



# UKRAINE AND THE FOURTH TURNING UPDATE



April 1, 2022

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## TOPICS:

- ❑ **AMERICANS VIEWS OF BIDEN, UKRAINE, USE OF TROOPS ABROAD, AND NATION'S BIGGEST PROBLEMS**
- ❑ **POOR RUSSIAN MILITARY PERFORMANCE: EVIDENCE AND CAUSES**
- ❑ **CURRENT STATE OF THE WAR**
- ❑ **RUSSIANS' AND UKRAINIANS' VIEWS OF THE WAR**
- ❑ **HOW WILL THE WAR END? NEGOTIATED SETTLEMENT NOWHERE CLOSE**
- ❑ **YIELD CURVE INVERSION AHEAD: NEAR-TERM THREATS TO THE U.S. ECONOMY**

# AMERICANS' VIEWS ON BIDEN AND UKRAINE

## ❑ AMERICANS WANT BIDEN TO TAKE TOUGHER APPROACH ON RUSSIA

- AP/NORC (March 17-21): 56% believe Biden's response has not been tough enough, while only 6% believe it has been too tough
- NPR/IPSOS (March 18-21): 39% believe the US should be doing more to help Ukraine, 7% less, and 31% say the US is doing the right amount

## ❑ MOST AMERICANS WANT TO AVOID MILITARY CONFLICT

- Pew (March 7-13): 62% say they would oppose the US taking military action
- AP/NORC (March 17-21): 47% are "very" or "extremely" concerned the US will be drawn into war

## ❑ MOST SUPPORT US ACCEPTING UKRAINIAN REFUGEES

- NPR/IPSOS (March 18-21): 74% say the US should take in Ukrainian migrants

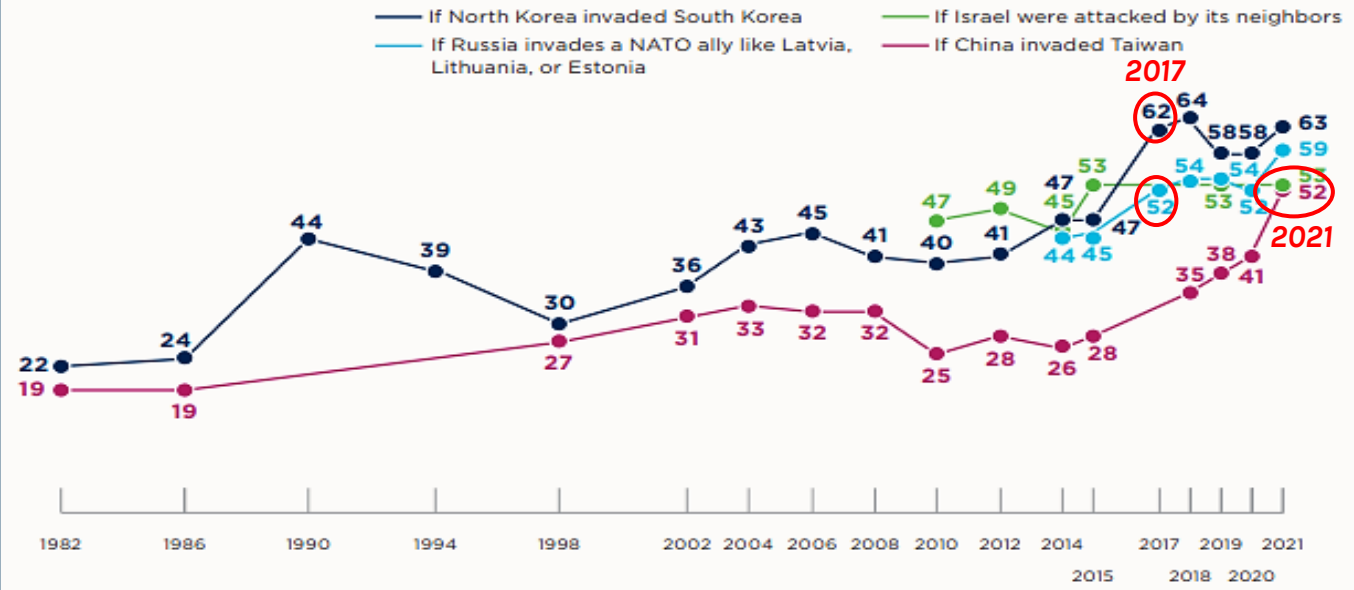
## ❑ AMERICANS GROW COLDER ON CHINA

- AP/NORC (March 17-21): 65% are concerned about China's influence around the world (+6pp since February)

