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We woke up this morning to headlines of “peacekeepers” being sent into the Donbass. We saw an aggressive speech by Putin, followed by the signing of deals to recognize independent regions within Ukraine. This relatively poor, bleak region now commands the entire world’s attention.

The only “regret” Putin seemed to display during his tirade was having let the USSR disband.

Stocks have been on a wild ride since Friday’s close. S&P futures were slightly higher late Sunday night and then proceed to sell-off during the day as headline after headline emerged, all pointing towards aggressive action from Russia.

Then, after signing those documents, we saw the S&P 500 futures drop almost 100 points from Friday’s close. In a wild night, they managed to climb back to positive, while now giving up those gains as Germany is stating that they can no longer support Nord Stream 2.

Please watch **General (ret.) Marks** on [CNN this morning](#). He will be a fixture on that network as they grapple with what is going on.

Limited Incursion?

This morning we are starting to face the reality of what a “limited” incursion might look like and will continue to outline the potential scenarios and market impact. Almost absurdly, given everything that has gone on, our original “base case” of limited incursion, followed by an olive branch, then some tenuous agreements, remains in place.

- **Limited incursion.** While visions of “peacekeepers” rolling into Ukraine originally drove markets lower, a couple of things seem to have calmed the situation (for markets, not for the Donbass):
 - **Limited response.** In the immediate aftermath of Putin’s actions, it seemed like sanctions might be minimal and target the Donbass region and those involved there, rather than applying more broadly to Russia. Some statements, depending on how you chose to interpret them, seemed to indicate that only further incursion into Ukraine would warrant more severe sanctions. **This outcome is good for Putin, good for markets, and awful for not only the Donbass, but for those who worry (and I’m one of them) that this just lays out the steps for future incursions by Russia (and possibly others).**
 - **Severe response.** Putting Nord Stream 2 in jeopardy would hurt Russia. Going after the oligarchs’ assets across the globe would hurt Putin (not sure if we can get there, but aggressive measures are at least being discussed). It is clear to many now (even if it should have been clear sooner) that Putin isn’t easily scared. He has been almost dismissive of sanctions as Russia has been enduring them to varying degrees for years and has had plenty of time to prepare for this round. Longer-term, the China/Russia pipeline deal is helping shape what he can do (and not in a good way for the West). **This is worse for markets and better for humanity, but at this stage, seems unlikely to prevent incursion.**
- **Full-scale attack. This remains highly unlikely,** as nothing has changed about the logistics and cost to Russia of mounting such an attack. While Putin’s speech was a clear indication that this

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is something he wants, which increases the odds, it will still be a difficult and brutal battle. Also, after his “performance” yesterday, we may see a much more hardline response from NATO and the West as his dreams (if not intentions) are impossible to deny. Any major conflict, whether it is Ukraine aggressively defending its borders or Russia pushing far into Ukraine, will be incredibly disruptive for markets (at least in the near-term).

Bottom Line

Markets are simply puppets on strings this morning. Those strings will be pulled, headline by headline, and we will do the best to navigate that and provide updates whenever possible or appropriate from our Geopolitical Intelligence Group.

At this particular moment in time (7:30 am EST):

- **Markets, as suggested on Friday, have priced a lot of the risk in already.** Even at its worst point yesterday, we were well within what has become “normal” volatility (not like the limit down experiences during the pandemic, or Brexit, or the Financial Crisis).
- **Sanctions with real teeth and tough talk are all that Putin might understand.** That seems to be the tone assuming the Nord Stream 2 headlines out of Germany are correct. Having said that, it makes sense to fade any rally based on the thinking that Putin will back down, as he seems to have gone too far to settle for anything less than occupying some or all of the Donbass (the existing “separatist” controlled territories are almost a foregone conclusion, but does he push further?) This is probably the “right” strategy for NATO and the West, but will ensure that we get more volatility as Putin is unlikely to backdown quickly and he may even threaten further escalation.

So, despite everything going on, I’m looking for opportunities to buy as a lot was priced in already and full-scale invasion seems unlikely, but there will be better buying opportunities if the West launches aggressive sanctions (we cannot expect Putin to react meekly after yesterday).

Good luck as it does seem that we need to rethink the world after yesterday (from a geopolitical and humanitarian standpoint) as **it is clear that not everyone intends to play by the established rules.**

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