



BENJAMIN F. EDWARDS[®]
INVESTMENTS *for* GENERATIONS[®]

We are providing the enclosed material prepared by an outside firm. Please refer to the last page for important disclosures from Benjamin F. Edwards & Co. related to the enclosed material. If you have questions regarding any of these disclosures, please contact your Financial Advisor.



By Daniel Ortwerth, CFA

November 18, 2024

Implications of North Korean Soldiers in the Ukraine War

In late October, the world learned that North Korean soldiers had deployed to Russia to assist their allies in the Ukraine war. This dramatically changed the geopolitical profile of the conflict. Allies and partners of both Ukraine and Russia have been providing material and financial support to both countries since virtually the beginning of the war. North Korea itself (formal name Democratic People's Republic of Korea, or DPRK) has been contributing large quantities of arms and ammunition to Russia; however, this is the first known instance of another country sending combat troops to join the fight on either side. This precedent-setting action marks a clear escalation and raises the question of how this development might further accelerate the conflict.

This report addresses that question. We begin with a review of the known facts concerning troop numbers, types, locations, etc. We continue with an assessment of the likely impact of DPRK forces on the course and outcome of the Ukraine war and culminate with considerations of how this development might affect the broader geopolitical landscape beyond the conflict. As always, we conclude with investment implications. Since this report addresses a newly emerging and rapidly evolving development, its status may materially change post-publication. We encourage readers to monitor our *Daily Comment* for emerging updates.

Initial Military Assessment

Before addressing the broader geopolitical significance of this development, we begin with a review of the basic facts of the military operation.

Forces Involved. At the beginning of November, the estimates of how many DPRK soldiers had deployed to Russia varied from 10,000 to 13,000, with [South Korean intelligence putting the number at 11,000](#) and possibly growing. This amounts to approximately four brigades, all [originating from the DPRK's XI Army Corps, which goes by the name "Storm Corps"](#) and is considered an elite special forces group. The Storm Corps consists of 10 highly specialized infantry brigades. South Korea's National Intelligence Service determined that the first DPRK detachments began to arrive at Russia's far-eastern training bases on or about October 8 in what is recognized as the first large-scale deployment of forces outside of the Korean peninsula in DPRK history. According to US Defense Secretary Lloyd Austin, the [DPRK soldiers are wearing Russian uniforms and carrying Russian equipment](#). Initially, Russia dismissed allegations of DPRK soldiers in Russia as "fake news," and the [troops were being disguised as Asiatic ethnic minorities of Russia, such as Buryats and Yakuts from the Russian Far East](#); however, Russian president Vladimir Putin is now openly acknowledging their presence with accompanying praise of the DPRK for its solidarity with Russia.

Likely Employment. Neither Russia nor the DPRK has issued any statements of where

or how DPRK forces will be employed, so our assessment relies on Ukrainian, South Korean, and Western intelligence sources. According to a statement by North Atlantic Treaty Organization (NATO) Secretary General Mark Rutte, [leading elements of DPRK forces have already moved west from their training bases in the Russian Far East and have arrived in-theater, having been deployed to the Kursk region](#). As of November 4, this number was [estimated at 8,000](#). Additionally, overhead reconnaissance has observed roughly [1,000 shipping containers of military equipment moving from the DPRK to Russia by rail](#).

On August 6, [Ukrainian forces launched a counter-invasion into the Russian territory of Kursk](#), which neighbors Ukraine. Having initially gained control of roughly 400 square miles of land, Russian counter-offensives have slowly recaptured portions of the invaded area. Initial indications suggest that DPRK forces are being deployed in Kursk to assist with the effort to push Ukrainian forces out of Russian territory, although [some intelligence reports claim to have sighted DPRK forces already inside Ukraine](#).

Comparative Force Levels. Ukraine committed roughly 30,000 soldiers to the invasion of Kursk, while [Russia countered with roughly 40,000, although those forces are considered to consist mostly of lower-quality conscripts and reservists](#). Both sides have committed the broader range of military resources (e.g., armor, artillery, aerial drones) to the fight. Although Russia has retaken some of the invaded areas, Ukraine still controls roughly 300 square miles, or three-quarters of the originally conquered area. [Recently, the battle lines have become relatively static, with Russia continuing to make modest additional gains](#). Due to extremely high demands along the

rest of the 600-mile front, neither side has shown an inclination to devote significantly more or, in the Russian case, higher-quality resources to this sector.