# AMERICANS' VIEWS ON USE OF TROOPS

### Figure 16: Use of US Troops Abroad

There has been some discussion about the circumstances that might justify using US troops in other parts of the world. Please give your opinion about some situations. Would you favor or oppose the use of US troops: (% favor)  
n varies



2021 Chicago Council Survey

# AMERICANS' VIEWS ON DOMESTIC ISSUES

## ❑ AMERICANS ARE MOST CONCERNED ABOUT INFLATION

- NPR/IPSOS (March 18-21): What issues concern you the most?
  - 40% inflation, 27% political extremism, 26% crime, 23% climate change, 17% nuclear war, 17% foreign affairs

## ❑ BIDEN'S APPROVAL RATING REMAINS LOW

- NBC (March 18-22): 40% of Americans approve of Biden
  - That's down from 43% in January and marks a new low
- AP/NORC (March 17-21): 43% approve of Biden's job as president
  - Also, a record low

## ❑ GOP MAKING GAINS OVER DEMOCRATS

- NBC (March 18-22): 46% would prefer a Republican-controlled Congress, and 44% would prefer one controlled by Democrats
  - While GOP support is unchanged from January, support for Democrats has fallen -3 percentage points

# POOR RUSSIAN PERFORMANCE: EVIDENCE

## ❑ **INVASION FAILURES**

- Failure to (1) establish air superiority; (2) take out Ukrainian 3C; (3) conduct almost any successful airborne assault; (4) kill/capture many Ukrainian soldiers; (5) capture many major cities (3 of 34 cities > 100K population): only Kherson, Melitopol, Berdiansk.

## ❑ **HIGH CASUALTIES**

- 7-15K dead (NATO est), thus c. 30K out of action (15% of invading force of 190K)

## ❑ **POOR LOGISTICS**

- Many vehicles out of fuel; troops out of food; difficulty of resupply

## ❑ **POSSIBLE SIGNS OF POOR MORALE AND/OR LEADERSHIP**

- vulnerability to ambush; poor joint-force coordination; discipline issues
- many senior commanders killed: 6 generals; 8 colonels; 1 Chechen general (as of 3/24)
- 500-600 Russian surrenders; fleeing vehicles; equipment sabotage
- According to one estimate: Of total Russian army vehicles lost (2,111): 1061 destroyed; 41 damaged; 233 abandoned; and 776 captured
- Ukraine may have captured more tanks (117 captured + 157 killed) than they have lost (37 + 37)

# POOR RUSSIAN PERFORMANCE: CAUSES

## ❑ **INADEQUATE SIZE of army infantry/armor personnel**

- 280K active-duty in Russian army, of which invasion force is c. 190K
- c. 900K in “active reserve” (but active on paper only; only c. 5K are truly active)
- VS 126K active-duty in Ukraine + 200K reservists already called up and 700K available
- NOTE: Ukraine is 3X larger than 6 states of New England
- NOTE: German Army Group South in 1941 was > 1M in size

