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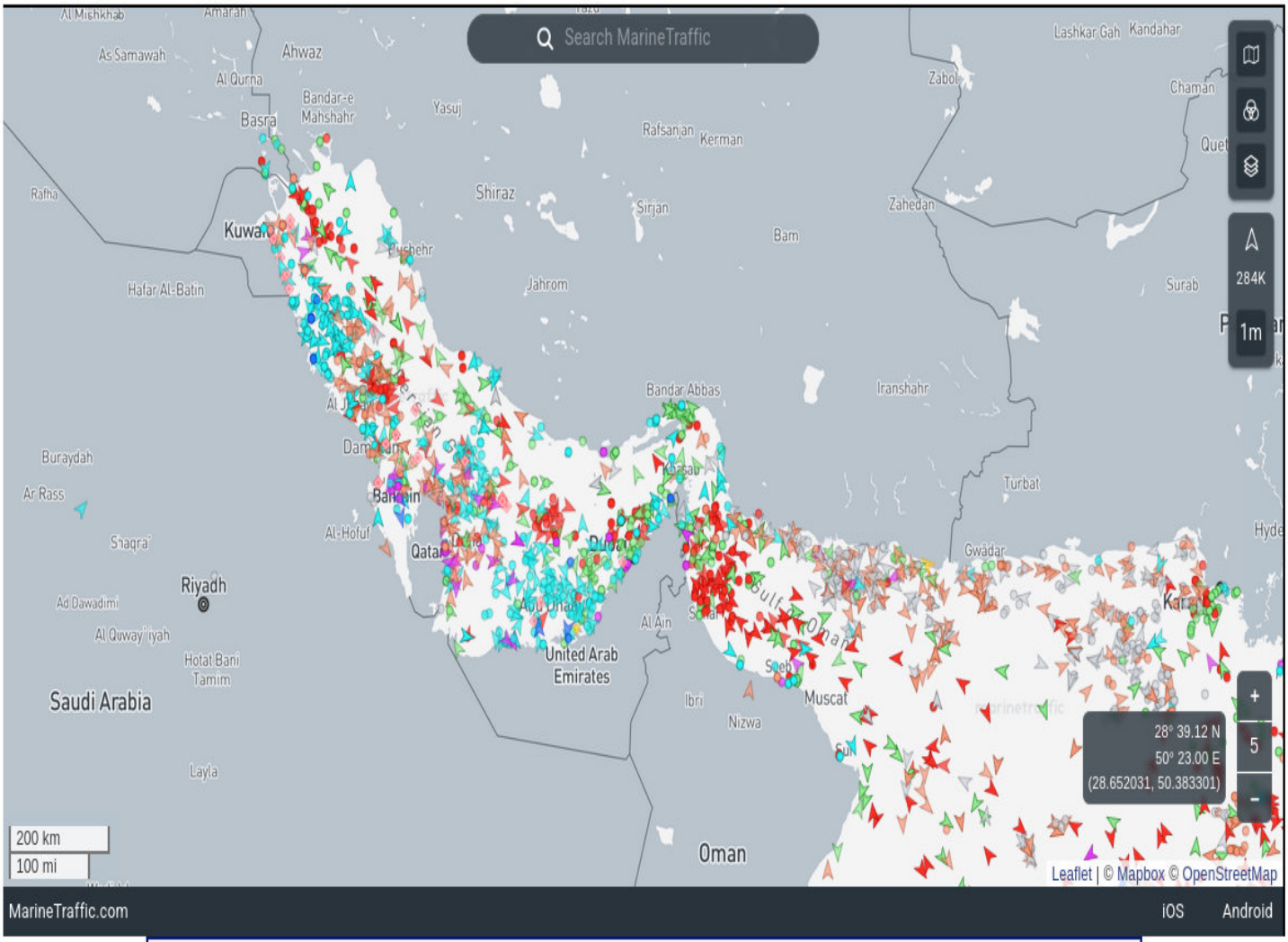

The Market Commentary

May 2026

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1 Executive Summary

War news dominates the headlines. Outcome of the Iranian war remains significantly in doubt. It may prove a tactical victory but a strategic defeat for the US if the US gathers a handful of concessions from the Iranians while leaving a hard line hostile regime in power in Tehran. The Russo-Ukrainian war is not going well for either side, but currently it appears to be going worse for Russia than Ukraine. Renewable energy and electric cars look better and better every day that the Iranian war drags on. The US political scene radiates a substantial weariness with the President, but in an election year his power is at its maximum in his own party. If Trump is unable to conclude a favorable result in the Iranian situation by September (4 months off) we think he will face considerable difficulties after the midterms. A brighter spot is the economy and capital markets which appear to be looking past all these local issues to a brighter future not so far off.

