

## Weekend War Report

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There continues to be two main stories driving markets:

- The Fed
- The War in Ukraine

With the Fed minutes released this week, this has become the main driver. We will update our Fed and economic outlook this weekend (see [Oh Behave!](#) and [Collecting Our Thoughts](#)).

In the meantime, it is a good opportunity to catch you up on our latest thoughts on the war (latest [Around the World](#) is also relevant).

### Russia's "New" Strategy

Russia has pulled back to focus on Eastern Ukraine. Russia will argue that it is by choice, but their performance was so poor and their supply chains were so extended that they had little to no choice.

One of the reasons most of the Geopolitical Intelligence Group didn't expect a full-scale invasion was Russia didn't have the forces to mount that invasion. It turns out the GIG was correct.

- Expect harsh and brutal tactics in Eastern Ukraine.
- Resupply, rearm, reorganize.
- Push West towards Kyiv if they are successful in the East.
  - At this point, the "if successful" looks more and more like a big "if."
- **Don't expect a peace settlement.** It is possible given the state of the war, but it is becoming increasingly difficult for Putin (even with state owned media) to convince people in Russia that they "won." It is also becoming increasingly difficult to "hide" the losses from the Russian public as loved ones are unresponsive and missing, even accounting for wartime necessities and difficulties with communication.
- Putin continues to isolate and protect himself making any hopes of some sort of overthrow highly unlikely (especially as the security apparatus is able to act aggressively within Russia).
- We have not seen any WMD yet and the GIG still views "even" tactical nukes as extremely unlikely.

### Ukraine's "New" Strategy

Ukraine has been able to adjust their military tactics in the past week.

- Heal and recover in and around Kyiv.
- Resupply with new (and in many cases) better equipment coming in from the West.
- Counteroffensives beyond Kyiv. Ukraine is trying to push back and reclaim lost territory.
- **Attacks into Russia.** General Marks spoke about this at length yesterday. He thinks Ukraine will target military facilities and supply depots in Russia with long-range weapons. He does not

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foresee “boots on the ground” in Russian territory, but thinks that we have seen a new phase evolve where Ukraine will hamper Russia's re-arming effort, even if it means hitting targets in Russia.

- **Don't expect a peace settlement.** Despite the ongoing alleged atrocities, the Ukrainian military is feeling emboldened, and that alone will make it difficult to accept terms that Russia would find acceptable.

### The West's “New” Strategy

- More sanctions and tougher talk. I continue to be skeptical on how well sanctions will work.
  - The West continues to buy energy products from Russia at elevated prices and prices have been so high for so long that Russia has established a significant war chest in the most literal sense.
  - China and India, most noticeably, continue to enable Russia to avoid the worst of the sanctions by buying their commodities en masse.
  - Russia may default on their debt, but since they are “unable” to pay creditors, based on rules imposed by the countries in which those creditors are domiciled, others may take Russian credit risk, rendering debt default technical in nature, at least as far as it prevents Russia from getting access to credit (see China and India).

On the other side of the coin, we are seeing:

- Increased presence and activity in NATO countries “firming” up the borders.
- Finland apparently considering NATO.
- A willingness from the West to increase their military support of Ukraine. Public opinion is so strong that the West may be willing to do more in terms of supplying weapons, technology, and support to Ukraine. With the Russian advance in the Western part of Ukraine pulling back, it creates a window of opportunity. **This could be a real shift in the war.**

### China First, India First

China and India continue to buy Russian commodities. I keep getting told that they will “wake up” and figure out they are on the wrong side of history, or that they will realize that they are doing damage to their own economies. I humbly, but strongly disagree. I'm sticking with [Who Needs Who](#) and that we need to get over ourselves, at least a little.

I do believe that the autocratic nations, especially those with a wealth of natural resources, are aligning because it is in their mutual interest to do so.

While I don't see the end of the dollar as the world's reserve currency, I do expect to see much smaller Treasury holdings from countries as they start to trade more with China directly in Yuan.

On Taiwan, the GIG consensus seems to be:

- Seeing the global alliance against Russia will dissuade China from military action against Taiwan.

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- Taiwan's defense system (less about beachheads, but mobilizing the nation for guerilla war) will also give China second thoughts.
- Diplomatic and economic pressure will be applied (the announcement of semiconductor plants in the U.S. and Germany is "good" for supply chain security, but "bad" for Taiwan over time).

I do want to address military equipment here too:

- The Indian Army relies primarily on Russian equipment. They have started to shift to Western equipment, but that reliance likely plays a key role in their thought process.
- **Is China "interested" in seeing how their equipment performs in a firefight?** This is a bit of a "weird" one, but has come up before. China has invested in building their military and it looks "good" on paper, but will it really perform? While China is unlikely to take any direct action (though that is still a possibility), could they sell weapons to someone who is willing to use them? It seems difficult to believe that China would supply Russia with weapons (that is a step beyond buying their commodities and acting as their banker), but it would get their equipment battle tested, which might be something in which they are interested. There is no consistent opinion from the GIG on this, but it is a subject that is getting discussed with more frequency as the war grinds on and Russia's inadequacies are being exposed.

## Economic Consequences of the War

Assuming we are right and that the war grinds on:

- It will be increasingly difficult for Europe to avoid a recession, which will hurt U.S. economic growth.
- The need for "safer" supply chains is being acutely felt and will be a priority for companies (**inflationary pressure**, jobs and growth for "close" countries, etc. are all key topics).
- At some point D.C. will stop chastising energy companies and prepare some sort of a Marshall Plan for energy - a clear path to sustainable energy without risk of disruption because it would also fully support existing energy systems. (**Inflationary during the buildout**).
- **Food may overtake oil as the biggest problem the world faces as this war drags on.**

While the Fed may be the biggest factor the market has to finish digesting, the market may be too complacent on the implications of the ongoing war.

On a separate note, Academy will be in Dublin, Ireland on April 20<sup>th</sup> and 21<sup>st</sup> for our first overseas engagements since COVID as we expand our business. If you have colleagues there that it would make sense to meet, please let us know!

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