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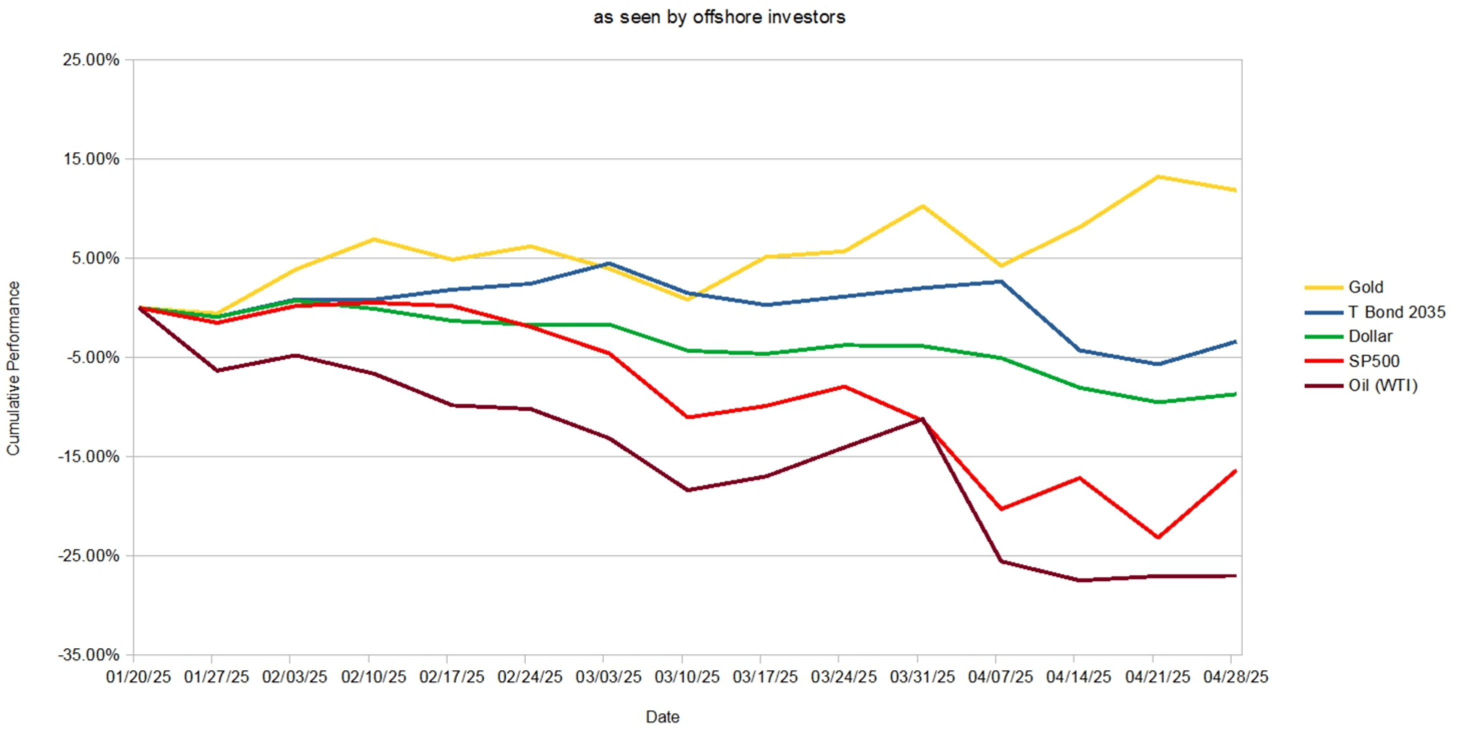
A Hundred days in the Market



Market Commentary

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Nicolo G. Torre
Ph.D. CFA
Managing Director
Lloyd Tevis Investments

3658 Mt. Diablo Blvd
Suite # 201, Lafayette
CA 94549

Executive Summary

Trump continues to push forward on his program. Investors have experienced market turbulence and should be prepared for more turbulence. The current environment is a discontinuity from much recent history. Investors need to approach the situation with a different mindset.

