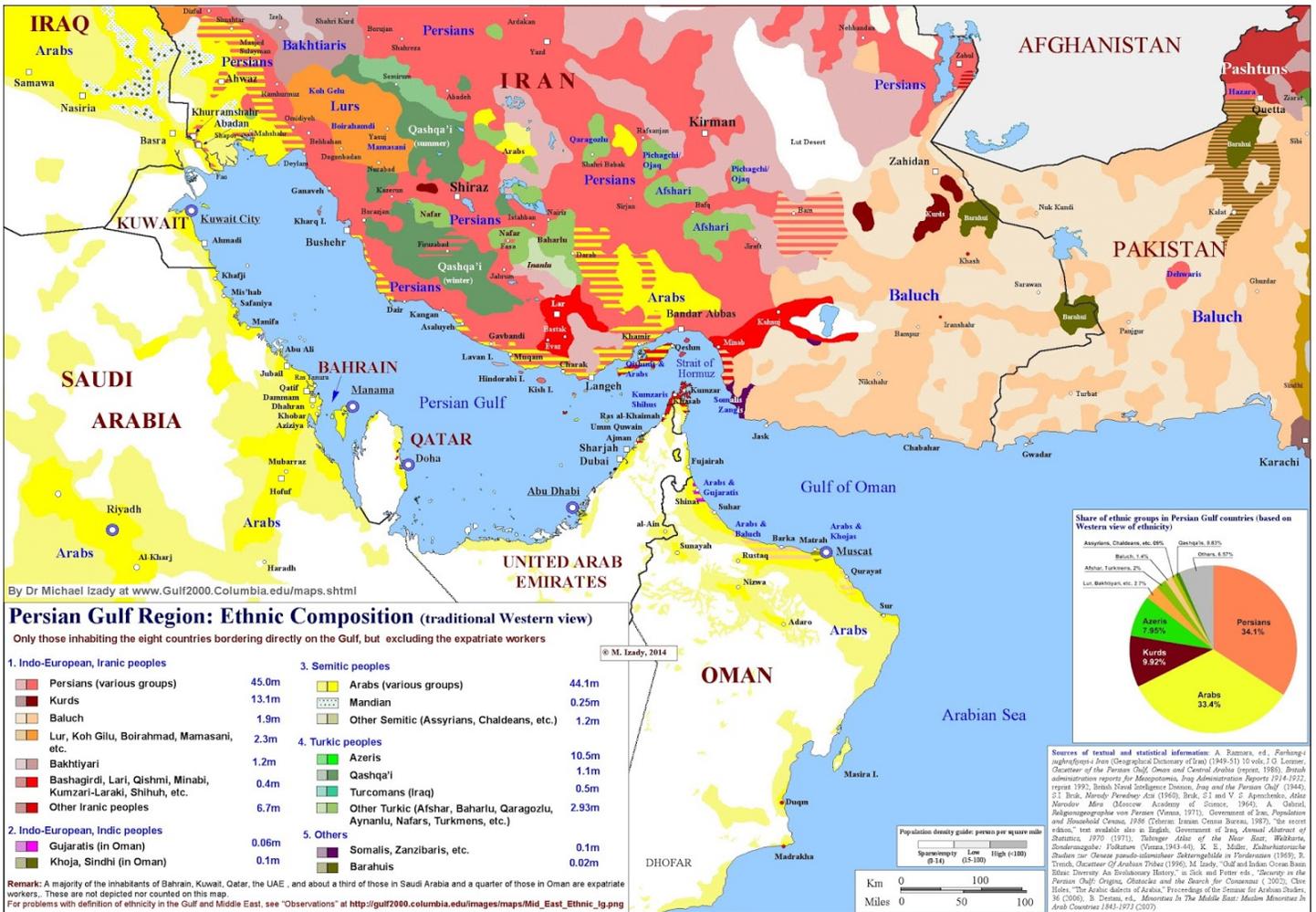




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The Market Commentary
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1 Executive Summary

Center stage this month was claimed by Geopolitics. Starting a war has pushed domestic politics off the front page and returned Trump to the spotlight as the strong man stirring world politics. Domestic politics, by contrast, would have presented a picture of mounting scandal and increasing flutterings of a lame duck administration. However, we find the geopolitics driven by its internal dynamic and not by an effort to escape domestic political difficulties. Trump is in a situation where success abroad may counterbalance growing weakness at home. But if the external situation moves adversely, he could find himself very exposed. Markets are volatile, but not unduly so given the level of turbulence. We think the expectation is the US will prevail to an adequate degree in its war with Iran and the *apres guerre* will be a positive environment for US companies. With positive war expectations baked in, even temporary setbacks could generate strong reactions, however. A different sort of risk is the war generates enough success to induce mission creep and entice the US into over commitment. The situation bears careful watching but requires no immediate adjustment of investment strategy. Our advice has been one of cautious engagement for months and it remains so.

2 Geopolitics

2.1 Starlink

Starlink is an orbital telecommunications network. The backbone of the network is provided by a constellation of small satellites in low earth orbit. Satellites weigh either 500 or 2500 pounds (on earth.) They orbit between 300 and 350 miles above the Earth. This close proximity to the surface means they can be communicated with using low power equipment and latency in the communication circuit is low. However, low earth orbits also imply a satellite only remains in sight (and thus contactable from an earth point) for a short period of time – about 20 minutes. Accordingly, sustained communications require earth stations to seamlessly switch between satellites. This is in contrast to traditional communication satellites which weigh about 10,000 pounds and orbit 22,000 miles above the earth where they co-rotate with the earth retaining a fixed position above the surface. Spacelink satellites are bright enough to be visible to the naked eye and the large number of them has

raised concerns about their trails polluting long exposure astronomical photographs. Currently the constellation has about 9,500 orbiting satellites with a build to a planned 12,500 underway. Further expansion to 34,000 is being considered.

