



US Senate Races

- Solid Republican
- Lean Republican
- Tossup
- Lean Democrat
- Solid Democrat

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1 Executive Summary

Trump bit off more than he could chew in Iran and he has been substantially weakened in consequence. Slowing growth, inflation and general unease are the fruits of Trump's errors. Trump has invited the public to use the upcoming midterms as a referendum on his performance. The electorate looks poised to do just that, and if predictions of the Democrats capturing Congress are borne out a rapid transition of Trump to lame duck status may result.

2 The Wars

Putin's party was victorious at the Parliamentary elections with about 40% of the eligible electorate voting the United Russia ticket. Another 40% did not bother to vote and the remaining vote was split between the Communists and the Liberals.

The Russian military is asking for an involuntary Gallup of 800,000 men - a clear admission it cannot make progress with its current forces. In fact, it lost about 400,000 men last year and voluntary recruitment has been insufficient to fully replace the losses. Putin has been slow to order compulsory service - aware that it breaks a fundamental contract with the public and mindful of how his previous forced call up triggered the flight abroad of nearly 1,000,000 educated Russian men in their 20s. We would hope the military's actual aim is to persuade Putin that it is time to disengage and so their resource request was deliberately set high.

Currently the front is deadlocked. The Russians hoped over a period of months to develop an enveloping maneuver that would net them the 'Fortress Belt' - a line of three fortified cities which anchors Ukraine's central front. But the Ukrainians cut off the northern salient the Russians were building - thus foiling that plan. Fighting continues strong along the southern end of the projected pincer move. Ukraine's success was built on beating down Russia's drone force in the region of conflict and blanketing Russia's middle rear with Ukrainian drones which attacked the supply lines feeding Russia's front line forces.

European governments have been broadcasting war warnings to their citizenry. The UK has told people to stockpile canned goods and potable water. These warnings began shortly after a Russian attempt to kill a group of European ministers and security officials leaving Ukraine was foiled by a change of train schedule. Intelligence intercepts and troop movements on the border are apparently raising the concern

Table 1: Armed Forces Of Iran and Its Allies

Country	Force	Mission	Active	Reserve
Iran	Artesh	National Defense	420,000	350,000
	IRGC	Foreign Subversion	190,000	?
	Basij	Civil Control	400,000	200,000?
Yemen	Houthi	Civil War	300,000	?
Iraq	PMF	Subversion	230,000	?
Lebanon	Hezbollah	Statelet	60,000	?
Israel	Hamas	Terror	20,000	20,000?
Total		1,620,000	570,000	

that Russia might attempt a limited thrust to cut-off ground communication between the Baltic states and Central Europe. Presumably Russia's plan would be to grab something valuable quickly and then negotiate a withdrawal in exchange for a cessation of support for Ukraine.

In the Middle East, China and Russia have both provided Iran with targeting information on US troops and US fatalities have resulted. Of course, the US has been supplying such information to Ukraine for years. Iran fired a ballistic missile armed with cluster munitions at a US aircraft carrier but missed. A hit would not have sunk the carrier, but it might have damaged a lot of aircraft and killed deck crews and pilots. The US naval blockade of Iran continues while the US Navy has the Straits of Hormuz functioning at about 80% of normal capacity.

The Houthi's have seized the West Coast of Yemen and are attempting the conquest of the provincial capital of Taiz. This is a city of about one million. Success here would consolidate their hold on the Red Sea coast and would commence a threat to the capital city of Aden. For the moment Saudi and Yemeni forces are blocking this assault. IRGC advisers are instructing the Houthis in digging tunnel complexes to secure their hold on the territory and exert control over the Straits of Bab-al-Mandeb. Ten years ago the Houthi's were a rag tag force of 30,000 armed with rifles. Today they are a force of 300,000 armed with drones and ballistic missiles. That represents an investment of billions of dollars of military aid by Iran, with the funds ultimately provided by Chinese purchase of Iranian oil.