2 Geopolitics

2.1 Iran War

The US and Iran declared a temporary ceasefire for negotiations. The first meeting was short and served mostly to define differences of opinion. Afterwards the IRGC asserted control over the diplomatic process and ended formal talks. Major General Ahmad Vahidi, commander of the IRGC, has quickly controlled access to the Supreme Leader and made it clear to his ambitious colleagues that he is the new shot caller. Some informal diplomatic communication has continued, but Iran's formal effort shifted to outreach to neighboring states: Pakistan, Oman and Russia. Meanwhile the IRGC is busy trying to recover part of Iran's missile force from deep bunkers. The US has maintained its naval blockade which deprives the Iranian government of about 90% of its revenue stream. The blockade will also soon force shutdown of Iran's oilfields. Restarting them will be costly and some permanent loss of capacity is to be anticipated. With this squeeze operating on Iran, the US has not yet resumed military operations. But with no agreed ceasefire remaining in place, it could resume strikes at anytime. If it does so (which we expect) its aim will be to so weaken the IRGC hardliners that more pragmatic leadership, probably drawn from the regular army, takes over in Tehran. It was probably fear of such an arrangement

being felt out which caused the IRGC to end negotiations. If a regime interested in changing Iran's foreign/military policy were to take power in Iran, the US would likely move swiftly to stabilize it by lifting economic sanctions. If it looks like the IRGC can not be pushed from power by an air campaign, the US could move to arming other foes of the regime (e.g. the general population, the ethnic minorities and the Sunni states - including Pakistan) for a ground assault. We think US ground troops unlikely to be deployed except for special missions. The US's blockade of Iran is its first such operation since the Cuban Missile crisis. The popular memory of that operation is that it was heroic and successful. With the ghost of JFK looking over his shoulder, we think Trump will find it difficult to "chicken out" and end the blockade before it delivers positive outcomes. In retrospect blockading the Straits escalated the war from one the US could easily disengage from into a war it has to win. That was a foolish move on the part of the IRGC and it speaks to their inexperience when operating at the top strategic level. But for the moment it suits Trump's purpose to put out the story that the war is winding down as that defangs the War Powers Resolution currently up for consideration by Congress. It also suits a lot of incumbents to not have to take a position on this right before primary elections. So for multiple reasons there is temporary consensus for stall - which is not the same thing as peace.

In latest news, the US is to provide cover to ships passing through the Straits. This is a clever move. Either Iran accepts the opening the Straits or it fires on the US Navy. In the later case the response is likely to be abrupt and devastating. Deeply wounded as Iran has been, the US Navy, so far, has been pulling its punches. If a US warship were to be attacked or rendered *hors de combat* the gloves would very definitely come off. Iran has thrown away some small units contesting the US escort but so far it is not directly going beyond token measures. Instead it has attacked the UAE. The UAE recently announced it was leaving OPEC. Iran doubtless hopes this creates a wedge between it and the other Arab states. By concentrating its attacks on the UAE Iran hopes to widen the gap while maintaining its assertion of control over the straits.

2.2 Israel and its Enemies

Israel has been engaged in intense combat with Hezbollah. Approximately 2000 Hezbollah soldiers have been killed. Israel is seizing a buffer zone to protect its northern most settlements from fire. Israel has negotiated a three week ceasefire with Lebanon, but Hezbollah is keeping itself out of that agreement. Lebanon is making efforts to disarm Hezbollah, but the task appears beyond its resources. Hezbollah

has deployed fiber optic drones to attack Israel which has brought the full force of Israeli military ingenuity into play coupled to Ukraine's already substantial anti-drone capability. We expect the threat from this vector to diminish sharply in the next few months.