The network is accessed from special Starlink ground terminals. These supply low power communication antennae and the software needed to maintain connectivity to the network. The network provides internet connectivity which includes voice and video links. The two primary users are mobile users (ships, airplanes, cars) and stationary users in remote areas not served by ground links. Terminal costs are low - \$300 for residential equipment and \$3000 for high performance commercial equipment. Connectivity charges range from \$50/month for metered usage to \$165/month for unlimited use.

Starlink is a wholly owned subsidiary of SpaceX which is a private company controlled by Elon Musk. In 2024 Starlink had revenues of \$2.7 billion and operated at about break-even. Payments to SpaceX for launch services are estimated at about \$10 billion cumulatively. Both Starlink's revenue and capital spend on launches are material components of SpaceX's finances.

Starlink has been much in the news of late because of its impact on both the Russo-Ukrainian war and the Iranian revolt. Russian forces were using bootleg Starlink terminals to provide their drones and ground forces with internet connectivity. In the case of drones these connections evaded Ukrainian radio jamming operations and facilitated accurate deep strike missions. At the beginning of February Starlink shut off this bootleg access. This action created some immediate relief for the Ukrainians from the drone offensive. It also degraded Russian command and control of its ground forces and relieved the Ukrainians of some pressure on that front. Ukraine estimates that it will take the Russian's about six months to stand up a replacement communication network.

Iranian protesters have been using Starlink to coordinate protests and to report on regime repressive actions. The Iranian government is conducting door-to-door searches in an effort to seize the Starlink equipment.

Internet connectivity is a powerful technology. It is a threat to autocratic regimes and a pot stirrer of democratic regimes. It has inherited much of the political power of press and broadcast media. The US, with its strong free speech commitment, is moving slowly on regulating this technology. As long as control rests in a few hands which can make "gentleman's agreements" formal regulation may be put off. Such was the situation with much of old media – which had just a few newspapers of record and TV stations. But if such arrangements break down, regulation will become almost inevitable.

Europe's communication net makes heavy use of an older technology - large satel-

lites in fixed geosynchronous orbit accessed via fixed high power ground stations. The feeds going to these satellites are vulnerable to interception and the Russians have orbited satellites to do exactly that. It looks as if this satellite infrastructure is going to need to be replaced before scheduled retirement date. That should be stimulative to the businesses which build and launch these satellites.

2.2 Russo-Ukrainian War

Russia continues to throw away lives in a Potemkin campaign. It dispatches small squads on infiltration missions tasked with raising flags and snapping pictures before fading back in the face of the inevitable counter-stroke. In this way the illusion of a broad frontal assault is painted on war maps. But nothing of much value is achieved. In the typical month part of the front moves forward about 1000 yards at a cost of 30,000 or more casualties. Sometimes that advance holds, and sometimes it is thrown back. No points of first rate importance changed hands in 2025.

It is unclear who is the author of this deception and who its intended audience is. It could be operational command painting a picture for high command. Or it could be high command painting a picture for the political authorities. Or it could be the political authorities painting a picture for Trump. Or it could be Trump trying to convince portions of his party that Ukraine is in trouble and that they should go along with his sell out of the country as being in Ukraine's best interest. We think it is all of the above – with each layer thinking it is the author of the bamboozlement and unaware of just how badly it is being misled by its subsidiary layer.

Ukraine is not sitting passively by waiting to be attacked. It has developed its own design of cruise missile - the flamingo. It is able to mass produce this missile in Ukraine rather than waiting for late and grudging supplies from abroad. And it has been sending its flamingos out in deep strike missions targeting the nerve centers of the Russian economy and military industrial complex. Russia faces the threat of being slowly and surgically picked to pieces. In the ground warfare Ukraine is careful to husband the lives of its soldiers and so it mostly sits on the defensive. But selective counter-attacks have been made when the opportunity presents itself. Recently the confusion in the Russian command induced by cutting off Starlink access has allowed Ukraine to recover territory equal to one or two months worth of Russian advance.

Russian frustration with this situation has mounted and it is roping Belarus into the war. In violation of Belarus neutrality, Russia has been mounting drone attacks either directly from Belarus or supporting them with communication links in Belarus. It is also practicing drone attacks on Poland. Its immediate objective here is preparing for strikes against logistical supply lines into Ukraine. But Russia also

realizes that its long term plans will inevitably result in war with NATO at some point, and it is preparing for that day.

The US has been trying to mediate a settlement between the warring parties, but its negotiators report Russia remains obdurate. In fact a stalemated conflict serves certain interests. For the Chinese it keeps the Russians dependent and forced to sell oil at a discount. For North Korea it provides much needed employment. For the Europeans it keeps Russia weak and only able to make token aggressive moves towards it. As long as Ukraine can hold out, Europe benefits from stalemate. Even for Putin, keeping the forces in the field is better than bringing this dangerous and troubled element home.

President Chirac of France and Chancellor Merkel of Germany long believed that through trade and engagement Russia could be drawn into peaceful coexistence with Europe. This belief was a fantasy and it has led to Russian troops present in Belarus, Ukraine, Moldavia, Armenia and Georgia. Far from being a good citizen, Russian assassination and sabotage squads roam over Europe. Russia's leader openly and repeatedly declares his intent to rebuild the Soviet empire through a generation long aggressive war. Yet Trump appears still caught up in the Chirac-Merkel fantasy of mutually beneficial trade pacifying Russia. A ceasefire in the Ukraine along present lines of control - the only arrangement both parties might plausibly agree to - is no settlement at all of Europe's relationship with Russia. And a rebuilt Soviet empire is not something the US can be indifferent to.

