

Ride of the Valkyries

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Rarely does a T-Report write itself, but this is one of those occasions! The events of the past few days included a paramilitary (or simply military) group named Wagner and a ride to Moscow. It is almost impossible not to conjure up the iconic helicopter scene from *Apocalypse Now*.

Academy has published two [SITREPS](#) on the recent events in Russia. We are also having multiple discussions on the subject attempting to sort through these “incredible” developments. It is “incredible” from the standpoint that virtually no one saw it coming, that it is the first real “challenge” to Putin, and that somehow Belarus apparently played the role of mediator.

For now, some key takeaways are:

General (ret.) Deptula – “A huge **opportunity for the Ukrainians.**”

General (ret.) Marks – “Definition of chaos and uncertainty” and we are “focusing on the **control mechanisms of Russia’s vast nuclear arsenal.**”

General (ret.) Walsh – “**Fluid**” and “**Xi** is tied to Putin.”

General (ret.) Kearney – “**For Prigozhin to live a long life...**”

Fluid is probably the key word in all of this as the situation continues to develop.

What Does This Mean for Markets

At this stage, there is so much uncertainty around what happened, how it happened, and what will happen next that it is difficult to predict anything for markets. But I think that we are in a position to lay out several plausible scenarios and what they would likely mean.

- **Ukraine makes advances, the Wagner Group removes itself from this conflict to focus on their other “business” initiatives, and Putin is forced to the table (potentially by Xi).**
 - From the perspective of Ukraine, NATO, Europe, and even humanity, this would be the best outcome. It would pave the way for a truce while some final “treaty” is agreed to.
 - Europe benefits as refugees can start the process of returning to their homes and talk of rebuilding Ukraine will spark growth discussions.
 - **A year ago, this would have been deflationary**, but now that is far from clear as Russia has found new buyers for its commodities and seems unlikely (or even unable) to return to selling cheap fuel to Germany and the rest of Europe (rather than just to China and India). A year ago, I would have expected oil to sell off significantly on any peace news, but oil was over \$100 then (not \$69) and these new buyer/seller arrangements were not as entrenched as they are now.
 - **The rebuilding of Ukraine could be inflationary.** Depending how quickly it starts and where the money comes from (possibly Russia’s dollar reserves), we could see another spurt of inflation as this reconstruction will be expensive and resource intensive.
 - I’d buy a commodity dip, favor European and Emerging Market stocks, be overweight on companies that benefit from “reconstruction”, and would expect rates to initially rally (along with an initial commodity sell-off that will reverse higher).
- **Some sort of “regime” change in Russia.**
 - This seems highly unlikely. While Putin was at the very least embarrassed by the events

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of the past 48 hours, he remains firmly in charge. There were no mass defections from his base or the regular military.

- If a regime change does occur (even if the new person in charge also has “questionable morals”) they would likely back down on the war in Ukraine and open up negotiations. It makes sense (even if you are a bad person) to take a step back and consolidate the riches that you have won as the leader of Russia.
- From the market’s standpoint, it probably plays out similarly to a peace deal.
- **Retribution and renewed focus from Putin.**
 - The wildcard all along in the fight for Ukraine has been Russia’s possession of nuclear weapons. We’ve known from the start that Putin was capable of committing atrocities on a large scale and that he was largely indifferent to his own troops, but he stopped short of the nuclear option. If he feels threatened, does he escalate? **We still see it as extremely unlikely that he resorts to nuclear weapons**, and while his inclination may be to lash out even more viciously at the Ukrainians, he is likely getting pressure from Xi to restrain himself. Xi’s connection to Putin has not been a good look for Xi and some “cornered animal response” doesn’t seem to be in China’s best interest. While Putin will do what he wants, we have to assume that there is pressure from China for him to act with restraint.
 - Anything other than nuclear (which we don’t see as an option) isn’t likely to do much to markets. We’ve settled into the status quo and this would just be viewed as yet another escalation that is likely to dissipate over time.
 - While it doesn’t seem likely, we can’t entirely dismiss the potential **that this whole event was some sort of a charade**. Russia was moving nuclear weapons to Belarus and it is easier to reach Kiev from Belarus. And now (suddenly) this splinter group is there and is no longer taking orders from Moscow. Could this be some shift in how Russia plans to continue its attacks on Ukraine? Seems unlikely, but the entirety of the last 48 hours seemed unlikely and Russia is a master of “false flag” operations. This would trigger weakness in risk assets in the unlikely event that it turns out to be the reality of the situation.
- **Status quo.**
 - Ukraine is able to take some advantage of this change in Russia, but the lack of air support and the unwillingness of NATO to let Ukraine take the fight to Russian soil leave us more or less where we’ve been. This would continue as a slow grind (hurting both sides) with the rest of the world looking for signs that one or both parties will come up with the pretext to start realistic peace negotiations.

Bottom Line

We are probably the closest that we’ve been to seeing a defined path to peace since the invasion occurred, but its impact on markets will be muted as the world has changed a lot in the past 18 months.

However, there is always some small risk that this gets worse before it gets better.

I will leave you with this quote: **“Russia is never as strong as she looks; Russia is never as weak as she looks”** (since it seems appropriate for the current fluid situation).

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