Domestic Politics

In his 1941 address to Congress Franklin Roosevelt enumerated the four freedoms he considered fundamental to civilized life:

1. Freedom of speech
2. Freedom of religion
3. Freedom from want [meaning grinding poverty]
4. Freedom from fear

The fear which Roosevelt addressed was primarily fear of the Nazi armies then marching across Europe.

Unfortunately today many Americans are afraid of their own government:

1. Immigrants, both legal and illegal, are being deported without due process or consideration of the impact on their citizen spouses and children or their employers. Some are being sent to notoriously abusive prisons abroad. The president has expressed the desire to extend this practice to

native born citizens convicted of ordinary felonies.

2. Major law firms are being shaken down for tens of millions of dollars of legal work as the price of maintaining their ability to practice

3. Hundreds of thousands of civil servants trained in esoteric specialties are being dismissed with little hope of reemployment

4. Major universities are being asked to submit to court supervision and curtailment of academic freedom as the price to pay for maintaining their research programs which have been the foundation stone of America's technological strength

5. News organizations are being denied access in an attempt to coerce them into providing biased coverage. Cultural organizations are being coerced into supporting a state ideology.

6. The nation's medical research appears to be shutting down. Its Center for Disease Control can no longer assist with problems as basic as lead poisoning in public schools.

7. Shareholders have seen 20% of their wealth destroyed by announcement of unsound economic policies adopted on doubtful legal authority.

8. Major corporations are being forced to pay ransom simply to be able to carry on their long established businesses.

9. The fear of being targeted has created the silence of self censorship throughout the public.

10. The government is withdrawing access to and possibly destroying scientific data sets representing years of research effort at data collection. Data sets are being targeted in areas of climate science and medical research.

11. To date letters de cachet have not been introduced for citizens, but the government is just one step away. Presidential decrees have ordered the Justice Department to prosecute named individuals identified as hostile to the regime.

Existing plans will make the fear deeper.

1. Congress is working on plans to shift $1.6 Trillion dollars per year (6.4% of GDP) from the poor/middle class to the rich.

2. The President is likely working on plans to purge the military officer corps.

Among human interest stories crowding the headlines is the case of a 4 year old US citizen who was receiving treatment for advanced leukemia when he was abruptly deported along with his non-citizen mother. The responsible official, Tom Homan, was unapologetic – claiming that the mother's bad choices had exposed her child to (likely) death. We note that even condemned criminals retain the due process rights which the administration is denying to deportees. It is observation of legal procedures which distinguishes a lawful execution from a lynching. We confess ourselves shocked by the inhumanity of Homan's position. In our view deliberate adoption of bureaucratic procedures which bring about the wrongful death of a US citizen should result in serious jail time for Homan.

This is an America FDR could not have conceived of but it is one he would have recognized from the fascist states of the 1930s. What is remarkable is that, unlike the 1930s, it is not some profound social collapse which has created this situation. The US has not suffered a bloody military defeat, an impoverishing financial debacle, or a great natural disaster. Instead it has stepped in the space of 90 days from general prosperity and complete military security into a place of profound doubt and insecurity.

Quite clearly far too much power has concentrated itself into the hands of the President and the checks which are supposed to prevent misgovernment have failed. This problem needs to be recognized for what it is – a Constitutional problem. Let us be clear, the problem is not specifically with Trump's policies. The problem is that a single decision maker can upend fundamental institutions of society on which the whole edifice rests. Trump's policy approach appears to be one of pressing as hard as he can until checked by opposing forces. Absent effective institutional checks on presidential policy, such an approach is highly likely to press beyond what society will accept and the outcome could ultimately be a swing from a hard right administration to a hard left administration which will be equally determined to refashion social institutions. Until the Constitutional problem is effectively addressed the US is likely to remain in a state of crisis. We assess this as a problem which it will take years to fix. In the meantime much of what we believe about the stability and prosperity of the country, based on past experience, can no longer be relied upon. Investors must assess this situation carefully.

International Politics

A number of threads appear to be coalescing.