2.3 Iran

The death count from the recent revolt has risen to 36,000 according to the White House (up 50% from previous reports.) Rumor reports the extrajudicial killing of several thousand imprisoned protesters in Iran. Several hundred protesters appear to be on trial and at risk of execution. Trump has indicated this is a red line for him. The US and Iran held talks. The diplomats agreed to not acknowledge that the talks had failed. After some further palaver, the United States and Israel attacked Iran.

Israel concentrated on decapitation raids aimed at senior leadership. They quickly succeeded in killing the Head of State the Ayatollah Ali Khamenei. He occupied the position of Supreme Leader for 37 years, having previously served as President for 8 years. As such he was the principal architect of Iran's confrontational foreign policy and nuclear weapon program. He probably knew he would not survive the current war, but at age 86 he likely preferred to go out unbowed rather than yield to American coercion. In fact, there have been indications for the past two years that Khamenei was losing his grip on the situation and that he was seeking a peaceful

power transition rather than a war. This war is very much one of three old men each exceptionally stubborn in his own way: Khamenei (86), Trump (79) and Netanyahu (76.) Israeli intelligence appears to have thoroughly penetrated Iran. Netanyahu was apparently holding a photo of Khamenei's corpse within minutes of its being dug out of the wreckage of his office. Besides Khamenei, some 47 other senior leaders have been killed, including the defense minister, the heads of both the regular military and the Iranian Revolutionary Guard Corps (IRGC) and one of the two intelligence heads. At this point Ali Larijani is apparently still alive. As Head of the Defense Council he has been running matters day to day for several months and he was the principal architect of the bloody suppression of the protests carried out a month ago. Power in Iran is dispersed through multiple institutions and offices. Most offices have well defined succession plans. The regime is unlikely to collapse before several hundred of its senior leadership are taken out.

The US and Israeli are reported to be flying about 1000 air missions over Iran per day. In two days of conflict the US has lost three planes to friendly fire, but none to enemy action. So it would appear Iran's air defenses are nearly wiped out. In that circumstance it is a matter of time for Iran's adversaries to systematically dismantle its military and internal security establishment. The US appears to be concentrating most of its attention on Iran's ballistic missile capability. On the theory of use them before you lose them, Iran has been firing off its missiles. In fact nine separate countries have been targeted by Iran. So far only a few missiles have succeeded in penetrating air defenses to cause human loss. However, Iran is not making any friends in neighboring countries with its largess.

Iran has also announced that it is closing the Straits of Hormuz at the mouth of the Persian Gulf. This waterway is divided down the middle between the Iranian territorial waters and the territorial waters of the Arab states. At its narrowest the strait is 26 miles wide. However the shipping lane is only six miles wide - each of the inbound and outbound lanes is two miles wide and there is a two mile buffer between them. The shipping lane follows the deep water and in the Straits proper it lies entirely in Omani territorial waters. In the approach to the strait the channel would continue in Arab territorial waters except that Iran has occupied and fortified the small island of Abu Musa as well as two lesser islets that between them straddle the shipping lane.

Iran's naval forces are divided into the regular navy and the IRGC navy. Iran's regular navy has one Russian Kilo class submarine in service and two in refit. It has a 527 ton displacement submarine that acts as a drone carrier and about 20 midget submarines (100 ton displacement.) These are probably its most survivable forces, but as diesel boats they are all vulnerable when they surface or return to port. It has

6 Frigates (1,500 ton displacement), 3 Corvettes (539 tons) and 15 fast attack craft (234 ton displacement.) There are also 6 old patrol boats (100 tons displacement.) There are a number of amphibious ships and auxiliaries (freighters, oilers etc.) The navy is considered competent and experienced, but without air cover the surface fleet is living on borrowed time. Trump reported that 9 ships of unspecified type had been sunk on the first day and the primary port facility partly destroyed. The IRGC also has considerable forces. It has a 42,000 ton freighter which it has converted to a drone carrier role. In addition there are 4 large catamaran corvettes (600 tons) and one small catamaran corvette (300 tons.) There are 11 fast attack craft of 200 tons, There is also an extensive fleet of two man crewed speedboats (under 20 tons displacement.) The precise number is unknown but 3,000 is considered a reasonable estimate. The IRGC also has some amphibious and auxiliary ships, but not so many as the regular navy. Initially these forces give Iran the capacity to close the Straits of Hormuz and to render the coastal waters of Iran dangerous for US Navy warships to operate it. We estimate US naval aviation will be busy for about a week sinking Iran's two navies. Only fast speedboats and perhaps midget submarines which can operate out of hidden facilities along small inlets to the Gulf are likely to survive. These could harass shipping, but once the surface fleet is sunk US Navy warships can probably enter the narrow waters to suppress this threat as well. A marine expeditionary force might also be deployed to seize Abu Musa and adjacent islets. The Houthis had some success harassing shipping transiting the Bab el Mandab with land based missiles and drones. The Iranians could attempt the same, but again with the US naval air force flying unrestricted suppression missions that nuisance will probably be reduced after some time.

