



Zanetti Monday Missive 2023.06.19

War! What is It Good For Absolutely Nothing

**“War! What is it good for? Absolutely Nothing.”
~ Singer/Songwriter Edwin Starr**

**“War is a racket. It always has been. It is possibly the
oldest, easily the most profitable, surely the most
vicious.”
~ Major General Smedley Butler**

Hello Everyone,

Last week, Newsmax asked me to discuss the current state of the war in Ukraine.

Below are the notes (with some slight edits) I sent to the producers.

Theme—It is time to acknowledge reality---Russia is winning. Ukraine is in danger of total collapse.

Ukraine is currently on its third army.

- The first army—let's call it the prewar army--- was destroyed in the summer of 2022.
- The second army ----comprised mostly of Soviet-era material from eastern European States and manned by Ukrainian draftees--- was destroyed earlier this year, and largely at Bakhmut. Similar to Battle of Stalingrad in WW II.
- Third army is now in the process of being destroyed...equipment comprised of older weapons from US and Europe....and manned by conscripts who are not well trained.

Best casualty estimates-to-date since start of war.

- 150-160,000 Ukrainians dead---includes 35K missing and presumed dead. (For context, in 11 years in Vietnam, the US reported 58,300 killed.)
- 400,000 Ukrainian casualties.
- Ukraine population has fallen from 35 million to 20 million---most have fled.
- Ukraine has lowest birth rate in Europe.
- Russia has 145 million people—war of attrition favors them.

When Ukraine's offensive fails, do not expect a "Big Arrow" Russian offensive.

Rather, Russia will grind forward toward Kyiv. Never getting ahead of its artillery or air defense coverage.

So, what are NATO's options at this point?

Option 1---Negotiating Table

- Russia will have the upper hand. Russia will demand the following:
 - Return of all historically Russian territories east of the Dnieper River.
 - What remains of the “nub-of-Ukraine” must become “Switzerland”—neutral, no weapons, eradication of Nazi symbols, etc.
 - The dismantling of US/NATO Aegis missile systems in Poland & Romania.
 - War crimes tribunal—going back to Ukrainian atrocities in 2014.

Option 2---NATO forces take up the fight.

- This will take time to organize and prepare.
- In the meantime, desperation tactics---attack Crimea...along with forays into “Russia-proper” hoping to keep Russia of-balance----but of no strategic consequence.
- Is there the stomach for escalation in Europe? US?
- Last week, Chancellor Scholz, in Germany, was booed when talking about Ukraine. German people do not want war with Russia.
- Coalition of the willing? (Poland? US? Britain?)
- Election year peace talks, but not before. Cynical view.

Option 3---Tactical nuclear weapons.

- Massive risk of uncontrolled escalation. Not likely. Thankfully.

So, our intrepid missive readers may ask, what does this have to do with investing?

A lot.

One reason the dollar is the world's reserve currency is we are perceived as King Kong. Foreigners reason, *"If the nation is strong, the currency must be strong."*

Three years ago, when Afghanistan fell in such a tragic way, the world wondered about America's resolve. But we were given the benefit of the doubt. Plus, without an alternative to the dollar readily available, the dollar continued its dominance.

I am concerned that when Russia troops roll toward Kyiv-- - and the world watches two million Ukrainians fleeing in cars, trucks, motorcycles, and carts---confidence in America and NATO will plummet. NATO may not survive this debacle.

The belief will be that Washington, D.C. grossly miscalculated the effects of this war. I would agree.

Additionally, the perception of American dominance will be greatly shaken. If you cannot trust American power, how can you trust the American currency?

Behind the scenes, I believe an asymmetrical attack is being formulated against the US...**via our currency.**

It is no secret an alternative to the dollar is being formed. A BRICS commodity-backed currency is in the offing. It will be backed by the commodity wealth of Russia, China, Saudi Arabia, Brazil, India, and apparently many others.

Thus, a successful Russian military offensive, coupled with the rollout of a new “solid” currency, will lead to the significant weakening of the dollar. BTW, Putin calls dollars “candy-wrappers.” (Say this next part with an exaggerated Russian accent.) “You Americans just type trillions on a keyboard and hit enter.”

And, while this is being planned, we are arguing about pronouns.

Financially, the result will be inflation----inflation driven by currency debasement and devaluation. Not an overheating economy. The Fed may stem the tide for the short-term, by raising interest rates. But once confidence in a currency is lost, high interest rates no longer lure investors to buy a nation’s debt and the printing presses will have to hum.

Therefore, do not fret over the directionless “bobbing up and down” we have experienced the first half of this year. It is about to change.

Signed, Your The-Best-Exercise-I-Get-Now-Is-Shaking-My-Head-Back-And-Forth Financial Advisor,

Greg

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