The ceasefire in Gaza has mostly held. But during the ceasefire Israel has killed a further 700 Palestinians. So it is an uneasy truce. In the West Bank militant Israeli settlers are putting considerable pressure on Palestinians by dialing back their access to water. These actions could provoke another Intifada in due course, but the Israeli government has little enthusiasm for enforcing good neighborliness on the settlers.

2.3 Russo-Ukrainian War

The war is not going well for Russia. Nominally its spring campaign has kicked off, but forward progress on the ground is hard to discern. In some parts of the front the Russians advanced, but in other parts they fell back. Net net there seems to have been no meaningful change in territory. Casualties are running ahead of recruitment by about 5,000 soldiers per month. As a result Russia must dip into its reserve forces just to maintain the tempo on the battlefield. In short the Russian campaign appears to be culminating. On the home front there is palpable war fatigue. The Kremlin led the public to believe that Trump was "their guy" and that he would deliver favorable outcomes for Russia. There is considerable disappointment that has not happened. In fact the White House recently released $800 million is previously allocated support to Ukraine. The Kremlin is imposing censorship restrictions - possibly in preparation for imposition of conscription to bulk up the army. The public is unhappy about that also - complaining is one of the few luxuries broadly enjoyed by the populace and having it curtailed is resented. Russia has a massive territory to defend from air incursions and an inadequate air defense network. Ukraine has been exploiting that circumstance to launch cruise missile attacks. All over Russia strategic plants, particularly in the petrochemical industry, have been showing a sudden tendency to burst into flames. These are not just symbolic raids. Production is down some 30% with knock-on effect in downstream industry. Ukraine seems able to hit anything west of the Ural mountains. Indeed there have been calls to relocate defense industries east of the Urals. However, we are confident the Ukrainians could quickly extend their reach to Siberia if necessary. These long range raids have coincided with beefed up security for Putin. Anyone who comes in contact with him is subject to continuous monitoring and Putin has stopped visiting military bases or appearing at other large pre-publicized meeting points.

Russia has made good progress with drones but Ukraine is still ahead of them.

Table 1: Data on Russian Arsenal

Item	Type	Unit Cost ($)	Payload (kg)	Interception Rate (%)	Effective Payload (kg)	Delivery Cost ($/kg)
Khinzal	ballistic	5,000,000	500	0	500	10,000
Iskander	ballistic	2,500,000	750	6	705	3,500
Kh-101	cruise	2,000,000	400	83	68	29,400
Kaliber	cruise	1,000,000	500	83	85	11,800
Heavy Drone	drone	50,000	90	93	6.3	7,900
Light Drone	drone	20,000	50	93	3.5	5,700

Table 2: Analysis of Russian Strike Package on April 24, 2026

Type	Number	Cost ($m)	Delivered Payload (kg)
Iskander	12	30	8,460
Kh-101	30	60	2,040
Kaliber	5	5	425
Drone	619	13	2,220
Total	666	108	13,145

Ukraine is able to intercept over 90% of incoming Russian drones using drone interceptors that cost about one-tenth the price of the attack drones. Ukrainian drones are responsible for 80% of Russian casualties. Recently a (small outlying) Russian position was captured by a pure drone assault from air and ground drones. This is a first in the history of robot warfare. Russia recently attempted its first sea drone attack, but it was foiled.

In a recent air attack Russia directed 666 projectiles against Ukraine consisting of 12 ballistic missiles, 35 cruise missiles and 619 drones of which 400 were of Iranian design. Ukrainian interception rates were approximately 0%, 83% and 93%. We give basic performance estimates for the Russian arsenal in table 1. That leads to the analysis of the strike package in table 2.

The Russians basically use numerous low cost drones to saturate Ukrainian air defenses so that their heavy missiles can get through. The cost per delivered kilogram of high explosive works out to $8,200 across the package. The attack struck 23 locations causing 6 deaths and 47 injuries. The cost per fatality is $13,500,00 and per casualty the cost is $2,000,000. As can be seen, this is not a cost effective anti-personnel campaign. Yet the Russians split their targeting about equally between residential and industrial facilities. They apparently believe lightly terrorizing the civilian population will significantly erode morale.