Of more concern is mine warfare. These words make people think of thousands of floating contact mines choking the narrow waters of the Gulf. That picture is unlikely to come about. Currents in the southern half of the Gulf flow in the through the surface waters of the straits of Hormuz and either sweep towards the Iranian shore or move parallel to the shipping lane. The return flow is in the deep currents. High density mine fields require large platforms (ship or aircraft) from which the mines are dispersed. Those platforms themselves have low survivability at present. The Northern Gulf is something of a stagnant pool and was extensively mined during the Iraq war. That experience is part of what feeds the current concern about mines. But the hydrography of the Southern Gulf is distinctive. Also that experience gave the US Navy thirty years advance notice that they had to prepare for this type of conflict. We would assume they have mapped the hydrography of the Gulf in detail, installed underwater pickets, prepositioned equipment and otherwise prepared to counter Iranian moves. While the mass mine attack is probably not a concern, what

would be a concern is pin point attacks by advanced technology mines. These can be delivered covertly by Iran's midget submarines, move under their own power to the target area and lie in wait until onboard sensors detect the signature of a specific target vessel. The sound, pressure and magnetic signature of a tanker is, for instance, completely different from that of a freighter or warship. Deploying such mines is probably a better use of mini submarines than torpedo attack on surface vessels which would likely prove suicide missions of limited utility. However, just as technology has enhanced mines for attack, so too has it created underwater drones to hunt for such weapons. In fact drones have largely retired divers and dolphins from this high risk mission. There is no recent conflict to inform us as to whether technology currently favors attacker or defender. This conflict promises important learning experiences. Initially we think the Iranians can achieve some successes. But minisubs have endurance of just a week, after which they need resupply and must return to either port or tender vessels. At this point they are very vulnerable to destruction. All-in-all we think it unlikely Iran can keep the Gulf closed to oil exports for more than a month. Much has been made of commercial insurers lifting coverage for the Gulf. But the US has written war risk insurance since 1914 and many oil shippers choose to self insure anyway. This is not the industry's first war.

The US has stated its goal to be destruction of Iran's strategic military resources (nuclear, missile and naval.) It has also promised Iranians that it will erode the regime's grip on power and it has invited them to seize control of the government at the end of hostilities. The Iranian and US governments have been locked in an unchanging hostile relationship for forty-seven years. This war has been long in coming and is a surprise to no one. US pacifists have been out protesting of course. This puts them in the position of defending a singularly bloody minded and tyrannical regime. And most likely they are on the losing side of what should be a convincing US victory. We think the protesters unlikely to gain traction with the general public. Trump did almost no work to prepare the public for this war, but with Iran having invested 47 years effort in confronting the US no work was needed.

In a stunning departure from the "special relationship" the UK initially indicated that its airbases in the UK and in the Indian Ocean would not be available to the US for action against Iran. The UK has been engaged in air defense missions in the region, however, so it is engaged in some burden sharing. Iran's indiscriminate attacks on the Gulf states have since tipped the UK and European powers towards a more supportive role. China has dispatched a surveillance vessel and destroyer escort to the Persian Gulf. It will have a ringside seat from which to observe how the US conducts operations. It is sharing targeting information with Iran, but Iran apparently lacks the missiles required to hit mobile naval targets. Concern that Iran-

Chinese collaboration could hold US carriers at risk are likely overdone. China has stated an interest in Iran maintaining an independence from the Western alliance. China sees Iran as valuable both as a source of oil and as an important way point on overland trade routes. The US, however, exhibits no interest in taking over the country or in engaging in these areas of concern. The price of gold has advanced to new highs.

Hezbollah made a modest military demonstration against Israel to protest Khamenei's killing. Israel has taken this as an invitation to renew its attack on Hezbollah - something it has been itching to do for three months. So far Hamas has stuck to the Gaza ceasefire. The Houthis also are quiet for the moment. Their previous anti-shipping campaign was dependent on an Iranian reconnaissance vessel supplying targeting data. It is not clear how they could replace that asset or how effectively they can proceed without it.

2.4 China

China is building nuclear submarines – both attack boats and strategic missile boats – at three times the US rate. The US is floundering with its program and so China may succeed in establishing local dominance in Asian waters within a few years despite the US Navy's substantial head start in boats. This is a most serious failing on the part of the United States.

We present a comparison of the two forces (figure 1 next page.)

Here types ending in N are nuclear propulsion and are designed for blue water missions. The SS type is diesel-electric propulsion and is mainly used in green water (near coastal defense) roles. The SSN is the fast attack submarine intended for open water dominance. The SSBN is the ballistic missile submarine which constitutes part of the strategic nuclear triad. The SSGN is a conversion of the SSBN to deploy cruise missiles. For its launch date we give the initial date the hull was launched and then the conversion date. Its primary role is land attack. Class names for USN are based on the first boat in class. Class names and type numbers for Chinese boats are based on Chinese dynasties and are unofficial names assigned by western navies. Tonnage is the submerged displacement. Design dates for Chinese vessels are not known and were arbitrarily set 4 years before first launch. The Kilo class boats were purchased by China from Russia. The USN fields a small number of large ship classes reflecting technological maturity. PLAN fields more but smaller classes reflecting its ongoing ascent of the technology learning curve. In general higher tonnage boats have greater capability. But among two fleets with equal total tonnage, the one with more units will have greater resilience in the face of battle losses. The PLAN appears to have