This is a convenient moment to review the strength of Iran's direct and proxy forces. The total force is nearly 2 million, implying annual expenditure on the order of \$10 billion. The quality of the forces is very uneven however. Hezbollah functions as a autonomous statelet within the badly fractured Lebanon polity. Its revenues consist

of drug dealing and Iranian subsidy. At the opposite end of development is Hamas which is basically a heavily armed street gang which has captured the administrative apparatus of a municipal government. The PMF is an umbrella organization of Iraqi militias funded by the Iraqi government but actually controlled by the IRGC. Its ambition is to capture the Baghdad government, but currently it just mounts random attacks on Saudi Arabia and the US and engages in intimidating Iraqi politicians. The Houthis aspire to capture the government of Yemen. Practically they have realized the recreation of North Yemen - a state which was independent from 1918 to 1990 when it unified with South Yemen to form the current state of Yemen. Absent Iranian subsidy North Yemen would be among the world's poorest countries. The Basij is a paramilitary force mostly used to massacre Iranian citizens when they rise in periodic protest against misgovernment. The IRGC is the most ideologically committed of the Iranian forces and it is what keeps the current government in power. The Artesh is an actual professional military with modern weaponry and training. Its air and sea components have basically been destroyed by the US however. Its land component is likely an outdated Soviet style force at this point. Recently five suspected Iranian operatives were arrested by the UK and charged with planning an attack on a US airbase in England. Iran has a secret service network with global reach but uncertain potency.

Trump has refused requests for aid from Saudi Arabia and Yemen. He apparently fears further engagement in the Middle East would weaken his party in the November mid-term elections. Of course letting Iran solidify its hold on another Strait will not win the Republicans votes either. Instead of dealing with this crisis, Trump is picking fights with a long list of personal enemies - the Press Corps, Canada, the Kennedy Center.

To be blunt, Trump is weak and the US's enemies are on a roll.

Ever looking for an edge, China appears to be constructing a warship capable of launching rather large unmanned submarines. The idea of the mother ship with its lighter child craft is a perennial military concept. In the 1930s the US built giant airships from which to launch light aircraft on patrol missions. Other than the aircraft carrier, we are not aware of this concept having been successfully developed. The common difficulty is that the mother ship is a very inviting target. The aircraft carrier only overcomes this problem by surrounding each carrier with a full protective fleet. Autonomous underwater vehicles have developed at least as much as drones and perhaps the US navy has utilized submarines as mother boats for such watercraft.

3 The Domestic Scene

The latest set of decisions out of the Supreme Court have not been as helpful to the Republicans as earlier decisions were. It appears to think the time for it to be goosing the electoral scales has passed.

Several AI companies have gone public with the view that a regulatory framework is required to rein in the race to develop dangerous AIs. Trump is resisting this view, apparently fearing that any slowdown in the AI boom would undermine the economy. This development is deeply ironic. The Biden administration proposed a very light regulatory approach not too dissimilar from what some industry voices are now calling for. However a group of tech capitalists took alarm at that and threw in their lot with Trump. The likely upshot is that regulation will come, but later, and in a less friendly form. In fact, rogue AI exposes the AI companies to massive commercial liability. So far rogue AI has limited its activities to theft of commercial software. But the day it messes up an industrial facility and causes extensive property damage or loss of life, the stocks of the AI labs will crater. The labs need to get their creations under better control. But they also need a legal framework that caps their liabilities to something manageable. A company that knowingly fields an AI with a penchant for intellectual property theft, under current law, risks classification as a criminal organization. It was hopelessly naive on the part of the AI executives to think they could do without a regulatory policy. Their belated efforts to redress the situation are now falling under suspicion of being efforts at regulatory capture. Indeed they probably are, but Trump doesn't seem to have the artfulness required for that approach to succeed.

As usual with this technology, the rhetoric is unfettered to a silly degree. We are being told the technology might kill us all within ten years. Actually Washington and Moscow have possessed the means to kill us all since about 1960. The apocalypse is a real danger, but it is an obvious one and we must trust that competent people will continue to keep a beady eye on it - much as they have for sixty years. What is less obvious and thus harder to guard against is a Bhopal type accident. This does not require fiendishly malevolent AI out to get us. It just requires AI trespassing in control rooms it should be staying out of.

The public is getting fed up with AI. A continuous diet of news stories about naive tech bros losing control of their creations, of how AI will cause mass unemployment in well paid white collar job categories and accounts of the technology's thirst for electricity and cooling water has generated anxiety and opposition. The first AI ventures (Chat-GPT, Gemini) were helpful to people and produced a sunny public response. But more recent work has catered to businesses and the public response

has grown chillier. Giving AI an obsequious, even sycophantic manner, creates as much suspicion as tolerance and is but a band-aid on the real issue. AI which is directly helpful to consumers is what is needed to reverse this dynamic.