Russian propagandists are busy educating the Trump base that the Ukraine war is the product of NATO aggression. This is a lie of course but one highly palatable to the audience it is beamed at. Russian diplomats keep the administration spinning in circles discussing limited ceasefires that never quite happen. On the ground Russia makes it perfectly clear that it does not regard the Ukrainians as a people entitled to self determination and it continues to abduct Ukrainian children in a soft form of genocide.

The Russian military appears to have shifted out of sustainable campaign mode into a “go for broke” campaign mode. In 2024 Russian campaigning moved at the rate at which replacements could be fed into the ranks to make up for losses. Now Russia is pressing all along the line and is likely incurring casualties at an unsustainable rate. Russia's material losses are also quite severe. Russia started the war with a nominal tank force of 20,000 units of which 75% were in reserve. The estimate is that they are down to about 4,000 units. The vintage of Russian tanks has also deteriorated. Those 4,000 are mostly 50 year old designs or earlier. Unphased by stuffing young men into the tank grand dad built, the Russians are planning on expanding their military by ten divisions. Putin's assessment is, evidently, that Trump's presidency is a window of opportunity which he must grab. On the front line, however, not much has changed. The Ukrainians are doubtless discouraged, but they understand they are in a fight for survival. Their front has not broken. The Russians creep forward in some zones, but get pushed back in others. As long as adequate support flows to the Ukrainians outright military victory is likely to elude Putin.

The Russian are also busy abroad. They have established a substantial alliance with sub-Saharan states led by military dictatorships. Their allies are currently winning in Sudan's long running civil war. They appear to have dangled enough inducements before Syria's new government to hold on to their bases for the moment – even as Russia harbors the Assad family which is likely bankrolling an insurgency against the Damascus government. Russia is likely helping Iran with its air defenses and appears to be feeding targeting intelligence to the Houthi's in their effort to shut down the Red Sea trade route. Russia has acquired basing rights on the Red Sea from the Sudanese government. Exerting pressure in this waterway appears to be of interest to Iran, Russia and China. Probably the goal is to be able to interdict communication between Europe and India/Indo-China /Australia rather than to protect Russia / Chinese / Iranian trade.

Trump is in a slow moving shooting war with the Houthis which the US appears to be escalating. The US has entered into talks with Iran. A settlement between the adversaries could bring substantial benefits to all interested parties. But overcoming decades of mutual hatred and distrust will be a challenging diplomatic problem. Western intelligence agencies sequentially reported Iran as having enough enriched uranium for 8 bombs, as being two weeks away from manufacturing a bomb and as possessing enough uranium for 6 bombs. An inference would be that Iran has so far constructed two bombs. The reality is probably that there is no reliable information in any of this palaver.

The Chinese-Taiwan conflict also has escalated. The Taiwanese opposition party – the KMT increasingly serves the role of a mainland sponsored Quisling party. It has sought to halt the wheels of the Taipei government via various parliamentary moves. The ruling DPP party has responded by seeking to remove KMT legislators via recall elections. China has been carrying out military exercises around Taiwan simulating a blockade of the island. It is reasonable to conclude that the battle for Taiwan's continued independence has commenced. Japan seems to think so. It is making preparations to evacuate residents from Japanese islands on the border of the putative war zone.

In France, Marine Le Pen – the leader of the far right National Rally party – has been convicted of embezzling public funds. She was sentenced to two years house arrest and a five year ban from politics. This has produced a roar of outrage from Trump Republicans. One might ask what business is it of theirs? Trump is evidently trying to promote an alliance between far right parties globally. We have seen outreach to parties in France, Germany, the UK, Italy and of course to Putin's party in Russia. In general these parties share a nationalist orientation, hostility to immigrants and to trade liberalization. Increasingly they see themselves in a global battle against liberalism. Some parties cast this as a battle of Christianity against secularism; primarily, but not entirely, this is political code for opposition to legal toleration of the LGBTQ community and a restrictive stance on abortion. In fact, the last time right wing nationalist parties took power the result was World War 2. The policies of multilateralism and free trade were in fact put in place to prevent a repeat of that disaster. So far those policies have worked and everyone has gotten richer together. Obscuring that fact is the common interest of the far right parties. A third global war with some 20 nations now fielding nuclear weapons would have appalling consequences.