Figure 1: US and Chinese Submarine Forces

Navy	Type	Class	Tonnage	Designed	Launched	Active	
USN	SSN	Los Angeles	6,927	1972	1972-1996	24	
		Sea Wolf	9,138	1983	1989-2005	3	
		Virginia	8,700	2000	2004-present	24	
	SSGN	Ohio	18,750	1994	(1981) 2002-2008	4	
		total	402,462			55	
	SSBN	Ohio	18,750	1976	1981-1997	14	
	total		262,500			14	
	PLAN	SSN	Han (091)	5600	1968?	1970-1990	3
			Shang (093)	6,675	2000	2006-present	6
			total	40,050			9
SS		Ming (035)	2m,100	1970	2000-present	5	
		Kilo	2,350	1976	1995-2006	12	
		Song (039)	2,250	1994	1999-2006	13	
		Yuan (039)	3,600	2002	2006-present	21	
		total	143,550			51	
All attack		total	183,600			60	
SSBN		Xia (092)	8,000	1978	1981	1?	
	Jin (094)	8,000	2005?	2007	6		
	Tang (096)	20,000	2000?	2026?	1		
	total	70,000			7		

decommissioned its sole Xia class boat which most likely was a prototype for the Jin class. The Tang class may still be in sea trials and not yet commissioned to regular service. The PLAN appears close to launching a 9,000 ton SSGN, but is probably two years from commissioning it to regular service.

At first blush the USN appears comfortably ahead of the PLAN - particularly in modern high capability boats. But it is also important to understand the tasking of the two forces. Of the US Navy's fast attack boats 22 are assigned as escorts for carrier battle groups. After subtracting these and the 4 SSGN that leaves 29 boats. Divided between Atlantic and Pacific, there are about 14 boats available for detached service in the Indo-Pacific. In peacetime boats spend 75% of their time in home port, so the active presence at any one time is 4 boats. That presence could rise to about 10-12 boats when the force is on alert. The PLAN on alert status probably can maintain a deployed force of 7 SSN and 5 SSBN at present. The primary mission of the US boats would be to counter the Chinese SSN and to shadow the SSBN. For these tasks approximately 12 boats would be required, so the US submarine force is barely adequate at present. To maintain 2:1 dominance it would have to reposition nearly its entire Atlantic force. Even so the PLAN's substantial force of 60 diesel-electric attack boats would need to be contained. For that mission the US relies on its allies.

In fact, there are significant other submarine forces in the Indo-Pacific to complicate the calculations of military planners (figure 2 next page.)

Not shown in this table are obsolete designs retained in service for training purposes. Most navy's have one or two such boats. North Korea has an additional capability of 20 coastal defense boats and 40 minisubs for clandestine operations. Numbers in brackets indicate announced changes in capability (as opposed to routine replacement of boats at end of life.) Australia is making a forceful switch from SS to SSN designs as its SS boats approach end of life. We show two brackets for Australia. The first is purchase of Virginia class boats from the US. The second is a planned new SSN design to be jointly built by US-UK-Australia at a later date. North Korea is currently supplying 70% of the artillery ammunition Russia uses in its war with Ukraine. In return Russia is transferring blueprints and components for an SSBN to North Korea. Currently North Korea operates two limited capability diesel boats armed with nuclear ballistic missiles. On paper at least this will be a significant upgrade of North Korea's nuclear deterrence capability. Finally Taiwan is planning a significant expansion/modernization of its diesel submarine force to counter the threat of a Chinese naval blockade. Whether these plans get fully executed is however uncertain given both internal opposition from the KMT and skepticism on the part of US about value for money.

Figure 2: Other Submarine Fleets In Asian Waters

Alignment	Country	SSBN	SSB	SSN	SS
Friendly	S. Korea	0	0	[1]	21
	Japan	0	0	0	22
	Philippines	0	0	0	[2]
	Taiwan	0	0	0	2+[8]
	Indonesia	0	0	0	4
	Australia	0	0	[3]+[5]	6
	Singapore	0	0	0	8
	Malaysia	0	0	0	2
	total		0	0	[4]+[5]
Adversary	Russia - pacific fleet	5	0	11	7
	N. Korea	[1]	2	0	20
	total	5+[1]	2	11	27
Neutral	India	3	0	0	16
	Vietnam	0	0	0	6
	total	3	0	0	22
All	Grand Total	8+[1]	2	11+[4]+[5]	113+[10]

If we throw the full force of friendlies into the scale and assume the adversaries sit quiet, then rough parity with the PLAN is restored. Also the US has a substantial anti-submarine capability that rests on helicopters and surface ships and not just on submarines. Even so it appears we are talking about adequacy and parity rather than sea control and predominance. The effort to stand up an Australian SSN force will ease some of the strain on the USN. And Taiwan's efforts - if implemented - would help keep up with rapid expansion of the PLAN.

Some of the US Navy's current difficulties are self imposed. It could increase SSN availability by going to a dual crew structure as it does for its SSBNs. In addition its naval dockyards are short about 35,000 workers which leads to a 50% increase in overhaul time resulting in lower boat availability. Finally it currently takes about 9 years to build a boat and the US relies on a sole contractor. These are solely issues of money. It is evident that a 20 year focus on counter-terrorism and joint operations has led to some neglect of core naval capability. This was an understandable emphasis when the Russian navy was rusting away at the pier and China was a friendly power. But for at least 5 years now it has been clear we are in a great power confrontation with the China-Russia block and continuing evidence of naval neglect is concerning. With drones posing an emerging threat to surface vessels, we think submarines will be an increasing point of emphasis for all navies. The Europeans have significant submarine merchant operations. The US does not, but historically it has sold older vessels to allies as it modernized itself. Probably some such shuffling of assets between navies will occur in the Indo-Pacific as strong modern fleets, such as Japan and South Korea, dispose of older assets to emergent fleet operators such as the Philippines. Technologically, batteries are rapidly improving. In non-nuclear propulsion the current state of the art is air independent propulsion (AIP.) Several technologies provide AIP, including fuel cells and diesel fed off oxygen stores carried in cryogenic form. Batteries may retire AIP from the lower endurance/lower power mission space however (e.g. coastal defense.)