In the entire theater of war, [Ukraine currently has approximately 150,000 troops committed along the frontline out of its total national military strength of roughly 800,000](#). Meanwhile, Russia currently fields roughly 500,000 of its 1.3 million active-duty soldiers in Ukraine. For perspective, the entire [US Army troop strength is roughly 452,000](#).

Likely Impact on the War

The immediate question to assess is how much of an impact several thousand DPRK soldiers might have on the Ukraine war, both at the point of attack and in the potential for their presence to catalyze responses from the Ukrainians or other countries supporting their war effort.

Battlefield Impact. As the first consideration, we simply cannot know how effective these DPRK forces will be once committed to battle. Although they are considered highly trained, elite troops, they come from a country whose army has not seen major combat action since the end of the Korean War in 1953. Previous training may not be all that effective.

The Ukraine war has evolved since it began in ways that even seasoned US troops might struggle. It is said that “if they can see you, you’re dead.” In other words, drone surveillance has reached the point where mobility near the lines of control is limited on both sides. Any soldier trained in “normal” conflicts could be at considerable risk just by acting in ways that would usually be safe. Militaries around the world are looking at how this war is being conducted for clues about future conflicts.

Second, we do not yet know whether, as initial indications suggest, this entire DPRK force will be committed to the Kursk sector or to Ukraine itself. Compared to the more than half-million frontline soldiers arrayed across the entire front, 10,000 or so troops is a very small, arguably negligible number. [For perspective, recent estimates have put the Russian casualty rate at 1,000 per day.](#) If, however, the entire contingent of North Korean troops is focused on the Kursk sector, it could make a difference. That would amount to a roughly 25% increase over the present Russian troop strength in-theater, where the fighting has reached a stalemate and where Ukraine has shown neither the ability nor the will to commit further resources beyond casualty replacement.

The Kursk sector is very small relative to the broader war, but it carries significance beyond its size. Ukraine could conceivably use its possession of this piece of Russian territory as leverage in future peace negotiations. If the addition of 10,000 or more fresh troops, regardless of origin, were to tip the scales, it could force Ukraine to retreat and concede its bargaining chip.

Ukrainian/Western Responses. The next question is what available military options either Ukraine or its Western supporters could consider in response to the North Korean deployment.

- Ukrainian leadership has persistently requested permission to use long-range strike missiles supplied by the US and other NATO countries on targets deep inside Russia. [Western leadership has thus far denied this permission due to the perceived escalatory nature of such a move.](#) Ukrainian President Zelensky is making the case that this Russia-DPRK escalation justifies granting that

permission. He has stated that [Ukraine knows every site where Russia is amassing North Korean soldiers on its territory](#), and that long-range strike missiles would enable it to preemptively attack these locations.

- [Ukraine has recently announced plans to draft another 160,000 troops into its military.](#) This decision occurred in response to Russia’s continuing battlefield gains and was made well before news of the DPRK troop deployment, but it comes during a time of growing resistance across Ukrainian society against additional call-ups. If the government seeks to implement another round of conscriptions to counter the introduction of DPRK troops, this might be difficult to achieve.
- [President-elect Donald Trump has consistently advocated a different policy on US support for Ukraine than that of his predecessor](#), pressing for a quick ceasefire and end to the conflict. He has also called for less US support and a transferal of the burden to European countries. The presence of DPRK troops, along with the fear that more may be coming, may lead the Ukrainian government to conclude that it should accept a ceasefire instead of a potential further loss of territory.

Further Escalation. Now that an escalatory precedent has been set, we turn our attention to plausible next steps that either side might take to expand the scope of the conflict beyond either the current combatants or the current Ukrainian battlefield.

- In February, French President Macron said the possibility of sending EU combat troops to Ukraine “[should not be ruled out.](#)” Although other European leaders quickly dismissed the idea, Macron issued a subsequent statement in

which he [firmly stood by his previous remarks](#). Now that another country has committed troops to combat on the Russian side, the prospect of EU troops joining the fight on the Ukrainian side might receive increased support.