Alexander Dugin, Putin's chief ideologist, gave an interview in which he hailed Trump's election as the victory of Putinism in America. As Putin's Russia is known for grinding poverty, embedded corruption, dictatorial rule behind a democratic facade, extralegal liquidation of opponents and military adventurism that assessment should give us pause for thought.

Reactions to the Trump Agenda

Canada

After 12 years in power with all the erosion of popularity that brings, the political pendulum was poised to sweep Canada's Liberal party from power. Then Trump began talking of turning Canada into a US state. The Liberals selected a former head of the Bank of England, Mark Carney, to fill out the tail end of their former leader's term. Despite no prior electoral experience, Carney convincingly defeated his opponent, the long time leader of the Conservative party. Carney's victory speech merits quoting at length for the insight it gives to the foreign response to Trump's policies:

"As I have been warning for months, America wants our land, our resources, our water, our country. But these are not idle threats. President Trump is trying to break us so that America can own us....This will never happen. We are over the shock of the American betrayal but we should never forget the lessons. We have to look out for ourselves. And above all we have to take care of each other."

We think Carney knows a hostile takeover taking shape when he sees one. Carney has elaborated at length on how the unwind of Canada's economic relationship with the US will resemble Brexit – which as Governor of the Bank of England he observed at first hand.

Domestic Polls

The freighters that set sail prior to Trump's tariff announcement have now docked and unloaded their cargoes. Follow on ships have not set sail and ports are grinding to a stand still. In one to two months bare shelves will begin showing up at Target, Walmart and other mass merchandisers. It is expected that toys will disappear completely, budget clothing disappear in part, and choice in appliances and electronics be either much diminished or available only at strikingly higher prices. All sorts of low mind share staple items (e.g. magnifying glasses) will simply disappear. The American shopper is in for a considerable shock.

Currently America's political leadership is not in good standing with the electorate. There is (table 1) across the board disapproval of the political leadership. The low popularity is striking given that most Americans have not yet experienced personal pain from the policies of the Administration. But fear and unease are very prevalent and Americans do not like it. As tariffs and the Congressional budget begin to deliver palpable adverse effects the current dismay may well explode into boiling anger.

Table 1: Public Approval of Political Leadership

Role	Person	Net Approval	Perceptions Underlying Approval Rating
President	Trump	-14.00%	lawless, reckless, suspicions of corruption
Senate Majority Leader	Thune	-10.00%	party hack
House Majority Leader	Johnson	-8.00%	party hack
Senate Minority Leader	Schumer	-27.00%	weak, disloyal to party
House Minority Leader	Jeffries	-7.00%	inconsequential
Opposition Party Leader	Harris	-1.00%	a zero
Supreme Court	Roberts et al	-7.00%	not protecting public from abuse of power

Net Approval is the percentage of persons polled who give a favorable rating minus the percentage giving an unfavorable rating.

Green Economy

The green economy continues to develop. In 2023 the global market share of electrical vehicles was 20% with a 35% growth rate. If sustained that growth rate will give electric vehicles a more than 50% share of sales by 2027. The global demand for oil is tied to the installed vehicle base, not the sales share. But with vehicles typically having lives of ten years significant shifts in demand for oil could be occurring in the 2030-2035 time frame.

With Trump likely inducing a global economic slowdown over the next two years, we may have seen the peak of oil revenues.

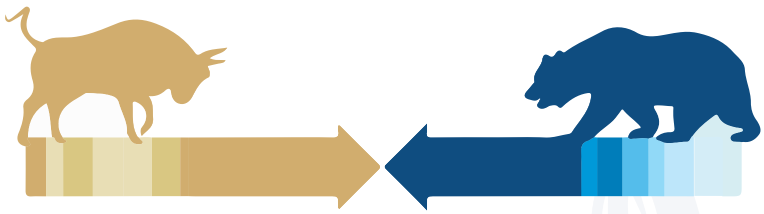
The Economy

Trump's tariff policy has sparked a massive trade war. Consumer and business confidence is dropping. Inflation is heating up. US real GDP declined at an annualized rate of -0.3% in the first quarter, compared to expanding at a 2.4% rate in the prior quarter. The slow down in GDP growth of 2.7% is uncommon. In 312 observations of quarterly changes in growth rate we only see more abrupt slow downs about 15% of the time. If, however, we focus on the much smaller set of 12 observations in which the growth rate has shifted from expansion to contract this level of slow down is fairly mild. We take this quarter's result as a strong caution sign rather than a panic button lighting up. However the quarterly slow down was cushioned by merchants building inventory and shoppers rushing purchases ahead of tariff imposition. The second quarter results will lack these one time supports and may make for grimmer reading. We expect the country to enter into a recession.