The Democrats assume the political pendulum will carry them to victory and so they have indulged in weak fund raising, poor candidate selection and an unfocused agenda. The Republicans assume the pendulum will toss them in the pit of failed politicians and they had best pull out every dirty trick in their book to hold on to office and preferment. Its nice to see bi-partisan agreement, but a common assessment is not producing the fresh vigorous thinking that the situation demands.

After a few months of more cautious behavior, US immigration forces gunned down another citizen. The US government is committing the travesty of throwing unrepresented children and toddlers before immigration judges to have their deportation orders signed. To the children's plea that they want to remain with their relatives - something which ought to be a fundamental human right - the judges respond that that is not an argument of which immigration law takes cognizance. The midterms are pending and Trump continues stirring up the rabidity of his base on immigration. That rabidity is reminiscent of Nazi success with spreading anti-Semitism. The latest ambition is to end the H1-B program entirely. As that would shut down the technology industry within a few years, we are doubtful that will happen. But Trump's key adviser - Stephen Miller - is a man of undoubted ambition. In a stomach churning fiasco, Tennessee botched the execution of a female prisoner who survived two fatal doses of phenobarbital. Hegseth chose this moment to announce that the military execution of a former major turned enemy combatant will be live streamed. There appears to be some question as to whether Army regulations even permit this. This prisoner is confined to a wheelchair and his appearance before a firing squad is unlikely to create the sort of publicity the Army seeks - least of all in the middle of an unpopular war. Hegseth (another former major) continues to be a regular menace to his own side.

4 The Domestic Economy

Somewhat to our surprise the Federal Reserve raised interest rates on the verge of an election. It probably figured that if it did not take action the capital markets would and the damage would be greater. This rate rise has perhaps headed off a bond market rout, but long rates continue to trend higher. The ten year note is at 5.3% The thirty year bond is at 5.65% and the thirty year tips is at 3.28%. That sets the break-even inflation rate at 2.3%. Value stocks have slid about 3.5% in the past month as rates have risen.

Currently core inflation (i.e. ex energy and food) is at 2% - the Federal Reserve's target rate. But including food and energy pushes inflation to 3.7%. Iran is hoping that the pain of US domestic inflation will elect a more dovish Congress that permits Iran to pursue its dreams of regional power uncontested by the US military.

Unemployment ticked up slightly to 4.2%. Unemployment among recent college graduates is about 5.7% but fully 40% of employed graduates report working below their educational level. So the environment is a difficult one for young people attempting to start careers. AI is broadly blamed for this. It is one negative influence to be sure, but a soggy environment for small and midsize businesses is probably a more important influence.

Economic growth in the second quarter was revised up to an annualized rate of 2.2% real. Consumer spending and business investment in AI are the primary growth drivers at present.

High gasoline prices have stimulated sales of hybrid cars. The US manufacturers barely have an offering of this type and so sales have gone to Asian manufacturers. At this point Samsung/KIA is virtually tied with Ford for the number two spot in terms of units sold, behind Toyota which is the sales leader. . We think the prospects for US auto manufacturers are uncertain. They are wedded to the internal combustion drive train. But the global market is rapidly switching to hybrid and all electric drive trains. The US manufacturers will find it difficult to hold their position abroad and their position in the domestic market also could erode. The Biden administration had attempted to ease their drive train transition by subsidizing electric vehicles, but Trump reversed that policy. We hope he did not thereby kill the US auto industry.