2.5 Venezuela and Cuba

Although the former regime remains in power in Venezuela, it appears to be embracing reform and willing to move forward in a collaborative manner with the US. Cuba, by contrast, is under active US embargo and appears to be slipping towards chaos. Getting rid of the current regime has been a US objective for most of a lifetime. We suspect the days of the regime in Havana are indeed finally coming to a close.

Overall you could say the US is clearing the board of minor adversaries. In the event of conflict with China, China must assume it will face a unified United States

force undistracted by conflicts in secondary theaters. Going forward it is likely the Middle East will be dominated by Israel and the United States's Arab allies rather than remaining contested between two blocks.

2.6 Gaza

Trump's "Board of Peace" met. This is the board of senior diplomats which is to have oversight over the board of technocrats administering Gaza. It is made up of mostly regional countries and a sprinkling of less important powers which found it opportune to join. The Board has been boycotted by the Europeans who feel its role should be located within the UN apparatus. News coverage unflatteringly described the Board as a Trump ego trip. It may, however, prove more consequential than that description and we are adopting a "wait-and-see" attitude.

2.7 Marco Rubio

The Secretary of State Marc Rubio attended a security conference in Munich. He was not as insulting as Vice President Vance had been the prior year. But he chose to hector the Europeans over their supposed lack of pride in their civilization, their too generous immigration policies for Middle Easterners (whom Rubio assumed to be Muslim when in fact most are Christians fleeing Muslim misgovernment) and the European commitment to green energy. For the nation's senior diplomat it was a strikingly undiplomatic speech. Actually there is a shadow race between Vance and Rubio for the post Trump leadership of MAGA. Apparently contesting who can be ruder to Europeans is part of this rivalry. Trump sidelines both Vance and Rubio, denying both any real power, so giving obnoxious speeches is pretty much all either man can do to attract press coverage.

3 Domestic Politics

3.1 The Supreme Court

By a 6-3 vote the Supreme Court struck down Trump's signature tariff policy. The dissenters were Thomas, Alito and Kavanaugh. On this occasion Gorsuch broke from Thomas and Alito, the justices with whom he often agrees, to join with the Chief. The three traditionalists (Sotomayor, Kagan and Jackson) and Barrett supported the Chief's decision but not his reasoning. It was admitted on all sides that the Constitution confers authority over tariffs to Congress. But Trump claimed that

in an emergency powers act Congress had delegated to him the power to set tariffs. The Act actually said nothing about tariffs, but it did give the President power to regulate foreign trade. The Administration found in this an implicit grant of power to levy tariffs. The Chief demurred on the basis of the major questions doctrine which he has previously articulated in a number of cases. Notably it was deployed several times during the Biden administration to reverse measures Biden had taken in response to the epidemic. The doctrine applies to situations where Congress has in a law said something which could be read to grant the President the authority he seeks but the law does not explicitly grant it. The doctrine says that if the issue is a “major question” (a loosely defined term) the grant of authority must be explicit and clearly a grant which Congress intended to make. As Gorsuch explains in a concurring opinion the purpose of this doctrine is to protect Congress from accidentally giving away powers which it may find impossible to recover. As a hypothetical Gorsuch points to how an act to correct an unintentional gift of power might be vetoed by the President. Indeed there is a strand of jurisprudence we have seen over the past few years in which the Justices seem to regard Congress as their idiot child who must be protected from an aggressive Presidency. In this case the language of the Act in question would meet the Chief’s test for being a major question and the conclusion that Trump was not authorized to set tariffs followed easily.

The four Justices who supported the Chief’s decision but not his reasoning were clearly reluctant to endorse the major questions doctrine. According to them ordinary long established canons of judicial construction were sufficient to reach the conclusion. Interestingly, the three dissenters did not disagree with the major questions doctrine. Rather they discovered new exceptions which would have to be made to it. In his opinion concurring with the Chief, Gorsuch chided the seven. He claimed the four had accepted the doctrine in substance and were merely demurring in name. To the three, he tasked them with reasoning from desired result to principles rather than from principles to result in a betrayal of their earlier jurisprudence. We could not say whether Gorsuch left the major questions doctrine better established than before, or if he merely illuminated its current weakness and the suspicion of political pliability which overshadows it.

The decision renewed our hope that the court will strike down Trump’s other signature move - the attempt to abolish birth right citizenship. This right is founded on clear and explicit Constitutional text consistently interpreted for 150 years. While the Justices choice to protect their idiot child is somewhat voluntary, they have no choice in their duty to protect the Constitution which is the Holy Writ of the legal system and fount of all the Justice’s power. We would hope that the delay in issuing

this decision is due not to a closely split Court but rather because the Justices have set their clerks toiling over the law rolls of the early Henry's and Edward's in deference to the historical method currently in vogue at the Court.

Trump was irritated by the Justice's opinion. His response was to reimpose the tariffs in reliance on powers granted in a different act. Under this act the tariffs last for just 155 days unless extended by Congress. Politically tariffs have been a millstone around Republicans' necks and a challenge for those facing re-election in purple districts. There were smiles of relief in the corridors of Congress when the Court's decision was announced. It may be short lived, however, if the White House puts on a full court press for Congress to vote a tariff extension.

