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Nearly two months ago Russia began its invasion of Ukraine, and the war is still ongoing. And what a horrific war it turned out to be!

We see daily pictures of destruction on a massive scale. Russia has been bombarding residential areas in various cities, doing so in clear breach of the Geneva Convention. In addition, horrendous atrocities have been committed, as evidenced by over 500 executed civilians found in places like Bucha, just north of Kyiv, when the Russians withdrew from the northern area abutting Belarus. The Kremlin not only denied responsibility but instead claimed that it was a 'false flag' operation by Ukraine and that the pictures were faked. This flies in the face of satellite images that had been taken many days before the Russians had left.

Most of the world – not all of it, mind – now see Russia as a pariah state, and the UN General Assembly suspended Russia's membership of the Human Rights Council. In addition, Russia was also thrown out of another human rights body, the Council of Europe, and The International Criminal Court is now investigating alleged war crimes, crimes against humanity and genocide by Russia in Ukraine.

Do the ordinary Russian citizens realise what is going on in Ukraine? Well, most of the predominantly elderly people still believe what they are told by the strictly controlled media outlets in their country, but they will be aware of food shortages in shops and steeply rising prices – mostly due to the West's imposed sanctions – resulting in a wave of panic buying some weeks ago, particularly for sugar and staple groceries. Panic buying for sugar? Well, lots of sugar, a little yeast and water are commonly used to make a potent moonshine vodka, and it is legal to do so in Russia.

Ukraine is often called the breadbasket of Europe as its fertile soil is perfect for grain production. Ukraine's agriculture sector employs about 25% of the workforce, and the war has had a serious effect. Rising prices are not just a problem for Russia: we will feel them in the West also.

However, despite the Russian authorities trying to shut down social media, many younger people have some access, and they are better informed. Indeed, there has been a brain drain among the younger Russians for some time even before the war. Ever since the annexation of Crimea eight years ago, and the associated sanctions imposed on Russia, the country's economy has largely been stuck in stagnation. Whilst overall unemployment is around 4%, it is nearer 20% for 15 to 24-year-olds (World Bank data/2020).

Does that mean that Putin's reputational standing among his people has suffered? Not necessarily so, as history tells us that his approval ratings went up when he invaded Georgia, and the same thing happened when he annexed Crimea.

Back in August 2008, Russia invaded Georgia after a referendum held there in January of that year found that 77% of Georgian voters wanted to join NATO. To justify the invasion, Putin called it a 'peace enforcement' operation, in order to protect the Russian-backed and self-proclaimed republic of South Ossetia and bring about a regime change in the pro-West Tbilisi government. In the event, most, if not all, hostilities ceased within a fortnight. Russia thereafter had a greater military presence in South Ossetia (and another 'republic', Abkhazia) and it stopped Georgia pursuing the idea of joining NATO.

Sounds familiar? Well, Putin called his current invasion of Ukraine a 'special military operation', designed to protect the largely pro-Russia Donbas region from the Kyiv government's aggression and to 'de-Nazify' the country. By the way, the annexation of Crimea was 'to ensure proper conditions for the people of Crimea to be able to freely express their

will'. In fairness, quite a large part of the Crimean population was pro-Russian at the time. However, whilst the Donbas region has a pro-Russia separatist movement, that is clearly not the case in the rest of Ukraine.

Whether this war will also increase Putin's popularity in Russia remains to be seen. There clearly are some dissidents among the military and intelligence services, but anyone who speaks out too loudly tends to get arrested in no time.

Whereas sanctions against Russia after the annexation of Crimea had some repercussions, they were nothing like what is happening now in this regard. The sanctions now imposed are much more serious and will hurt the state of Russia, the Russian population at large and many of the oligarchs that have been enriched by Putin, in some cases enriched beyond their wildest dreams. Of course, they are individually still controlled by their master.

However, the sanctions could go much further. Germany, and also some other EU member states, could do a lot more, but they are hamstrung by their dependency on Russian energy exports. Roughly 34% of Germany's oil imports, 45 percent of its coal purchases and 55 percent of gas imports come from Russia. Economists warn that Germany would go into immediate recession if supplies from Russia were stopped now. Austria is even more exposed, getting 80% of its gas from Russia.

Donald Trump, for all his faults, was spot on when he lamented Germany's reliance on Russian energy supplies some years ago. Angela Merkel, very much following in the footsteps of her predecessor Gerhard Schroeder (who was nominated to become a director of the Russian state-owned company Gazprom in February 2022 as well as being acting chairman of Russian energy company Rosneft since 2017!) was often accused of having a rather too cosy relationship with Putin. She has been described as being a 'Putin whisperer', given she had more direct contact with him than any other Western leader. So yes, there was frequent dialogue between the two, but she could not stop Putin doing exactly what he wanted.

