

June 21, 2022

The 2022 Mid-Year Geopolitical Outlook

(N.B. Due to the Fourth of July holiday, our next geopolitical report will be published on July 18.)

As is our custom, we update our geopolitical outlook for the remainder of the year as the first half comes to a close. This report is less a series of predictions as it is a list of potential geopolitical issues that we believe will dominate the international landscape for the rest of the year. It is not designed to be exhaustive; instead, it focuses on the “big picture” conditions that we believe will affect policy and markets going forward. They are listed in order of importance.

Issue #1: The Russia-Ukraine War

Russia's invasion of Ukraine has become the world's top geopolitical issue, with major implications for diplomacy, alliances, military development, energy and food prices, international trade and finance, and investment prospects. At the time of this writing, the Russian military [continues to make slow, plodding progress toward its scaled-down goal of seizing Ukraine's eastern Donbas region and southern coast](#). Because of continued leadership and operational errors, Russia is also taking heavy losses in troops and equipment. Ukraine's smaller but highly motivated and well-led military continues to carry out modestly successful counterattacks as it receives more advanced weapons from the West. There is an increasing likelihood that the conflict will settle into a long war of attrition, including a Ukrainian insurgency

in Russian-occupied areas, all of which could frustrate President Putin to the point where he formally declares war, calls a general mobilization, and/or turns to nuclear weapons. Of course, war can be fluid; the trends we see today could change quickly and in unexpected ways. However, if current trends continue, we see the following implications:

Near Term: Energy and Food. Since Russia and Ukraine are both major commodity producers, the war's main impact on the rest of the world in the coming months will probably be [continued supply disruptions for key materials like crude oil, natural gas, fertilizers, wheat, and sunflower oil](#). These supply disruptions can't be offset quickly or easily. As companies dip into their stockpiles to make up for the lost supply, we think prices will continue to rise for a wide range of basic goods. That will likely keep consumer price inflation higher than it otherwise would be, forcing central banks to keep ratcheting up interest rates and selling off their asset holdings. High prices and rising interest rates will also threaten many political leaders, as discussed below.



