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What If Russia Wins in Ukraine?

For the last two years, we've written a great deal about the evolving China-led geopolitical bloc and Beijing's allies within it, including top partner Russia and other like-minded nations such as North Korea, Iran, Cuba, and Venezuela. We believe the geopolitical challenge to the United States and its allies from the China/Russia bloc will change the world's political, military, economic, technological, social, and cultural landscapes for decades to come, with huge implications for investors.

Of course, Beijing doesn't have total control over its bloc. We suspect Chinese leaders were discomfited when Russia launched its poorly conceived invasion of Ukraine in February 2022. By late 2023, however, the Russian military had improved its performance and stabilized its control over almost 20% of Ukrainian territory in the country's east and south. At the same time, many politicians and voters in the U.S. and Europe had begun to resist providing more military aid to Ukraine. In this report, we examine the longer-term geopolitical, economic, and investment implications if U.S. and allied aid to Ukraine ends for good, with a focus on the implications for the top members of the China/Russia bloc and the U.S. bloc.

Current Military Situation: Stalemate

Based on real-time battlefield assessments, it appears the Russians and Ukrainians have now fought to at least a temporary draw. The two sides are facing off against each

other along an extended, mostly static front running from northeastern Ukraine to the Black Sea coast (see Figure 1). The front is largely marked by fixed defense works such as trenches, anti-tank obstacles, and minefields. Moreover, each side appears to have enough troops, vehicles, missiles, drones, artillery pieces, ammunition, and other military resources to defend its own position, but not enough to generate the offensive power necessary to break through the lines and establish new momentum. In sum, Russia's enormous military, with its vast reserves of manpower and industrial capacity, is now essentially counterbalanced by Ukraine's access to Western military aid.

Figure 1



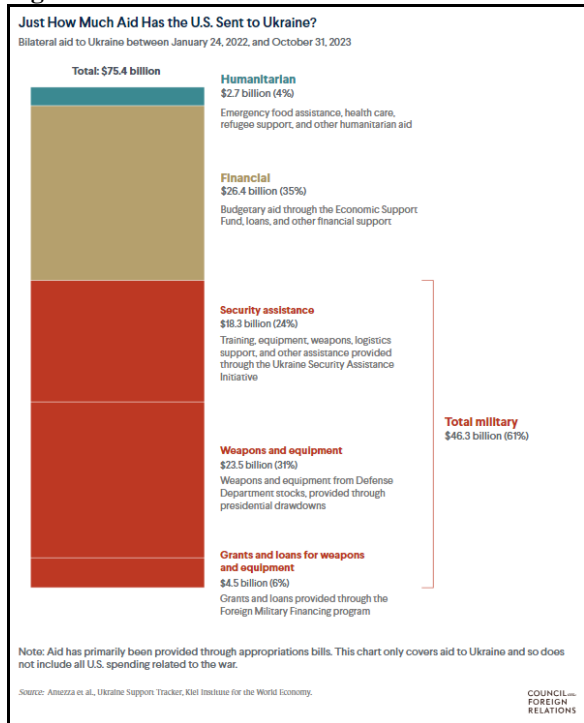
What’s Really Behind the Pushback?

According to [one recent summary of U.S. aid to date](#), Washington has provided more than \$75 billion in military, economic, and humanitarian assistance to Ukraine since the beginning of the war (see Figure 2). Other members of the North Atlantic Treaty Organization (NATO) have individually provided much smaller amounts, but the total aid provided by non-U.S. NATO countries only slightly exceeds the aid provided by the U.S. alone.

annualized basis, the U.S.’s aid to Ukraine thus far is roughly equal to what the U.S. spends on health research each year and well below its average annual spending on disaster relief over the last few years.

Given that the Western aid to Ukraine has been relatively modest so far, the question naturally arises as to why there is growing resistance to further assistance. We see two main reasons, as outlined below.

Figure 2



Political Ideology. We would characterize most of the U.S. and allied officials who support Ukraine as traditional center-left or center-right establishment elites. Those who oppose more aid to Ukraine are often on the far left or the far right of the political spectrum. Importantly, today’s U.S. and European far-right populists have been especially energized by working class anger over post-Cold War globalization, migration, de-industrialization, income and wealth inequality, and the long U.S. wars in Iraq and Afghanistan. Therefore, far-right populist leaders, such as Hungarian Prime Minister Viktor Orbán, have strong incentives to play to their base’s isolationism and oppose further aid to Ukraine, even if the economic cost is limited.

Compared with U.S. and allied economic powers, the aid provided to Ukraine to date is quite small. The U.S.’s total assistance so far equals just 0.16% of the estimated \$46.116 trillion in U.S. gross domestic product from the start of Russia’s invasion until late 2023. The U.S. aid to date equals 0.65% of the federal government’s total budget expenditure of about \$11.689 trillion over the same period. It also equals only about 5.1% of the U.S.’s defense spending of \$1.491 trillion over that period. On an

National Security Strategy. Some of the resistance to further aiding Ukraine also reflects a theoretical debate about Russian interests and goals and Ukraine’s potential role in Western security. [For example, geopolitical analyst and macro strategist Marko Papic recently argued that while the West might face an existential threat if Ukraine lost its independence to Russia, it doesn’t face much additional risk if Russia merely holds on to the territory it’s already conquered.](#) Papic and some other analysts are essentially assuming that if Russian forces were allowed to consolidate their

control over the largely Russian-speaking territories of Luhansk, Donetsk, and Crimea that Russian forces have already seized, President Putin would be satisfied and refrain from further aggression. We examine this viewpoint in more detail below.