Angela Merkel's legacy is rapidly losing its lustre, and her successor Olaf Scholz starting his chancellorship with a rather weak coalition does not help. Having blocked an energy embargo and vacillated over arms deliveries from Germany, Ukraine president Zelensky told Olaf Scholz he would not be welcome to visit Kyiv, and the same applied to German president Steinmeier.

Against this snub, and to make matters worse, according to German press reports, arms manufacturer Rheinmetall offered to make 'battle ready' a hundred tanks that stood idly in its factory, only for the German Defence Ministry to veto the move, saying it would take too long, apparently without even having inspected the tanks in question. In fact, we hear only this week that Germany will not join an international coalition to provide heavy arms to Ukraine. Not impressive!

Austria's chancellor Karl Nehammer – the only EU leader to meet Putin since the invasion of Ukraine and obviously worried about Austrian dependency on Russian energy supplies – has had a rather inconclusive meeting with him, but afterwards said that the Russian president believes that he is winning the war.

Putin clearly overestimated the capabilities of his armed forces – a lot of conscripts not properly trained and outdated hardware – and he certainly underestimated the resolve and bravery of the Ukrainian opposition.

Either Putin is badly informed about what is happening, or he is in denial. Much has been written about Putin being ill (thyroid cancer seems to be confirmed – various thyroid cancer specialists have been seen to visit him repeatedly for some six years) or, indeed, his state of mental health. All of that is very concerning as we must worry about a possible escalation of the war to its worst scenario – chemical, biological or nuclear warfare. The latest loss of his flagship



Moskva, the most powerful warship in the Black Sea region will not have helped his state of mind. Russia claimed there were no casualties. Hmm...

Altogether more gentle confrontations are happening closer to home. Emmanuel Macron faces Marine Le Pen in the second round of the French Presidential election this coming Sunday. Macron is favourite to win a second term, but in view of previous, unexpected results (Brexit and Donald Trump in 2016) the outcome is not absolutely certain.

Here in the UK, Boris Johnson is facing opposition from all quarters, including his own party members and backbenchers, over 'Partygate', his truthfulness and the government's plan to move migrants to Rwanda. Even Rishi Sunak who at the beginning of the pandemic could do no wrong is being criticised over his recent budget (particularly the increase in National Insurance contributions), the US Green Card issue and his wife's non-dom status.

The government is also aware of the problems caused by higher cost of living levels. The less well-off are already struggling to make ends meet, but this situation will significantly deteriorate further. Remember our Autumn Newsletter when we wrote about the US Fed talking about 'transitory' inflation, echoed by other central banks? They all thought inflation would only rise temporarily and fall back to more normal levels. We disagreed at the time, and just look at what has happened. UK CPI now stands at 7%, the highest level since 1992. America's CPI is even higher at 8 ½%, and both countries will not see a rapid reduction in the inflation rate in the short term. That leaves central banks with a real headache. On the one hand, they should raise interest rates to combat inflation, but doing so too aggressively will hurt economic growth which is already slowing down.

How have the major stock market indices fared against this background? Well, the first three months of this year have only seen one positive outlier – the FTSE 100 was up 1.8%, helped by oil, energy and financial stocks as well as a weaker pound. However, the more domestically orientated FTSE 250 has fallen by 9.1% over the same three-months period. Other major indices are down as well: S&P 500 -4.9%, Dow Jones -4.6%, DJ Eurostoxx 50 -9.2%, Nikkei 225 -3.4% and MSCI World -5.5%.

Year to date, China's stock markets have also suffered: the Hang Seng is down 10%, the Shanghai Composite down 13%.

The real problem in China is the record surge in Covid cases, having led to a partial or total lockdown in some 45 cities. Shanghai is particularly affected by this. The strict, near brutal, lockdown for over 25 million people has brought about misery for its inhabitants. There is a general shortage of food, and the delivery services who supply basic foodstuff are simply overwhelmed. The complete lockdown has now lasted over three weeks, and the economy has been brought to a standstill. Shanghai is home to the largest container port in the world, and ships are stacked up outside the port, unable to load or unload their cargo. Bearing in mind the supply chains of all sorts of merchandise and goods are already severely disrupted, and with no relaxation of lockdown rules in sight, this undoubtedly means that delays and higher prices will ensue for the rest of the world.

To cap it all, reported death rates are reckoned to be much higher than officially declared, and the Chinese "zero Covid" policy, so successful in 2020, now looks woefully inadequate.

So, stock markets indices are down, and economic growth forecasts are being revised downwards. It all looks like doom and gloom.

By contrast, gold and silver are up 6.8% and 8.2% respectively YTD. We hold them in portfolios as a 'safe haven' investment as well as a hedge against inflation.



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We will continue to carefully monitor developments, particularly the Russia/Ukraine war events, and hope you all manage to stay Covid-free and well!

Bagshot 21st April 2022