

Shock and Flaw?

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Markets are rebounding as Russia has reached out to Ukraine about possible peace talks. Whether the details will match anything remotely resembling legitimate peace talks remains to be seen, but it is worth revisiting how the campaign against Ukraine has gone so far.

Shock and Awe vs Shock and Flaw?

While this is simplistic and understates the risk that American troops faced in Iraq, it is meant to illustrate a point.

- **Baghdad versus Kyiv.** It was impossible not to be glued to your screen watching the explosions over Baghdad in 2003! It was a tremendous display of firepower. While it is scary and heart wrenching to watch the current level of bombardment (knowing there is more to come), it just doesn't seem like shock and awe. Maybe it is because it is too spread out, maybe it is because C2 (command and control) still seems to be working, but it just doesn't have the same level of sophisticated targeting with exceptionally large payloads.
- **Iraqi Regulars vs Snake Island and the Ghost of Kyiv.** The shock and awe was so devastating that many Iraqi regulars put up little resistance. **Also, more importantly, maybe they weren't defending something that they were willing to sacrifice for.** Whether the Ghost of Kyiv is real (allegedly a Ukrainian fighter pilot who downed 6 Russian aircraft, becoming the first one-day ace since World War II), Snake Island is real and shows that Ukrainians aren't welcoming Russia and are prepared to give up their lives even when the situation seems hopeless. **That is an entirely different level of resistance and defiance than maybe Putin expected and does not bode well for the prospects of occupation by Russia.**
- **Cyber.** The cyber battle does not seem as one-sided as many thought likely. Ukraine has been hit, but still seems to be functioning. The hacker group Anonymous has pledged to hack Russia and RT (Russian Television) and some other government sites were down yesterday. Ukrainian hackers are also busy, and this is one area where NATO may be able to help without appearing to be involved. **Academy is hosting a [Cyber Webinar](#) today at 11:00am ET! [Rear Admiral \(ret.\) Danelle Barrett](#) will lead the call.** She was instrumental in developing the Navy's cyber capabilities and she is incredibly active in the space today.
- **Chernobyl.** General Marks and others have said it would be difficult to convince many to drive through this region, yet it is one region that has been "captured" and occupied by Russia. That does not seem like an ideal base for anyone. Maybe there are ulterior motives (sitting on that radioactive waste), but **it seems a bit strange, other than it is on the direct path to Kyiv from Belarus and works well if you don't care about your own troops.**

The "Flaws" or Putin's Miscalculations?

It is very early in this campaign, but there do seem to be two potential flaws with Putin's plans (and let's call it Putin's plans as opposed to Russia's plans as I think that is an important distinction).

- **Tougher Resistance from Ukraine Than Expected.** Did Putin possibly believe his own lies and think that Ukrainians would quickly lay down their arms and welcome the Russian invasion? When one has no checks and balances, it is possible to fall into traps like that.
- **More Resistance at Home?** The fact that there are any protesters in Russia is amazing. There is

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no parallel whatsoever to protesting in the U.S. vs. protesting against Putin in Russia. Arrests are likely and the consequences of those arrests will be painful. With Putin's speeches Monday and Wednesday, which were over the top in so many ways (no real attempt at any plausible explanation for attack, etc.), maybe he is at some risk at home. Our Geopolitical Intelligence Group has pointed out that he does not seem to have sufficiently prepared Russians for casualties and that is what he is getting.

## Sanctions and Energy

I still don't think that sanctions will be an effective deterrent ([Time Magazine](#)) and agree with the decision to avoid SWIFT as there are many concerns about [the "Known Unknowns" of shutting down SWIFT](#).

I do think that we need to "rethink" our energy policy! We need to hasten our drive to sustainable energy, but in the meantime, we must get back to being energy self-sufficient and even become a net exporter in the coming years. There needs to be a sense of urgency on this and it is disappointing that the West was in no position to sanction energy dealings with Russia. Please see yesterday's [Bloomberg TV](#) appearance from our Miami "office" (starting at 1:00:40).

## Bottom Line

[Please watch our cyber webinar – it should be awesome!](#)

I do think that the Fed will have to be a bit more cautious in terms of tightening (rate hikes and QT) with this backdrop of geopolitical risk (which is inflationary but not responsive to monetary policy) and to obvious signs that liquidity across many products is poor.

Having said that:

- I don't trust Putin's intentions regarding negotiation.
- The war, while seemingly not going according to plan for Putin, has only just started.
- China has been quiet, but if anything, seems to be leaning against us, which should be a concern. I find it hard to believe that China is at all intimidated or impressed by our response so far.

**So, fade this rally and reduce risk (the S&P 500 is up almost 6% since yesterday morning's lows).**

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