Justices Gorsuch and Thomas find themselves faced by a dilemma in the case of Boulder versus Exxon and Suncor now before the Supreme Court. The City of Boulder is suing two oil companies arguing that their products cause global warming and that they sought to conceal that fact from the public. The City claims it has borne heavy costs from flood and fire in consequence of the climate change and it seeks to collect a percentage of those costs from the companies. The companies argue that Federal law preempts state law in environmental regulation and there is no basis in Federal law for the suit. The Colorado Supreme Court decided to let the case move to trial without deciding if the City's case was strong enough to set a precedent or not. This case is, in fact, a classic regulatory case. The original cases in this area concerned early railroad trains. Farmers sued the railway companies claiming that embers from their locomotive's smoke stacks had set their fields on fire and that the companies bore strict liability under the common law. But there is a national interest in having railway lines and allowing local interests to put them out of business by saddling them with the cost of every local fire would be very much

against that interest. The Federal government stepped in to establish a regulatory framework imposing some precautions against spreading fires on the companies but in turn relieving them of strict liability provided they were not negligent. Practically the entire industrial world has rested on this framework - superseding the common law's strict notion of liability with a Federal regulatory definition of negligent liability crafted around the specific issues raised by the industrial activity. Congress has normally delegated the writing of these rules to experts versed in the details of the industry (i.e. to regulatory agencies) rather than trying to educate itself and stay on top of thousands of ever shifting details of economic activity. From this viewpoint, the energy companies should have an iron clad defense. Unfortunately for them, Gorsuch and Thomas are opposed to Federal regulation, hostile to Federal preemption and Gorsuch, in particular, loathes the regulatory agencies in general and the EPA in particular for personal reasons. Their natural inclination is to find no Federal regulatory interest. Compounding the energy company's difficulties, Alito recused himself from the case as he had shareholdings in other energy companies. Alito is usually a reliable supporter of the corporate point of view on the Court. Gorsuch and Thomas are not known for siding with long haired hippies asserting environmental interests. But they are very protective of local governments trying to keep their tax rates down. In this case the local City is in effect claiming that the reckless behavior of the energy companies is unfairly burdening its tax payers. The city's attorneys have carefully quoted passage after passage from the opinions of Justices Gorsuch and Thomas to the effect that Federal preemption, to be operative, must be based on clear statutory or constitutional text. In fact, the Justices recently found a military contractor exposed to state liability because, in their opinion, the Federal government's inherent power to manage wars did not relieve civilian contractors of liability absent specific Congressional action in that regard. This case is in fact a false dilemma. The modern economy needs a Federal regulatory framework and that question was settled over a hundred years ago. No new issue is raised by this case. It is only the ideology driven jurisprudence of Thomas and Gorsuch which has opened the question. Will they face the failure of their reasoning or will they take refuge in some convoluted and arbitrary distinction? Our money is on the second outcome. There is a wider political issue as well. Industry wants relief from liability without the burden of regulation. Normally it recognizes it cannot get that, so it takes the relief from liability and focuses its lobbying power on creating weak and innocuous regulation. But the right wing populism of the day has swayed it away from that traditional course of action - only to expose it to the sharp knives of local regulators - which was part of the secret agenda of some of the populists. Big business needs to rebuild the political base of its traditional protectors - the business liberals (also

known as traditional Republicans.) How the liability issues of AI get handled are going to make this a very hot area over the next decade. Perhaps even hotter than the climate. There is an even wider political dilemma. The reality is that it is the Exxon shareholder who owns the heavily taxed suburban property that gets burned down by the wildfire and who then faces soaring fire insurance premiums. Partisan factionalism is a pretty poor guide to how these costs get distributed. One can deny climate change as much as one likes, but the bills will be presented anyway.

Meanwhile, the US economy is doing what it does best - grinding it out. It faces a lot of headwinds. Massive capital investment is required to support the growth of current AI technology. That technology is being offered below cost in an effort to build a market. Presumably the next generation of technology Will be 10x cheaper allowing the market to be served profitably. This is a high risk business strategy, but the competitive dynamic does not really permit an alternative. Long lived utility assets are being built out to support this growth. But the Administration is opposed to the green energy transition and so the possibility exists that these assets will be shut down long before their economic end of life is reached. Low tech industry and farming have to contend with a President intent on injecting volatility into trade relations. The Iranian war has pumped up the price of crude and the Ukrainian campaign against Russian refineries has taken out enough diesel fuel production capacity to perturb the global market. Everything in the food chain from farm tractors to long haul trucking is feeling the consequences. The Federal Reserve has just hiked interest rates which should deepen the natural seasonal slowdown in real estate and home construction. Medical research, normally one of the US's shining jewels, is being ceded to China as a result of the political nut jobs who have been put in place. In short, there is a lot that is sub optimal. But the economy keeps grinding it out. We suppose the bright spot is that with these brakes removed in due course, the economy should re-accelerate.