2.4 China

China has been stepping up aggression towards Taiwan and the Philippines. A Philippine coast guard unit apprehended a Chinese fishing smack that was apparently engaged in poisoning the marine life around a contested reef. Trump will visit China shortly unless the summit is rescheduled again.

2.5 Cuba

The US's other blockade is of Cuba. For the moment the government is holding out, but that looks to be just a temporary success.

3 Domestic Politics

3.1 The King's Visit

King Charles III visited the United States and addressed a joint session of Congress. His official reason for visiting was to extend felicitations to the United States on the 250th anniversary of the declaration of independence. As the most establishment of establishment figures the King naturally spoke to uphold order, both the internal constitutional order and the international order. His remarks were clothed in the wit and charm proper to anniversary felicitations but pointedly included reminders of the depth of ties that bind the US and the UK together. His remarks were received with warmth and frequent ovations that pointed to a weariness in the Congress with radicalism in power and a desire for a return to traditional order. The King also reminded the United States of the need to steward the natural world and to uphold the longing for freedom on the part of the Ukrainian people. This call to duty was not heard with enthusiasm throughout the Congress, but it did receive warm backing from a large section of Congress.

The Republican primaries will have ended by midsummer and with their ending Trump's power to threaten incumbents with being "primaried" will have slipped away. To judge by the reception of the King's speech, there is a portion of Trump's party which is restive under his disciplinary rod and likely to seize such opportunities as present themselves to assert an independent line.

3.2 The White House Correspondent's Dinner

Trump finally consented to attend the White House Press Corps Annual Dinner. This year's event attracted a would be political assassin who brought the festivities

to a memorable conclusion as dignitaries scurried from the hall on all fours. Trump assured the press corp a second dinner would be held, praised law enforcement which had quickly subdued the assassin before anyone was killed and pointed out this was why the White House needed an adequate event space of its own. He also expressed some unhappiness with the routine vilification of himself which the opposition press has indulged in. He claimed the hate mongering was part of why he was continuously being targeted for assassination. Those remarks had significant merit, but so too would his own efforts at raising the political temperature bear reflection on.

3.3 The President's Cabinet

Departures from the cabinet are Noem (Homeland Security), Bondi (Attorney general), Chavez-Demer (Labor) and Phelan (Navy.) The first three were forecast two months ago. Phelan is a surprise addition. He is a prominent Republican fund raiser who was given the Secretary of Navy post in recognition of his fundraising contribution. Actual duties of the post are mostly in the direction of procurement. The Navy recently awarded $16B in submarine construction contracts. In the process they maxed out Groton Connecticut's capacity to handle the worker influx to the submarine construction yard. Actually, however, the US needs to demonstrate the will to out build China and that will require opening additional construction capacity. Hegseth was apparently concerned by Phelan's direct access to Trump and sought to oust him. For the moment Hegseth himself is being kept on, apparently in case a fall guy is required for the war. Trump's own unfavorability rating has risen to 26. Cabinet Secretaries who achieve that level of unfavorability are typically dropped from the cabinet.

3.4 The Endless Scandal

The Epstein scandal continues to suck in prominent names - often for no reason connected to the scandal. It seems evident the Justice Department was slack in following up on victim reports. Probably this slackness is due to bureaucratic caution in confronting powerful individuals and a sense that vice law enforcement is a state responsibility. However the appearance of participation in a criminal cover up is a factor the Department has to address. The Department's Investigator General has opened an investigation.

3.5 The Midterms

Virginia voters agreed on a redistricting which shifts the Democratic-Republican split in the state from 6-4 to 9-1. A judge has paused implementation. Republicans are hoping to restore their gerrymandering advantage by giving Florida the treatment. It looks as if a soggy economy will create a difficult election for Republicans. By November, however, the public is likely to have grown bored with the Epstein scandal and the Iran war - whatever its outcome - will likely be in the rear view mirror. So the "blue wave" which Democrats hopefully anticipate at present may prove less than hoped.