## ❑ **INADEQUATE TRAINING & EXPERIENCE of army infantry/armor personnel**

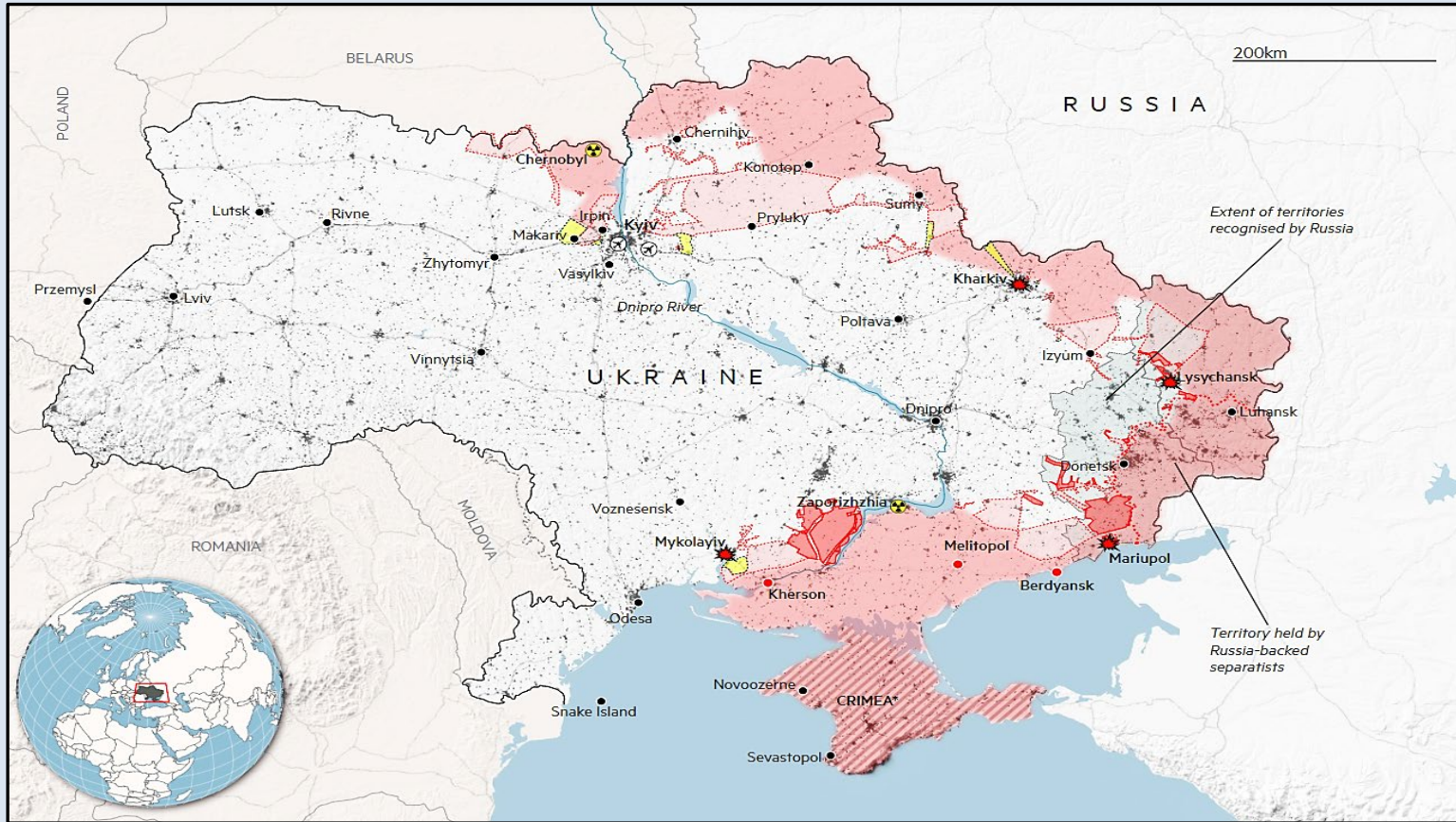
- Since 2008, Russia has been moving to a smaller, more professional army
- Yet one-year enlistees still comprise c 1/3 of active-duty troops--mostly in infantry/armor army
- Long legacy (not yet overcome) of hazing and popular hatred of conscription
- Russian army is woefully deficient in experienced NCO corps

## ❑ **OTHER CAUSES:**

- Unreliable military suppliers (food, equipment), due to corrupt contracting
- Weather: March-April and September-October are the historic Russian “mud months”
- Possible shift in military technology to favoring infantry defense over armored offense
- Internal hostility/fear between military leadership and (Putin's) security establishment