- South Korea has made strong statements in response to its northern neighbor's move. Thus far, South Korea has limited itself to providing arms to the US and Ukraine's neighbors, [such as sales of tanks to Poland](#); however, it is now considering supplying offensive weaponry directly to Ukraine.
- [NATO Secretary-General Mark Rutte stated that Russia is staging hybrid attacks on other countries as part of its war on Ukraine](#). We normally think of hybrid warfare in terms of things such as cyberattacks on electrical grid control systems or pipelines; however, these kinds of attacks can escalate, even to the level of physical destruction. For example, in July, two incendiary devices at DHL logistics hubs in Germany and England exploded in cargo pallets. [Western security officials have now concluded that they were planted as part of a Russian plot](#), likely a test run in advance of eventually causing similar devices to explode mid-air on cargo aircraft. Attacks of this kind remind us of the [Israeli use of implanted explosives in pagers to attack Hezbollah](#) and show us how far Russia could go in an expansion of its war effort.

Broader Geopolitical Implications

The ultimate impact of DPRK troops in the Ukraine war goes well beyond the present conflict to questions of how this action serves as a harbinger of broader developments of global significance.

Russia-DPRK Relationship. As DPRK troops were being deployed to Ukraine, the Russian legislature (Duma) was [voting to ratify a “comprehensive strategic partnership” treaty](#) between the two countries. The mutual defense treaty obligates Russia and the DPRK to immediately provide military assistance using “all means” if either is attacked. This means that if South Korea or any of its allies (e.g., the US) decide to take military action against the DPRK, they would now have to contend with the possibility that Russia will militarily intervene. This prospect was made more realistic by the DPRK's “down payment” of sending troops to help Russia in its current conflict. Prevailing opinion also suggests that, [along with cash and food supplies, Russia will compensate the DPRK for use of its troops with transfers of critical technologies related to its nuclear weapons, space, and ballistic missile programs](#).

Nuclear Proliferation. This leads directly to the next major implication — the possibility of increased nuclear proliferation. As countries feel increasingly threatened by North Korean nuclear capabilities, they will consider whether they should acquire nuclear weapons of their own. The primary example is South Korea, whose defense minister Kim Yong-hyun has asserted that acquiring nuclear weapons is “[among all possible options](#)” for responding to North Korea's growing nuclear threat. This is the latest signal that Seoul is normalizing the idea of becoming a nuclear weapons state, which is a growing position enjoying domestic and foreign support. Opinion polls consistently reveal that a majority of South Korean citizens support the acquisition of nuclear weapons, and former Trump administration Secretary of State Mike Pompeo recently said that “there's no reason we should object to” South Korea developing its own nuclear weapons. With

Trump returning to the Oval Office in 2025, we expect renewed support of this kind. As evidence of increasing cooperation among China-bloc countries continues to emerge, we expect more countries to seek their own nuclear deterrence capabilities.

Increased China-Bloc Cooperation. Again, this leads to the next, and probably most far-reaching, implication. From a security perspective, [the countries of the China bloc, especially China, Russia, Iran, and the DPRK, have been showing increasing signs of active coordination](#). In our view, the deployment of DPRK troops to the Ukraine war serves merely as an extraordinarily ominous example of this trend.

Since nearly the beginning of the Ukraine war, Iran has provided Russia with a constant supply of battlefield drones, and Russia has supplied Iran with military helicopters and state-of-the-art air defense systems. The DPRK has supplied Russia with an estimated three million rounds of ammunition and artillery shells. Through various arrangements, [the four countries provide critical resources, such as agricultural and petroleum products, to one another](#), often in ways targeted to help each other evade Western economic sanctions. A key example of this is [China's increased purchases of Russian and Iranian crude oil](#). Beyond their own purchases of Russian oil, [Chinese companies have contributed the largest share of capacity to the "shadow fleet" of oil tankers](#) transporting Russian oil to a range of customers outside of the Western sanctions regime.

In addition to economic and material mutual assistance, we have seen an uptick of joint military exercises and operations among this group. The most prominent example of this occurred in July, when [two Chinese and two Russian nuclear-capable bombers flew](#)

[together in formation into the Alaska Air Defense Identification Zone](#), prompting an intercept by US and Canadian fighters. These kinds of incidents are on the rise, and we expect an increasing number of countries to follow the example of South Korea and consider the conventional and nuclear options for increasing their self-defense capabilities.