Analysts noted the worsening of Federal finances from cancellation of the tariff and the complexity of returning the improperly collected taxes. Indeed we think there is a substantive issue lurking in all this. Currently the Federal Income tax is paid by only half the population. The top 20% pays about half the tax. That narrow tax base must carry both heavy military and social expenditure. We think the income tax will have to be supplemented with a consumption tax which taps a larger tax base. We would not be surprised if someday what emerges is a grand political bargain in which the right agrees to universal health care and the left agrees to finance it through a national value added tax.

3.2 The Endless Scandal

The nature of the Epstein affair is becoming clearer. Epstein was a vigorous networker aggressively pursuing any name which could add luster to his network. The vast majority of the released documents are either routine communications with staff or anodyne social back and forth generated by Epstein's networking activities.

Within that group there is a smaller, mostly male, group of people who Epstein succeeded in establishing some degree of intimacy with. This group would engage in casual conversation which sometimes slipping into locker room banter. Thrown before the harsh light of a criminal investigation this banter is now acutely embarrassing but ultimately meaningless.

There is a still smaller circle of true intimates within the Epstein world. Towards these persons Epstein seems to have functioned as something of a club manager/concierge. The members of his club appreciated a range of services and he sought to provide them. Direct payment for services was probably rare. Members maintained their club membership in good standing by sharing useful information, throwing out the occasional contract or otherwise helping out a "friend." Useful information need not be inside information for it to be valuable to Epstein. Services

provided spanned a wide range from the perfectly legitimate to the marginally legal to the patently illegal.

For a fairly small part of Epstein's network, perhaps two dozen people, sexual services appear to have been a regular part of club benefits and within that those with appetites for minor girls was probably an even more limited group. However, the Economist has identified about 1500 separate email exchanges that indicate Epstein was engaged in an ongoing and conscious effort to recruit girls as young as 14 for sexual services. Further the mental immaturity of the victims is not in doubt. It is more than reasonable to characterize him as a child sexual predator.

The difficulties this situation creates for a criminal prosecution are evident. One knows that there is a criminal conspiracy afoot. But for what crimes could one hope to prove the elements of a crime? Prostitution charges would generally founder for lack of a clear *quid pro quo*. Pandering charges might stick to Epstein, but he is dead and the accused club members could perhaps create enough alternative narrative to generate reasonable doubt. Proving that Epstein's associates knowingly engaged in sexual relations with minors and sought their transportation for such purposes would in many cases be quite difficult. Especially where that was occurring layers of camouflage would be in place. Understandably the prosecutors may have thought twice about taking on this battle. As a result they now look complicit in a cover up.

It should, however, be quite easy to determine whether the Department of Justice was engaged in a serious investigation or was doing a white wash job. A serious investigation would generate a body of work product seeking to match victim recollections against calendars, plane logs and visitor lists. Efforts to substantiate patterns of behavior and to replace hearsay evidence with direct testimony also would exist. If the Department of Justice can clear its name of suspicion it should in fact be able to do so relatively easily by exhibiting its work product. If it cannot, then we think Congress will need to appoint a special prosecutor.

While official actions have been suspiciously slight in the US, in Europe definite consequences are being meted out. In the UK the King's brother was arrested on suspicion of misusing confidential government information and released under investigation. The King was firm that justice must take its course. Elsewhere in Europe, resignations are coming and prosecutions may follow. No one actually incriminated by Epstein can expect lenient treatment. Even those in the outer circle of association must be concerned about career ending scandal.

Back in the US Congress took the deposition of the 88 year old Lou Wexner. Wexner was the principal of the retail conglomerate "The Limited." One of its properties was the lingerie chain "Victoria's Secret" whose success at shooting adult models clothed in insubstantial bits of fabric in the 1980s built a cultural vogue and

exceptional profit margins. Wexner hired Epstein as a wealth manager and appears to have given him imprudently broad powers of attorney. The two men may also have enjoyed stag evenings together previewing the models to be used in photo-shoots. However, Epstein appears to have pillaged Wexner of about \$ 200 million through abusive self dealing in the properties Wexner put in his care. Eventually these matters came to light, Wexner was able to recover about half of his losses from Epstein and the two men's association dissolved. So far Wexner is the most prominent victim of Epstein's non-sexual criminality to have emerged.

Among those to turn up in the Epstein papers is Steve Bannon, the well known right wing political operator. The correspondence shows him to have been on friendly terms with Epstein despite being perfectly aware of the ongoing court cases accusing him of sex trafficking minors. It also contains a flow of chat with Epstein in 2018 about how incompetent Trump was as a President and Bannon's sense that the Cabinet could remove him in an Article 25 process. Finally the correspondence shows Bannon attempting to engage Epstein in a vilification campaign targeting Pope Francis. This project, however, appears to have not met Epstein's standards for what he wished to engage with. Those who previously regarded Bannon as a cockroach will have little cause to revise their opinion of him. Those who thought better of him than that may hang on to his explanation that he was making a documentary about Epstein and his cuddling up to Epstein was in service of that project. In any case, we hope this sort of revelation will help educate the public about what may lie behind the vilification campaigns we often see targeting public figures.

Currently the public interest in Epstein is focused on his more lurid activities. But as the true picture of a club of rich men engaged in a swirl of tax evasion, filthy political activity and sex trafficking comes into fuller focus we think public revulsion will grow further.

3.3 (Almost) All the President's Women

The attorney-general Pam Bondi appeared before Congress to explain her department's activities in the Epstein matter. Her truculent defense was so off-putting as to prove too much for even Jim Jordan the committee chairman and himself a notable partisan warrior on the conservative side. Her behavior looked like nothing so much as a continuing in-your-face cover up of a criminal conspiracy. That is not a good look for the Attorney General of the United States.