# CURRENT STATE OF THE WAR



# UKRAINIAN AND RUSSIAN VIEWS OF THE WAR

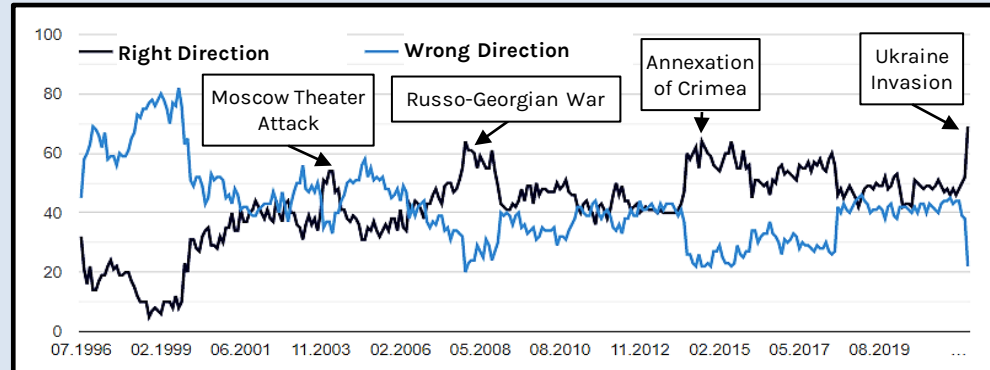
## ❑ UKRAINIANS BELIEVE THEY WILL WIN

- Rating (March 18): 93% of Ukrainians believe the country will be able to repel Russia
  - This is a +23 percentage point increase from February 28
  - 89% of Ukrainians say a truce without Russian troops withdrawing would be unacceptable

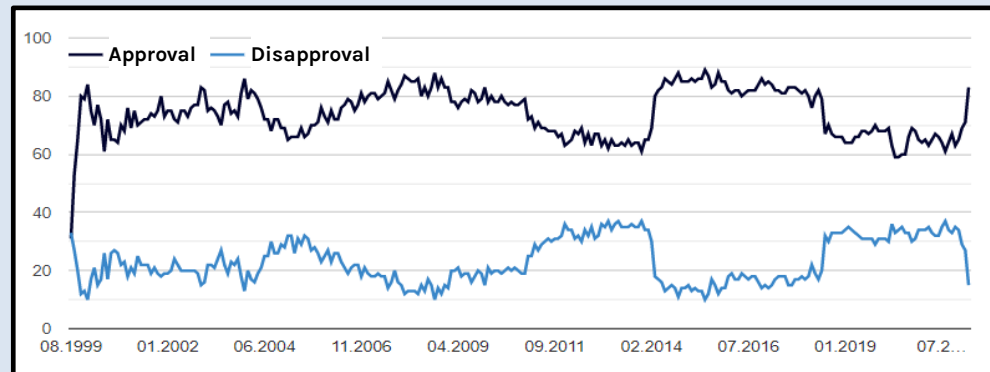
## ❑ MOST RUSSIANS SUPPORT THE INVASION

- Anonymous Independent Research Firm (Feb 27-March 5): 58% of Russians support the invasion of Ukraine, while only 23% oppose it
- Among those ages 18-24, only 29% support the war, and 39% oppose it
- Among those ages 66+, 75% support the invasion

## Russia: Is the country moving in the right or wrong direction?



## Russia: Approval and Disapproval of Vladimir Putin



# HOW WILL THE WAR END?

## ❑ A NEGOTIATED SETTLEMENT? NOWHERE CLOSE.

- Russia is making four demands:
  - 1) that Ukraine declare itself neutral (and permanently rule out NATO membership)
  - 2) that Ukraine formally renounce Crimea, Donbas, and Luhansk
  - 3) that Ukraine demilitarize to < 50K troops
  - 4) relief from Western sanctions
- Ukraine could agree to (1) and some form of (2) (say, extended negotiations of some sort)
- But (3) would be suicidal and highly unpopular in Ukraine; (4) is beyond its power; and either would require active military guarantees by the West--which would effectively be membership in NATO.