US results came in worse than expected. It will be important to see if that pattern holds abroad as well.

We are expecting the global economy to slow but not contract. However, prior to Trump's tariffs the global economic expansion had apparently been speeding up. Every local politician will be quick to blame Trump for the shift from acceleration to deceleration. We expect a global hostility towards the US to be engendered. The result will be headwinds for brands closely associated to the United States, such as Coca-Cola, McDonalds and Hollywood movies. Among other things, the President is the brand manager of the US brand and Trump is doing an appalling job in that role. These observations make us cautious towards the part of the consumer goods sector with substantial foreign sales.

Apparently deciding to double down on confrontation Trump is mocking the Supreme Court by a sophistic evasion of its order in the case of the improperly deported Kilmar Abrego Garcia. In addition he is coffee housing about replacing the chairman of the Federal Reserve before the end of his term next year. While the Supreme Court has been tarred with the partisan brush, the Federal Reserve remains a semi-sacred institution. Attacking the independence of the central bank at this juncture could easily spark another 20% decline in the stock market and increase the government's difficulty in funding itself.



The Capital Markets

It was an eventful month in the markets (see table 2.) US large caps were down as much as 13% on the tariff announcement but slowly recovered as Trump back pedaled on his policy ideas. They ended the month about where they started. However the recovery was mainly in growth stocks. Value stocks were still down nearly 4% at month end. Mid/small cap stocks did a little better, down just 1.5% for the month. Foreign developed market equity did much better – up almost 6%. Over the past 3 months these stocks have outperformed US stocks by more than 27%. The benefits of country diversification are clearly exhibited. Emerging markets, by contrast, continued flat. Results in fixed income were relatively less interesting. Basically the short end rallied by about 1% while the long end sold off by a half percent. Credit sensitive sectors were mostly weak or flat. Gold and the Euro both rose 5%, which might alternately be described as the dollar weakening. Crude oil sold off dramatically (-15%) as prospects for global growth dimmed.

Table 2: Recent Market Performance

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	falling	-7.67%	-0.70%
	...Large Cap Growth	falling	-9.21%	1.96%
	...Large Cap Value	falling	-6.31%	-3.75%
	...Growth – Value	outperform	-2.90%	5.71%
	US Mid/Small Cap	falling	-10.27%	-1.49%
	Intl Developed	rising	19.53%	3.70%
	Intl Emerging	flat	2.43%	0.14%
Fixed Income	Treasury 3-7 year	rising	2.81%	1.36%
	Treasury 7-10 year	flat	3.28%	1.05%
	TIPS	rising	1.99%	-0.51%
	Municipal	falling	-1.70%	-0.41%
	Investment Grade	flat	0.48%	-0.27%
	Medium Grade	flat	-1.08%	0.11%
	Preferred	falling	-5.12%	-1.24%
	REIT	falling	0.68%	-0.81%
Commodity	Euro	rising	8.92%	4.95%
	Gold	rising	16.45%	4.88%
	Crude Oil	falling	-13.24%	-15.59%

Advice

Trump is attempting to change fundamental economic, social, cultural, legal and diplomatic institutions of the country. In the process he is rejecting the elements of society which have underpinned its prosperity for 70 years – specifically leadership of the Western Alliance, a high technology/post-industrial service economy and an open talent based society. The formula he is attempting to implement – isolationism, re-industrialization and White Protestant cultural supremacy does not appear to offer gains equal to the losses that will be incurred. As such his program appears to us as calculated to redistribute a reduced prosperity. We expect intense social/political conflict to result from this effort.