Potential Scenarios: Does Russia Win?

A [new study by the ISW](#) directly examines the security implications for the U.S. and NATO if Russia consolidates its control over all or part of Ukraine. Importantly, the study warns that if the U.S. and its European allies completely end their aid, Ukraine would be at risk of being overrun and wholly conquered by Russian forces. Indeed, as Ukrainian forces began to run up against shortages of equipment, ammunition, and troops in late 2023, Russian forces began to retake some territory in the eastern part of the country. The ISW study also examines two other potential outcomes that would be likely under varying levels of Western support. In the bullet points below, we examine each of these scenarios from a Ukrainian and Western perspective.

- In the event of a drastic cut in aid that allows Russia to seize all of Ukraine, the ISW study warns that the Kremlin's battered but triumphant army [would stand on NATO's borders from the Arctic Ocean to the Black Sea, posing a major conventional military threat to NATO for the first time since the 1990s](#). Ominously, the ISW study finds that Russia's current wartime defense industry expansion and large pool of potential recruits would allow it to recover quickly from its steep equipment and troop losses in the Ukraine invasion to date. At the conclusion of fighting, the Russian army would also have a wealth of experienced officers and troops, effective tactics honed on the modern battlefield, innovative new

weapons, and new arms-supply arrangements with countries such as Iran and North Korea. This new, battle-hardened Russian military would be in the hands of Kremlin leaders emboldened by the West's withdrawal of aid and fully committed to their vision of renewed Russian hegemony over a swath of the Eurasian landmass stretching from the Baltic Sea to the Bering Strait.

- The study argues that the second-worst scenario for the U.S. and NATO would be static or modestly reduced aid that leads to a negotiated peace with Russia retaining the 20% or so of Ukrainian territory it currently controls. Under this scenario, the roughly 80% of Ukrainian territory that Kyiv controls would provide a large, security-enhancing buffer to keep Russian forces far from NATO's southern frontier, but only temporarily. The study posits that President Putin would almost certainly use such a freeze in hostilities to rebuild his forces and prep them for a new invasion in the future.
- Finally, the ISW study argues that the best scenario for the U.S. and NATO would be to provide Kyiv with enough aid to drive the Russians completely out of Ukrainian territory. According to the authors of the study, this scenario would especially enhance U.S. and Western European security as it would require Russian forces to cross the entire territory of a potentially rebuilt Ukraine before they could ever reach NATO's southern frontier. Nevertheless, the study argues that President Putin would only be temporarily chastened by being pushed out of Ukraine. He would still likely respond by rebuilding his forces for a new future invasion.

To the extent that President Putin could deploy his potentially rejuvenated army to positions along NATO's eastern frontier, perhaps with Chinese approval and/or prodding, the study finds that the U.S. and its allies would need to invest enormous sums to rebuild the military strength needed to deter them. The closer Russian forces are to NATO's frontier, the greater the military buildup necessary to deter them. The study argues that this defense buildup in Europe would be far more expensive than the current cost of military aid to Kyiv. This European buildup would also have to take place at the very same time that the allies are forced into an expensive military buildup against China in the Indo-Pacific region.

Just as no country wants to fight a two-front war, neither would it want to simultaneously prepare major deterrence forces in two different theaters halfway around the world from each other. Such a scenario could force the U.S. to make painful trade-offs between deploying deterrence forces to Europe or to East Asia. In other words, according to the study's authors, a Russian victory in Ukraine (either in full or in part) might preclude a sufficient devotion of military resources to East Asia. Russia's appetite for aggression would only increase, forcing the U.S. and its allies into an expensive two-front military buildup in both Europe and East Asia.

Conclusion & Investment Ramifications

The core assumption in the ISW study is that President Putin would maintain his expansionist aims no matter how much Ukrainian territory he seizes. Based on our reading of Putin's character and his stated goal to essentially rebuild the historical Russian Empire, we find that argument

persuasive. After gobbling up Ukraine, Putin would probably set his sights on gaining direct or indirect control over the Baltics, the rest of Eastern Europe, and potentially more. Given the risk that Russia could gain direct control or even just indirect influence over the massive economic resources of Europe, we think U.S. leaders would almost certainly decide that it's necessary to deter the Russians and begin to invest in the forces needed to do so.

The ISW research is therefore consistent with our thesis that rising frictions between the U.S. geopolitical bloc and the China/Russia bloc will continue to fracture international relations, creating risks for investors but also opportunities. Fracturing the globalized supply chains of the last three decades and replacing them with more resilient, less efficient supply chains will likely lead to higher inflation and interest rates than in the past. For *bonds*, that will probably be an important headwind. On the other hand, increased geopolitical tensions will probably be positive for many *commodities*, including gold, crude oil, and other minerals. Finally, *equities* will still probably offer the best total returns, especially after companies have adjusted to the new global supply chains. Sectors such as broad industrials, defense companies, defense-focused technology firms, and mining and energy firms are likely to be especially advantaged.

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