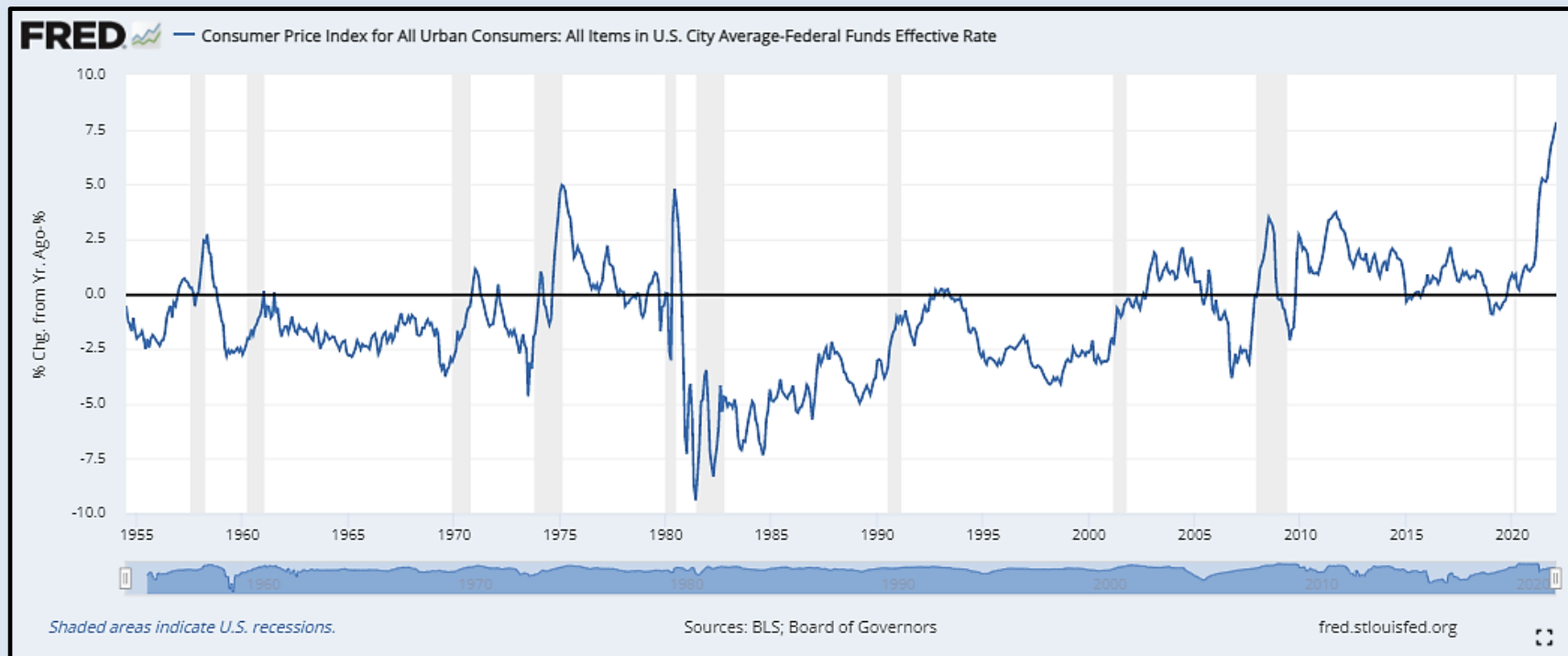
## ❑ IMO, PUTIN IS STALLING FOR TIME

- ❑ **He wins politically either by winning militarily or diplomatically--or by daring the West to enter a bigger fight:**
  - Tiring the West out... getting them to “settle” w/out guarantees to Ukraine
  - Winding up to try another major push into Ukraine
  - Provoking the West to give in or retaliate in a whole new theater—like Estonia or Kaliningrad.
  - Or any other option that makes Russia either a winner or a victim.
- ❑ **He loses politically only by retreating and making both the Ukraine and the West happy.**

