



Zanetti Monday Missive 2022.02.28 Russia, Ukraine, and China

“A commander never puts such trust in peace that he fails to prepare for war.”

~ Seneca

Wow! What a week in the markets AND on the world stage! Ups and downs and ups and downs.

For the last several weeks, the White House has been saying Vladimir Putin was planning on invading Ukraine. Putin denied the allegations while the White House urged him to reconsider and enter peaceful negotiations - Putin said that was unnecessary.

Last Wednesday, Putin sent his troops in to Ukraine to “support” Russian separatists. No matter how hard Putin tried to spin it, the world knew an invasion had begun.

The stock market initially responded to the invasion on Wednesday by a sinking in the stock market and a jump in commodities and precious metals. This made sense. What didn't make sense was that by Wednesday afternoon, the stock market recovered and was up, while commodities and precious metals fell.

What we were watching was probably a government intervention that tried to slow down a panic and a run on the stock market. And it worked. At least for a while.

Back to the Ukraine...

Vladimir Putin is learning what Vladimir Lenin learned back in 1917. Ukraine is fierce! It took Lenin 4 years to invade and conquer Ukraine and bring it into the Soviet Union.

Will it take 4 years this time? Probably not, but it will be harder than expected. The Ukrainians are now fighting in the streets. They have even been filling up Molotov cocktails to use after they run out of ammunition.

Meanwhile, the European Union (and the world) has watched in horror as Russia ignores their warnings and pleadings and instead has launched a land, air, and sea invasion on their neighbor.

In response, The U.S. and Europe have been threatening "severe economic sanctions" in response to the illegal invasion. Has this convinced Putin to play nice with the rest of the world? Not at all!

Why not? Well, this isn't Putin's first rodeo. As you will recall, Putin was a KGB officer in 1989 as he watched the Soviet Union fall. He saw the mistakes his predecessors made. So, what has he done different?

For one thing, he built a natural gas pipeline to Germany while Germany shut down their nuclear power plants (France at least didn't go this route and is building even more nuclear power plants).

Considering the winter weather right now, Germany can't afford to let their citizens freeze by being cut off from Russian gas.

Next, Putin has been building a coalition with China to support each other's economic ambitions. Putin has built a robust trading partnership with China. If the west cuts off Russia financially, it will hurt, but they might be able to survive long enough to get what they want by keeping trade routes open with China.

And, China? They're no fools either. They are NOT pro-Russia, but they ARE pro-China. And their partnership with Russia helps them gain ground too. Meanwhile, they have launched a social campaign against Washington, causing the DOJ to drop their China Initiative.

To clarify, the China Initiative is the name of the DOJ effort to stop China from spying, cheating, and stealing their way to become a global power.

The DOJ has been fighting so many lawsuits claiming the China Initiative is "racist" that the White House announced last week that they will end the program. Another point for China.

Back to Ukraine!

Russia has a strong economic ally with China. Germany needs Russian gas to heat their homes. Washington keeps asking Russia to stop and negotiate. Russia is now threatening Finland if Nato gets into the fray.

What does this mean financially? Well, with a war going on, the Fed is not likely to raise rates any time soon so as not to deliver a double blow to the stock market (war is the first blow). Also, commodity prices will probably rise as trade slows down (Russia is the largest exporter of fertilizers - so food prices will rise). Prices at the gas pump will rise. Inflation will continue to climb – but now the world leaders can play the blame game and try to shift blame to Putin instead of their own policies.

Make no mistake, Putin didn't cause the financial markets we are looking at. He's just a spark hitting a powder keg that world leaders have spent years creating.

Your My-Mind-Keeps-Stalin-When-I-Think-Of-Putin Financial Advisor,

Walt

P.S. Congratulations to Greg for winning the votes to get him on the June 7th New Mexico Republican Primary ballot! See you at the polls!

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