

After Biden's Speech – Where We Stand on Russia

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Not only did President Biden just speak, but there are ongoing reports of potential explosions/fires at or near a pipeline in Ukraine and cyber-attacks designed to disrupt the Ukrainian government. Putin is also headed to oversee some nuclear exercises.

Let's do this quick outlook via the D.I.M.E framework.

Diplomatic

Europe and the U.S. (NATO) seem to be on the same page. That is good and an improvement over where we were.

While the president argued that the world is against the Russians on this one, it seems that China (if not outwardly supporting any invasion) will continue to work with Russia and that is important.

Information

The president is hammering home the point that Putin wants to use a "false flag" event as a pretext for any incursion. By highlighting this over and over, we hope to win the information war that any attack is not justified in any way.

We have yet to see what false flag event might be attempted, but Putin will now take any action knowing that far fewer people will believe that any such potential action will have justification.

The "troop withdrawal" announcement seems to have been just an effort to provide the world with misinformation.

Cyber-attacks will certainly increase if he is going in, so keep watching that.

Military

President Biden mentioned Kyiv as being targeted. Academy's GIG has been viewing that as a remote possibility. For one, the troops in Belarus would have to travel through the Chernobyl area, which they view as risky for the Russian military. There is also great risk of harming Americans in any attack on Kyiv (much more so than the Donbass). The loss of Russian lives would be high as well and their ability to maintain a force big enough to occupy and quell resistance in Kyiv is questionable.

One thing many on the GIG have pointed out is that from their take on the Russian media, not much has been done to prep the Russian citizens for serious casualties on their side. With challenges to any "justifiable pretext" and little preparation on the home front for the number of casualties that could be expected in an attack that includes Kyiv (rather than a limited incursion), those concerns expressed by the GIG remain valid.

The president did confirm that we would not support with troops. That was never likely, but clearly removes a danger from Putin's calculations.

Economic

We will use sanctions. Bloomberg reported that Draghi has expressed some reluctance to hit the energy sector. That seems like a "win" for Russia. Russia knew that sanctions would be our weapon of choice, so we should not underestimate Russia's preparation for sanctions (especially if China works behind the scenes or openly to aid them while sanctions are in place).

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Markets

Markets have done a “good” job of pricing in the increased risk.

The S&P 500 is down almost 6% since last Thursday and the Nasdaq 100 is down over 7% since then.

While there has been some Fed noise impacting markets as well, “Bullard the Bear” versus more subdued minutes almost cancelled each other out (the 10-year Treasury yield and the probability of a 50 bps hike, according to WIRP on Bloomberg, are both back to where they were last Wednesday).

Any withdrawal or negotiated settlement will create a huge relief rally.

The bigger question, to me, is how much more downside is there if Russia invades?

The markets are clearly NOT pricing in a full-scale invasion. That would hit the markets hard.

On the other hand, a limited incursion, followed by sanctions, which don't target the energy industry, may already be getting fully priced in. From a global economic perspective, the Donbass region is trivial and even Russia is just a fraction of the global economy.

It feels awful to write this, but there are now, in my view, some incursion scenarios that likely see stocks start to trade better.

Those scenarios are less likely, given the tone of the various parties involved, indicating even a limited incursion will cause more wrath now than it might have a month ago. But even then, how much downside is left due to Russia/Ukraine? Especially if the energy industry isn't targeted.

More From Academy

Here are some other things to keep you up to date:

- Tuesday's [Webinar Replay](#) where despite the withdrawal headlines, General (ret) Marks viewed incursion as the most likely outcome.
- This past weekend's T-Report – [Battling the 2 Fronts – Russia and the Fed](#). We also sent out several other notes during the week on the subject, which weren't long enough to post on our site, but should be in your in-box.
- Academy on [Bloomberg TV yesterday](#). The start of the show is Russia and Academy gets in on the discussion at the 9:28 mark, but the discussion before and after is very good. At the 34:20 mark, we get back to Academy and our take on Russia (I lose count of how many times I say false flag, but I think that the interviews do a good job capturing how we've been looking at this).

Good luck and hopefully we can all enjoy a peaceful long weekend!

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