# INVERTED YIELD CURVE

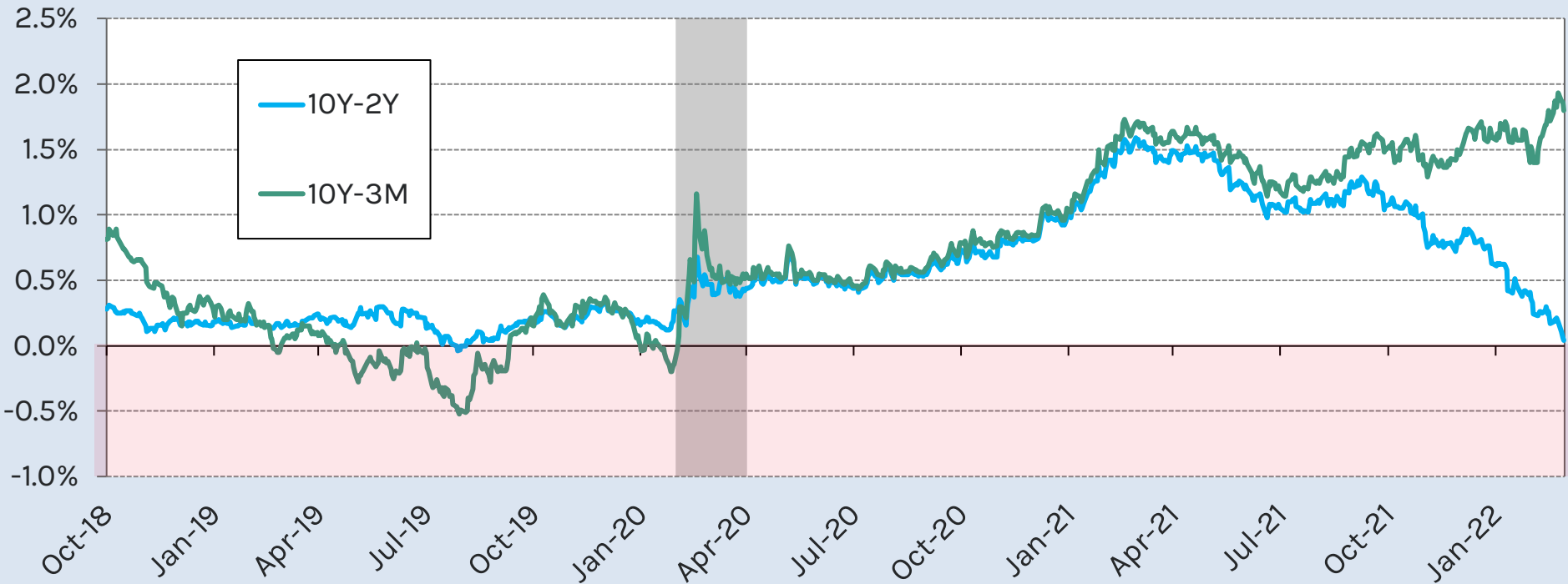


# CPI MINUS FED FUNDS RATE... OUT OF CONTROL



# TERM SPREAD: RECENT VIEW

## 10Y-2Y Term Spread and 10Y-3M\* Term Spread (Oct 31, 2018 to March 30, 2022)

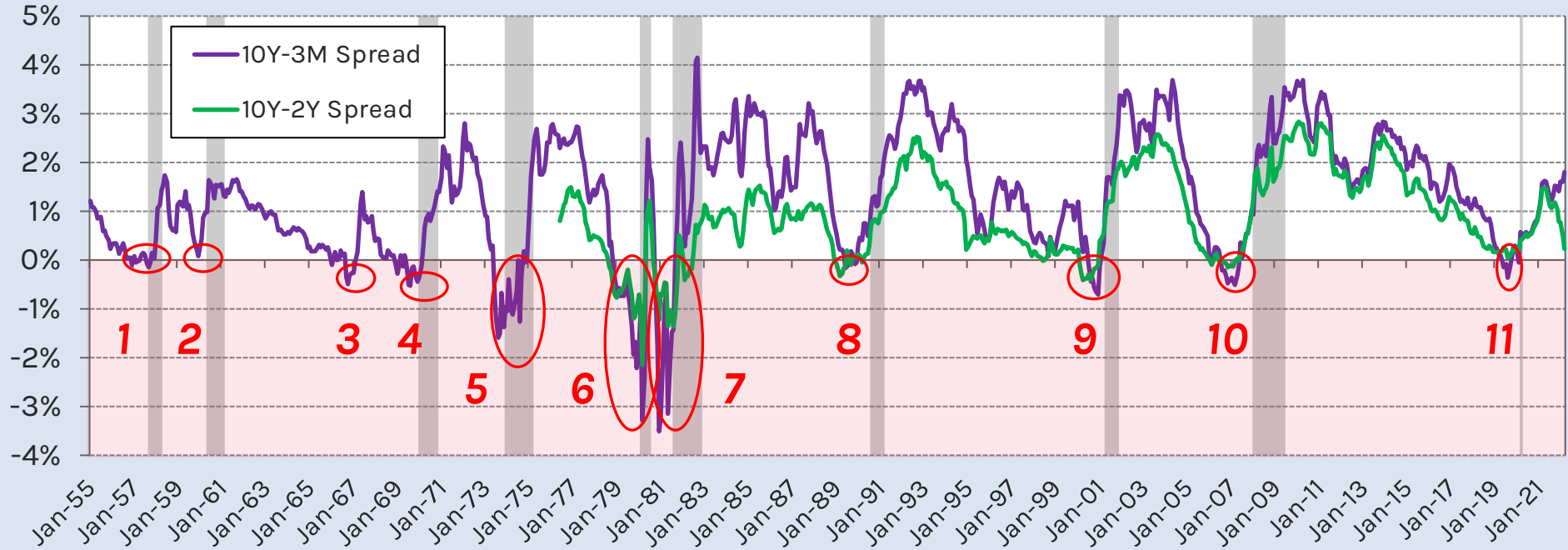


\*Difference between 10Y Treasury yield (constant maturity) and 3M Treasury yield (constant maturity) at market close.