Always eager to help the Republicans, the Supreme Court has struck down much of the power of the Voting Rights Act. Several red states announced gerrymandering projects in the immediate aftermath of the decision. Indiana had previously beaten off a gerrymander originating from the MAGA Republicans. But 5 of the 6 state Republican legislators who took a principled stand against gerrymandering lost their primary campaigns under the weight of adverse campaign donations which ran 50x above normal levels. These shenanigans are going to further the geographic polarization of the United States into true blue and true red states. That is a most unhealthy national political development. Democrats have responded by proposing term limits for Supreme Court justices. The Chief Justice would indeed be wise to remember that the political pendulum inevitably swings and institutional change can happen abruptly when it does.

3.6 The Department of Health

Kennedy's vaccine skepticism has given the US a record breaking year of measles infections. Cuts to mRNA vaccine work is holding up cures for cancer. The Department has suppressed studies documenting the high level of safety of the Covid and Shingles vaccines. Shingles is an extremely painful infection of the nervous system caused by reactivation of a chicken pox infection from many years before. It typically afflicts elderly people - probably because the strength of their immune systems is waning. Natural recovery takes about a year, whereas the vaccine is highly effective at preventing the outbreak in the first place. We feel deep sympathy for all those who end up suffering through this miserable affliction as a result of lunacy having taken control of this branch of government. Despite which Kennedy himself remains a popular health guru with Republicans. We continue fundamentally unable to understand this outbreak of public insanity. We note simply that such things have happened before and they inevitably come to an end at some point.

4 The Economy

Soggy but not as soggy as feared about summarizes it. Job creation was about triple expectations (178,000 reported versus 65,000 expected.) The unemployment rate ticked down from 4.4% to 4.3%, primarily as a result of retirements outpacing new workers entering the labor force. In fact, the secular trends are for a shrinking supply of workers and rising compensation levels. With immigration curtailed this overall trend is strengthened. Partly offsetting the trend, offshoring of work and introduction of AI should moderate the labor market tightness in fields amenable to such interventions.

Inflation accelerated from 2.4% to 3.3% on a war driven spike in petroleum product prices. The Federal Reserve left the Federal Funds rate unchanged at 3.5%-3.75%. This was the last rate setting under the Chairmanship of Powell. Powell is closing out a strong central banking record notable for an able defense of the bank's independence from Presidential interference. Powell is being succeeded by Kevin Warsh. More interesting than Warsh himself, is his wife - an heir to the Lauder cosmetics fortune. She has been a notable patron of veterinary medicine.

This is an opportune place to mention Pablo Escobar's hippos. They were imported for his private zoo but escaped into the wild. In recent prehistory South America had a hippo-like creature of its own - the Toxodon. However they went extinct about 5,000 years ago from the pressures of climate change and human predation. Finding a suitable ecological niche unoccupied the feral hippo population grew rapidly. Concerned by this situation, the Columbian government authorized a culling program to shrink the herd. However an Indian philanthropist has intervened to offer the hippos sanctuary at his Verdana facility. This facility is in central India and it houses approximately 150,000 animals. The program is motivated primarily by spiritual concerns for animal welfare. It aims to rescue animals from abusive situations and to provide them with places of refuge where they can live out their lives. Rescuing Asian elephants from abusive conditions in the timber trade and circuses has been a particular object of Verdana and so it has lots of experience with the needs of large herbivores. Columbia is considering the merits of the proposed rescue. The whole story reminds us that while the US is in the grip of small mindedness, from both political parties, there is a larger dimension to the human spirit.

5 The Capital Markets

Returns for April 2026 exhibited "risk on" bets by investors: US Large Cap Growth (14.93%), US Small Cap (12.33%), International Emerging Markets (12.68%), US