Investment Implications

In our view, the deployment of DPRK troops to the Ukraine war, inasmuch as it amplifies the increasing security cooperation of the China bloc, will inspire an acceleration of the global fracturing that [we have emphasized and explained in detail in recent reports](#). Among this trend's chief characteristics, we expect:

- A shrinking of the investable world, with US investors taking a much more opportunistic approach to investing in the [China bloc](#);
- A restructuring of commercial supply chains, away from global integration in favor of local and geopolitically reliable sources;
- Higher and more volatile inflation, which will impact both stock and bond values; and
- A reindustrialization of the US bloc, especially in the sectors of defense, manufacturing, energy, and artificial intelligence.

Additionally, we have been observing increasing reluctance on the part of the American public to support the full scope of global involvement, especially in the role "global peacekeeper" that the US has played since World War II. Since national security threats are increasing as a result of global fracturing, we do not envision a full-scale American retreat. Rather, we expect US

leadership to take an increasingly selective approach to how it engages the rest of the world and the conflicts in which it involves itself. With this degree of uncertainty surrounding US support, nations will be forced to reconsider their defense requirements. This will almost certainly lead to increased foreign defense spending to hedge against this uncertainty.

Among the investment implications of this recalibration of US foreign policy, some countries are likely to be viewed as more important than others in the eyes of US leadership, and this is likely to translate into

more commercial and business interaction — hence more investment opportunities — for those countries. We will be keeping a close eye on the potential evolution of this trend and how it impacts the investment landscape.

Daniel Ortwerth, CFA
November 18, 2024

This report was prepared by Daniel Ortwerth of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics, and geopolitical analysis with a value-driven, company-specific approach. The firm's portfolio management philosophy begins by assessing risk and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

Important Disclosures

This material is for use with investment advisory clients or prospects only

The information contained herein represents the opinions of the author and not necessarily Benjamin F. Edwards®. Benjamin F. Edwards® is providing it for informational purposes only, not as investment advice or a solicitation for the purchase or sale of any security or class of securities. Benjamin F. Edwards® & Co. (BFE) is a dually-registered broker-dealer and investment adviser and member of FINRA and SIPC, and its affiliate Benjamin F. EdwardsSM Wealth Management, LLC, d/b/a Edwards Wealth Management (EWM) is an SEC-registered investment adviser. BFE and EWM are affiliates through their common ownership by Benjamin Edwards, Inc. Depending on the context, the name Benjamin F. Edwards® refer to either EWM, BFE or both.

As a registered investment adviser, Benjamin F. Edwards offers clients a variety of advisory portfolio options. Any portfolio discussed is offered at Benjamin F. Edwards as an investment advisory account. To participate, investors must sign an investment advisory agreement, select a manager, and pay an advisory fee. For additional information regarding fees, please refer to the third-party asset manager's (asset manager) applicable disclosure documents and Benjamin F. Edwards' disclosure documents, which may be obtained through your advisor or found on Benjamin F. Edwards' website, www.benjaminfedwards.com, under the [Important Disclosures](#) section.

Participating in advisory programs may cost the client more or less than if the client were to implement his or her selected program separately, such as by using a different program sponsor, pursuing the strategy through a brokerage account, or investing directly with the asset manager. Some factors that might impact the total cost to a client who implements a program separately include the frequency of trading activity; whether a client might be successful in negotiating a lower fee with a sub-advisor; rate of commissions, markups or other transaction-related compensation; or whether account fees, transaction fees or similar charges would be incurred.

Investing in securities entails certain risks, including the potential loss of all or a portion of the proceeds invested. Individuals should consider their specific financial needs, investment objectives and risk tolerance before making an investment. Investments can be significantly affected by certain events, including international political and economic developments, inflation, and other factors. Dividends are not guaranteed and are subject to change or elimination.

Exchange traded funds (ETFs) and mutual funds are sold by prospectus only, which should be read carefully before investing. Please consider the investment objectives, risk, charges and expenses before investing. The liquidity of ETFs may not reflect the level of liquidity of other instruments on listed exchanges such as well-recognized, large cap stocks. The prospectuses, which contain this and other information, can be obtained from your advisor.

Investing in fixed-income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high-yield or "speculative-grade" bonds, which have lower ratings and are subject to greater price volatility. All fixed-income investments are subject to availability and change in price and may be worth less than original cost upon redemption or maturity.

There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions. Distributions from REIT investments are taxed at the owner's tax bracket.