In this environment investors need to focus on capital preservation rather than on wealth creation. 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. Opportunistically raise cash.
5. If necessary, strengthen wobbly real asset positions.

Explicitly this is not a buy-the-dips environment. A buy-the-dips strategy assumes the core economic situation is stable and dips are the result of transient business cycle events. That is not the current situation.

A point which is worth explaining in greater depth is the concept of investment quality. High quality investments possess two aspects. First they appeal to a wide variety of investor types and not just a single type of investor. Second how such assets should be priced in the market is very well agreed on. Although prices of assets may change as information comes in, how that information is evaluated and turned into prices is not changing. High quality assets can maintain liquidity in all but extreme market environments. Generally high quality assets do not suffer abrupt permanent loss in value as a result of investor's changing their minds about how to price such assets. Examples of high quality assets are Treasury bills, medium term Treasury notes, long term CPI-linked Treasury bonds (i.e. TIPS), select high grade municipal bonds, and common equity of well capitalized corporations with well established stably profitable business lines and strong competitive positions (i.e. blue chip equities.) Assets which are distinctly not high quality include structured notes, most bank debt, medium and lower grade debt, second and third tier equities, and cryptocurrency. A high quality portfolio can bring considerable peace of mind in an unsettled economic environment.

Once core capital has been correctly positioned, satellite positions for wealth creation can be added.

Such positions will generally be smaller total commitments but ones with high return potential in the anticipated environment. Here we would identify mid cap equities positioned to prosper under Trump's economic policies, well capitalized equity real estate trusts with good income generation characteristics, computer services and AI driven business process automation. Microeconomically sound businesses can prosper and grow even in unsettled macro environments. Within this portfolio sleeve, however, it remains important to be well diversified.

About The Cover

On the cover we show the fate of certain asset classes from the day of Trump's inauguration (Monday January 20) through the last Monday in April (April 28, 2025.) The line denoted Dollar is the exchange rate value of the dollar against a weighted basket of currencies where the Euro has the highest weight. The S&P500 line is the value of the S&P500 deflated by the dollar index, so it shows the average performance of the US equity market observed from abroad. Similarly the T Bond of 2035 series shows the price of the ten year Treasury bond deflated by the dollar index. The gold line shows the spot price of Gold deflated by the dollar index. The oil line shows the deflated price of West Texas Intermediate crude. This crude provides the reference price for the US market.

It will be observed that the slide in equities began about Valentines day. The precipitating factor appears to have been Trump announcing his ambition to remove the Palestinians from the Gaza strip to make room for his proposed beachfront development. The slide in the Treasury bond commenced with the announcement of Trump's tariffs on April 5, 2025. In fact, bond yields were improving up until the tariff announcement. That yield decline lifted bond prices enough to offset the sliding value of the dollar until April 5. But major tariff changes sparked an uptick in yields which depressed bond prices. The divergent behavior of the series is an invitation form a diversified portfolio. In fact, an equal weighted portfolio of stocks, bonds and gold would currently be valued at 94.7 – a return of -5.3% and considerably better than the all stock portfolio (-23%.) Also notable is that oil and gold have been trending from the beginning. Their opposite directions of travel indicating increasing inflation and political instability (gold) with a slowing economy (oil.) The combination clearly points to stagflation. Indeed at the beginning of our period it took 0.87 grams of gold to buy a barrel of oil, but at the end of the period only 0.57 grams were required – a drop of 35%.

The concerning aspect of the chart is that it is consistent with the beginning of capital flight from the US. Were strong capital flight trends to appear, the Federal Reserve would raise interest rates sufficiently to stabilize the dollar. The stock market would sell off strongly. Initially the bond price would fall as rates rose. Once a stability maintaining rate was located, however, the bond price would first stabilize and perhaps rally. Gold would likely rise strongly as investors trimmed the percentage of the dollar in reserve holdings in favor of gold. Realization of the grim picture that was taking shape in the markets is what motivated Trump to soft pedal his tariff policy. However, he is only pedaling softly at present – his long term objective is unchanged. A contest of strength between the President and the Fat Lady may be taking shape. In that contest our money is on the Fat Lady.

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About Lloyd Tevis Investments

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.

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