# INVERSION TRACK RECORD... GOING FOR #12

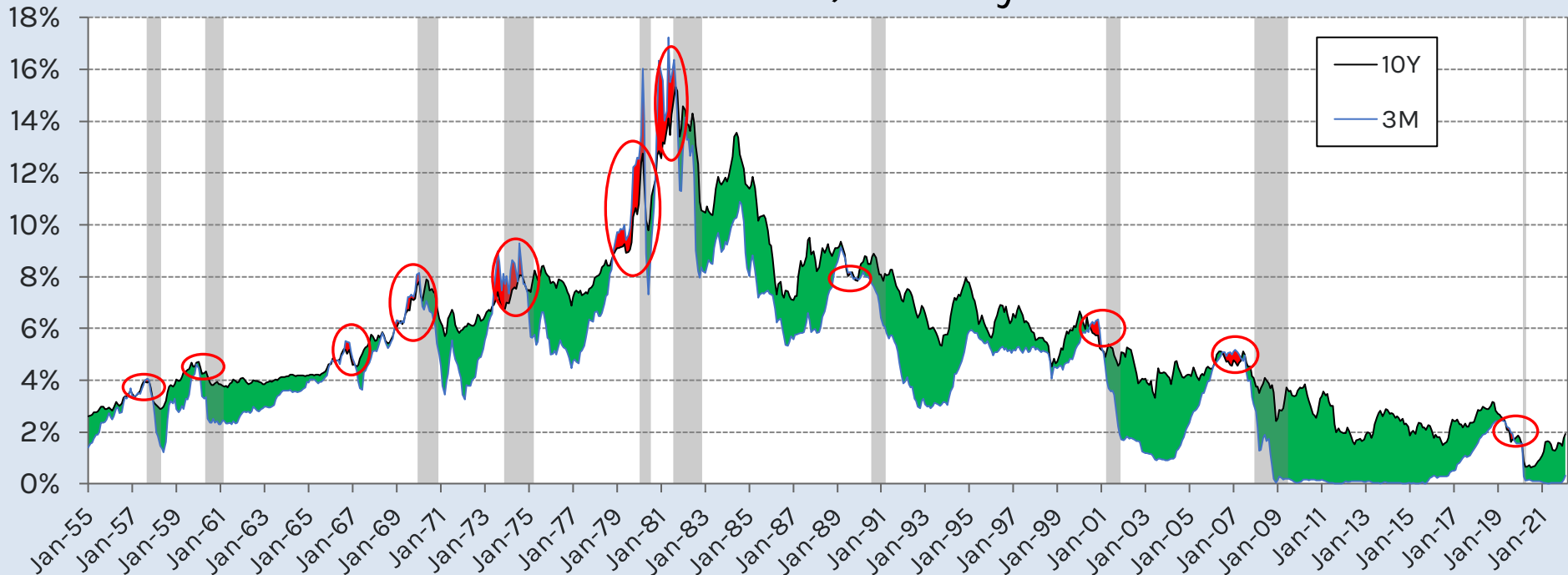
## 10Y-3M\* & 10Y-2Y\*\* Term Spreads 1955-Mar 2022, Monthly\*\*\*



\* Avg pp difference between 10Y Treasury yield (constant maturity) and 3M Treasury yield (bond-equivalent basis) in a given month.  
 \*\* Avg pp difference between 10Y Treasury yield (constant maturity) and 2Y Treasury yield (constant maturity) in a given month.  
 \*\*\* Before Jan 1963, 1Y used instead of 3M.