Homan has decided to withdraw ICE from Minneapolis. This decision is a smart one in our view. ICE's heavy handed tactics had stirred the city up to the point where

any hope of cooperation with local authorities was gone. Short of imposing martial law on a formerly peaceful American city, there was nothing else that could be done. The policy errors that led to this situation are clearly Kristi Noem's. Critics, such as the *Wall Street Journal*, are out to get her – pointing to multiple examples of mismanagement within her sprawling department and spreading rumors of a doubly adulterous affair with an employee. So far, however, Trump is backing her.

Tulsi Gabbard also is under fire. Her remit is exclusively foreign intelligence. Her presence at the seizure of some voting machines warehoused after the 2020 election has not adequately been explained. It did not help that the local jurisdiction that was raided is now asserting the Department of Justice deliberately and substantially misled the magistrate who signed the search warrant. Specifically DOJ's filings show it alleging evidence without informing the magistrate that the supposed evidence had previously been tested in court and rejected as false testimony. In addition it appears Gabbard for eight months sat on an NSA intercept concerning a member of Trump's family rather than permit its distribution through usual channels. Together the two incidents paint Gabbard as a political operative leveraging the substantial powers she wields as head of the intelligence apparatus.

4 The Economy

After the disruption of the government shut down last year, the government's economic statistics are returning to normal quality and timeliness's. The picture they paint is one of sag. GDP expanded at a reduced rate (1.4%) in the final quarter, bringing growth for the year to 2.2%. This is in contrast to the 4% we expected even last month. Inflation came in at 2.4% which was inline with expectations. Overall the picture of slowdown is more consistent with the signals of weakness from the labor market we have been seeing for six months. It is also consistent with the concerns which we have have been expressed about tariffs and policy instability. The first quarter GDP figures may come in hot as the quarter benefits from activity transferred to it from the fourth quarter as a result of the shutdown. But the expectation for 2026 remains a gracefully aging cyclic expansion rather than significantly faster growth. A fall off in AI led business investment is likely how this cycle ends. That development is not yet in sight. However, the lower paid working class is not seeing much trickle down from the AI boom yet and their finances are under increasing strain. Recession in the sector serving this demographic may be quietly beginning at present. Some cycles have been noted more by sectorial slowdowns that gradually move from sector to sector rather than hitting the total economy all at once. The typology of this cycle is not yet well determined.

Table 1: Market Performance to February 27, 2026

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	0.70%	-0.86%
	...Large Cap Growth	rising	-2.88%	-3.93%
	...Large Cap Value	rising	5.10%	2.67%
	...Growth – Value	falling	-7.98%	-6.60%
	US Mid/Small Cap	rising	6.48%	1.81%
	Intl Developed	rising	11.14%	3.43%
	Intl Emerging	rising	14.90%	5.50%
Fixed Income	Treasury 3-7 year	flat	1.02%	1.17%
	Treasury 7-10 year	flat	1.34%	2.06%
	TIPS	flat	1.25%	1.27%
	Municipal	flat	1.92%	1.21%
	Investment Grade	flat	0.80%	1.06%
	Medium Grade	flat	0.25%	-0.53%
	Preferred	flat	2.71%	-0.73%
	REIT	rising	10.44%	8.84%
Commodity	Euro	rising	1.72%	-0.84%
	Gold	rising	23.52%	6.54%
	Crude Oil	flat	22.32%	6.64%

5 The Capital Markets

In large cap there was a sector rotation causing growth to decline a bit and value to rise a bit while the market as a whole stayed in place. Mid/Small cap also was stable. Abroad both developed and emerging equity continued to show strength. Bonds were mostly unremarkable. Gold continued strong. Oil seems to have bottomed for the moment. Overall the market did not make strong moves in the month.

6 Advice

The geopolitical strain we noted last month has erupted in war this month. War news may generate volatility for the duration of the conflict. Overall the US economy is mildly expansionary but better results are currently being earned abroad. A convincing success in the Iran war may produce a relaxation of geopolitical strains. Conversely, a poor result will weaken both Trump and embolden our principal adversaries. However, we expect good results and a conflict of limited duration. If so,

we do not expect it to have much impact on domestic politics.

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.

7 About Our Cover

Our cover this month is a map of Iran's different ethnicities. Physically Iran is a rugged country with chains of mountains running parallel to the Gulf and extending to the Iraq border and beyond. They create the Balkanized division of the population into a number of separate ethnicities. In the East of the country an arid desert region creates an area with very few people and then a number of different ethnicities lie along the border. The area around the Caspian sea (not shown) is relatively salubrious and it has been a magnet for a number of different peoples. The result is a very patchwork country. The Persians are the plurality but not the majority. With language and ethnicity not providing a national glue, religion has stepped into that role. The country is overwhelmingly Shi'a Muslim. Historically the rugged nature of the country made it a refuge for Shi'a Muslims who suffered oppression from the Sunni's who dominated in the Arab countries. In more recent times, the central government has ruled with an iron hand - fearing that political dissent could fragment the country. Economically the strength of the country lies in the Western half. The major resources are oil and gas. The fields lie in the folds of the mountains in the Southwest, in the Caspian sea and to a degree in the Persian Gulf. The principal export routes are through the Persian Gulf and pipelines originating from the Caspian Sea. With a proud history and a talented population, Iran is an unusually complex country.

credit: Dr Michael Izady, www.Gulf2000.columbia.edu/maps. Datum: 2010. Map lovers will find an extensive collection of unique maps at this location.

8 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™ 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.