5 The Global Economy

One man's misfortune is another's benefit. If you are not Ukraine or Russia and you grow wheat times are good. This favors Canada, the US, France, and Argentina. If you have oil reserves outside the Mideast and Russia, there is a thirsty world eager for your product. That favors the US, Canada, Brunei, Nigeria and Norway. If you are not the US, you can supply a wide range of industrial intermediates and you have government that believes in nurturing exports then of course you are China and times are very good. Trump's trade wars have made China the world's reliable supplier. If you are a booming middle tier economy whose government decided fomenting internal

religious tensions was more important than reforming a sclerotic bureaucracy, then of course you are India and you hope your gods and goddesses have enough hands to fix all the problems your government has neglected.

6 The Capital Markets

The bond market continued to erode, uncomfortable by the Fed's recent tightening as harbinger of an eventual reduction in inflation. Most equity sectors eased as they followed the bond market's lead. The large cap growth sector eked out a small gain - for the moment resisting the overall trend. Oil has been surging higher as Iran and its Houthi ally continue to threaten Middle Eastern supplies, oil stocks shrink and the winter heating season approaches. The Fed's action strengthened the dollar versus the Euro and Gold. Gold appears to be looking for a stable trading range as its correction from the bull high of the spring runs its course.

Table 2: Market Performance To September 30, 2026

Asset Group	Asset Class	6 mo trend	3 mo Return	1 mo Return
Equity	US Large Cap	rising	2.26%	-0.63%
	...Large Cap Growth	rising	3.44%	1.91%
	...Large Cap Value	rising	0.54%	-3.49%
	...Growth – Value	rising	2.90%	5.39%
	US Mid/Small Cap	rising	-4.67%	-4.78%
	Intel Developed	rising	0.01%	-3.31%
	Intel Emerging	rising	-2.37%	-0.34%
Fixed Income	Treasury 3-7 year	flat	-3.42%	-2.35%
	Treasury 7-10 year	falling	-5.56%	-3.70%
	TIPS	falling	-4.93%	-2.60%
	Municipal	flat	-6.06%	-3.81%
	Investment Grade	falling	-6.32%	-3.79%
	Medium Grade	flat -3.45%	-3.26%	
	Preferred	flat -3.25%	-3.09%	
	REIT	flat	-6.99%	-6.58%
Commodity	Euro	falling	-1.07%	-2.73%
	Gold	correcting	3.61%	-5.93%
	Crude Oil	volatile	34.45%	12.69%

7 Advice

The times are unsettled. Keep to your overall strategy but emphasize asset quality and seek to address any points of weakness in the real asset portfolio. This is a time period in which the primary emphasis should be on capital preservation, but a well diversified selective growth commitment may prove abundantly rewarding.

8 Cover Graphic

The cover picture this month shows the status of races for the US Senate about one month before election day. There are 35 seats in contention spread across 35 states. So 70% of the states are having a race this year. States not participating in this election are shown in gray. There are 12 seats currently held by Democrats in contention. In ten of those states the incumbent is running for re-election. Where a non-incumbent is running one is considered solidly Democratic and the other is leaning Democratic. The Republicans are defending 21 seats. In eight of those states their champion is not the incumbent, but fortunately for the Republicans six of the eight are in solidly Republican states. Adding the solidly Republican states to those not up for election this year brings the Republicans to 45 seats. The same calculation for the Democrats brings them to 47. That total assumes the Democrats take North Carolina away from the Republicans and hold the open seat in New Hampshire. So control of the Senate comes down to the remaining eight races. The break down is 5 Republican seats contested by the incumbent, 2 Republican seats where the incumbent is not running and one Democratic seat where the incumbent is not running. To keep the Senate the Republicans must claim 5 of these eight since the Vice-President's tie breaker vote gives them control in a hung chamber. The Democrats must claim 4 of eight to gain control. In terms of US regions, the Republicans retain their grip on the Old Confederacy and the Western empty spaces. But their hold on the Midwest has been shaken. It will be an interesting, possibly consequential election. Unlike the House, there is little opportunity for the Supreme Court to fiddle with Senatorial elections.

9 About Lloyd Tevis Investments

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