REIT (9.71%). Good returns were also posted by the less aggressive asset classes: US Large Cap Value (5.93%), International Developed Markets (5.43%), US Preferred Stocks (3.56%). Good earning reports, optimism about the war and plenty of cash in the hands of the better off members of society all helped generate these results. Fixed incomes by contrast were a mixed group making small moves either way. In the commodity sector Oil rose modestly on war news (5.58%), god was down slightly (-1.68%) and the Euro staged something of a recovery (0.86%). Markets appear to expect a resolution of the Iran situation over the next quarter. Although encouraged by corporate earnings, we have a niggle of doubt about earnings quality. Inflation can inflate top line numbers and produce apparently good earnings growth at capital intensive firms where plant cost is based off historic cost data rather than replacement cost data. However this factor is mostly a consideration in the industrial value group and not in high technology companies which provide the leadership for today's market. The high tech group in general is rising on high expectations for AI driven by meteoric growth at firms like Anthropic (a private company.) However, established software companies are suffering price declines as AI raises the concern that their products will see erosion in their share of the value stream. Software technologies generally progress by placing a new layer of software on top of the pre-existing technology stack. In the process, the newest layer may indeed possess the high glamour and margin. But usually the market has expanded enough that the top layer is not taking significant value share away from underlying layers. We see no reason for this cycle of technical development to be different from prior cycles in this regard.

6 Advice

We are impressed by the resilience of both the economy and the market in the face of war turmoil. That resilience suggests a strong upward trend to us that could strengthen as the current risks diminish. We have had a capital preservation stance since Trump's inauguration, but we are moving to a neutral stance at this point. We think aggressive accounts could usefully search for secular beneficiaries from AI. We think there are a number of interesting ideas to explore.

We think adoption of AI over the next five years by mainstream industry will shuffle the deck in many industries. We have identified consumer financial services as an area likely to be reshuffled (see our recent research note "AI Changes Everything In Retail Financial Services.".) The venture capital firm A16Z has independently come to the same conclusion. Banks which successfully position themselves may profit from consolidating less successful operators. Being alive to this trend and

Table 3: Market Performance to April 30, 2026

Asset Group	Asset Class	6-month trend	3-month return	1-month return
Equity	US Large Cap	rising	4.08%	10.65%
	...Large Cap Growth	rising	4.57%	14.93%
	...Large Cap Value	rising	3.40%	5.93%
	...Growth – Value	falling	1.17%	9.0%
	US Mid/Small Cap	rising	5.16%	8.97%
	Intl Developed	rising	0.61%	5.43%
	Intl Emerging	rising	8.24%	12.68%
Fixed Income	Treasury 3-7 year	flat	-0.91%	-0.26%
	Treasury 7-10 year	flat	-0.98%	-0.39%
	TIPS	flat	1.0%	1.11%
	Municipal	flat	-0.46%	0.92%
	Investment Grade	flat	-1.35%	0.08%
	Medium Grade	flat	-0.89%	1.03%
	Preferred	flat	-0.98%	3.56%
	REIT	rising	11.75%	9.71%
Commodity	Euro	rising	-1.68%	0.86%
	Gold	rising	-6.44%	-1.36%
	Crude Oil	flat	63.45%	5.58%

prepared to act on emerging winners could be beneficial to investors. By the same token, vendors who offer cost reduction to incumbents are now in the position of selling corporate survival rather than merely offering cost reduction. They may see healthier order books in consequence. This industry is just one of many where substantial change could emerge. For instance, military spending is on an uptrend globally and military AI/robotic spend is poised to go through the roof.

7 About Our Cover

Ships report their position by radio trannsponder. Unless the system is switched off, position is shown in real time. Here we present a snap shot of ships in the Persian Gulf and the Gulf of Oman just before dawn on May 7, 2026. The most prominent ship type is oil industry work boats shown in blue. The tanker traffic (in red) is holding position anchored in a few clusters inside the Persian Gulf and offshore of Oman. This is the traffic notably impounded by the closure of the Straits. There is also a considerable number of freighters (in green) mostly near ports. The Straits of Hormuz themselves are notable for the absence of ships.

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8 About Lloyd Tevis Investments, LLC

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In evaluating political and social developments our perspective is that of long term investors. We believe the investor's interest is best served by a stable environment in which change occurs incrementally as broadly supported policies rather than by

an environment of abrupt changes and frequent U-turns driven by transient partisan advantages. Finally, our assessments should always be read as what we consider likely to occur and not as expressions of what we would like to see come about. To learn more about our firm visit us at lloydtevis.com.