# TERM SPREAD: POSTWAR RECORD

## 10Y & 3M Treasury Yields\* 1955-Feb 2022\*\*, Monthly\*\*\*



\* 10Y Treasury yield represents constant maturity; 3M Treasury yield represents bond-equivalent basis.

\*\* Before Jan 1963, 1Y used instead to 3M.

\*\*\* Green shaded areas indicate a positive 10Y-3M term spread; red areas indicate a negative spread.

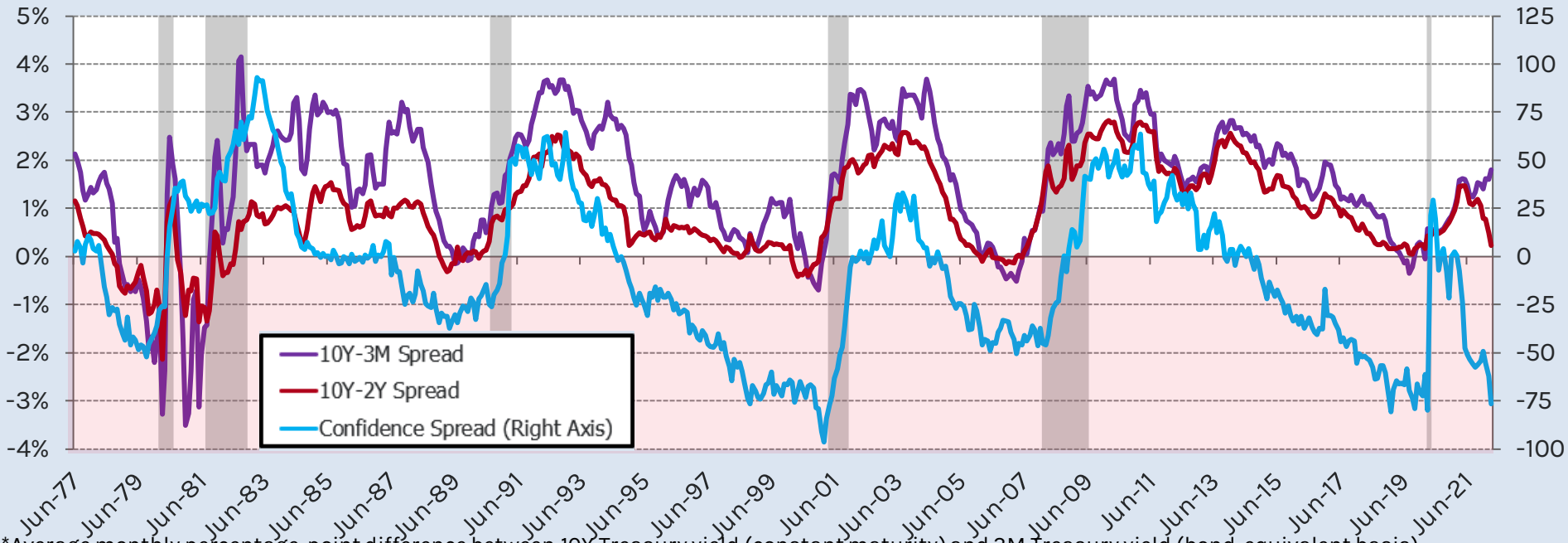
SOURCE: US Treasury (2022)

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# TERM SPREAD AND CCI “SPREAD”: NICE FIT

## 10Y-3M Term Spread\*, 10Y-2Y Term Spread\*\*, and Consumer Confidence Spread\*\*\*



— 10Y-3M Spread  
 — 10Y-2Y Spread  
 — Confidence Spread (Right Axis)

\*Average monthly percentage-point difference between 10Y Treasury yield (constant maturity) and 3M Treasury yield (bond-equivalent basis).

\*\*Average monthly percentage-point difference between 10Y Treasury yield (constant maturity) and 2Y Treasury yield (constant maturity).

\*\*\* Difference between Conference Board’s “Expectations Index” and “Present Situation Index” in a given month.