

Geopolitical Breakdown

By John Mauldin | June 8, 2024



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I’m writing you from Cape Town, South Africa, where I’ve been warmly welcomed and reminded how much I enjoy international travel (well, except for jet lag!). Our world has so many wonders most people never get to experience. Of course, “there’s no place like home,” but seeing other places makes me happy, too.

Yet this same variety and diversity also means clashes and risk. Every country has its own interests, which of course its government must defend. The fact that the whole world isn’t at constant, open warfare is one of the modern era’s greatest achievements. We don’t want to lose it... yet we could. That fate is closer than many think.

Writing complete letters while traveling is difficult, made worse by jet lag, so today I’m going to share some thoughts on geopolitics from some of our Strategic Investment Conference faculty. I think you’ll find it fascinating and, if you like it, I hope you’ll join us next year for more.

With that, let’s get started.

Spinning Plates

I'll begin with our SIC headliner, retired General David Petraeus, who was also CIA director under President Obama and is now an executive at KKR. He's been around the world, so to speak, more than anyone.

General Petraeus had some very interesting thoughts at SIC—so interesting, in fact, I can't share them here. He agreed to speak only under contractual terms that restrict us from sharing his comments. I can, however, quote from an [interview](#) he did with my partner Ed D'Agostino after Hamas attacked Israel. I think this is a good place to start as he describes why geopolitical risk is so hard to escape.

Ed began by asking General Petraeus to comment on remarks from Jamie Dimon and Ray Dalio, who were both very concerned about the Hamas attacks spreading into a larger conflict. What did that mean for a US-led world order?

"If you think of that metaphorically, we're the guy in the circus who, together with our allies and partners, have to keep a whole bunch of plates spinning. The biggest of those plates, clearly bigger than all the others, is the plate that represents the US and Western relationship with China. But there's also a plate for Russia, needless to say. The challenges that it poses beyond Ukraine, but also very much in Ukraine. There's the North Korea plate. Needless to say, there's an Iran plate and a plate for Iran's proxies, which of course include Hamas, Hezbollah, the Houthis in Yemen, and then Shia militia in Iraq and a variety of other places in the Gulf. And they actually have other discrete plates as well. Their nuclear program, their missile program, and so on.

"There are plates that represent still the Islamist extremist organizations around the world that we've learned the hard way. We have to keep an eye and pressure on because if you don't, as with the case of the Islamic State after we pulled our final combat troops out of Iraq in late 2011 and after the Prime Minister undid so much of what we'd achieved together during the surge in the subsequent three years, if you take your eye off the Islamic State they can reconstitute.

"By the way, there are some lessons there for the situation with respect to Hamas and Gaza that we can get to later as well. Then there are plates that represent various nation-state and non-state actors, including Islamist extremists and criminals in cyberspace, all of the different challenges that we face there.

"There are issues with domestic populism in a number of countries, including in some of our NATO allies. And of course, we have some of those issues here at home when you look at the hyper-partisanship that characterizes much of what goes on in Capitol Hill. So the number of challenges that is out there is really enormous.

"And I should add to that really the manifestations of global warming, the much greater frequency of and severity of weather events, hurricanes, flooding, wildfires, and so forth that we have seen as well. So when you look at that, and probably as a result of that also, that latter category is substantial human migration.

“We are obviously challenged by that very considerably as you look at what goes on largely across our southern border but through other means as well. But so are our European allies with the challenges that they face across the Mediterranean, from the east of Europe, and so on.

“So it is accurate, again, for Jamie to describe the world the way it is, for Ray Dalio to describe that as it is. And I think it highlights the reason why geopolitical risk assessment has become an increasingly important component of the investment process.”

Whew. When you step through it that way, the scale of these challenges is staggering. But there's more, much more.

“A Hot War in Cold Places”

At SIC we were thrilled to hear from Pippa Malmgren, analyst and futurist whose bio is almost beyond comparison. She was a special assistant to President George W. Bush, a strategist for UBS, and more.

Ed D'Agostino interviewed Pippa at SIC. He began by asking about her provocative 2021 statement that World War III was already underway.

“I also argued in that Substack piece that World War III would be very, very different from World War I and World War II because immediately when you say that, people have visions of tank to tank and naval vessel to naval vessel and a lot of loss of human life, but this is a much more technological war. This confrontation is happening, I've described it as ‘We're in a hot war in cold places,’ by which I mean space, the high seas, we're now in naval conflicts... This is a huge change from all the land conflicts that we're accustomed to, and it's often in locations that we don't think of, like the Arctic and the high north, Scandinavia. And so these are all places where there are no journalists, by the way. There are no journalists in space, there are no journalists on the high seas, and there are no photo ops.

“So they can't show you the story. It's much easier to just report Ukraine and now, of course, the situation with Israel and Gaza because it provides a place for journalists and photo ops, but that doesn't make this ‘invisible war,’ as I call it, any less real. And we're also in a cold war in hot places, which means the conflict that's between the US and its NATO allies and a combination of Russia and China and their allies across all of Africa and in the Middle East, which is very much part of the Israel-Gaza story, in my view. We make this mistake of thinking these are all localized conflicts, by the way, Ukraine and Israel. I don't think they are. They're symptoms of this much larger conflagration.

“And just to finish on this, what Russia-China, in alliance with Iran, North Korea, and a few others, are trying to do is basically force the United States to come to the table to agree on a deal on specifically Ukraine. And in my judgment, the White House position is, they *want* a deal on Ukraine, but they don't want to announce it until right before the presidential election, for obvious reasons. Because Americans will forget. If you announce it now, they won't remember and give the president any credit for it by November.

“So President Putin’s view is, ‘Fine. I will make your life hell between now and then.’ And this is what we see. And this is one reason we’ve just seen the head of the FBI come straight out and say, ‘There’s a real risk now of cyberattacks on the United States,’ and I could go deeper, but here’s the fundamental question we need to ask ourselves.

“I’ll just say this, instead of arguing about whether the US could win a nose-to-nose conflict with either Russia or China or both, think of it this way. This is jujitsu; this is not wrestling. Jujitsu is where China and Russia do things that suddenly force us to deploy our military and have them on high alert. So now we are deploying the Navy and aircraft carrier groups to deal with Houthis with missiles on their shoulder, which an aircraft carrier can’t really do very much about.

“But how much does it cost to deploy those vessels? The answer is nobody knows, but it’s eye-wateringly expensive. And at some point, the Navy’s going to have to tell the Congress what that number is, and we’re all going to choke. And the purpose of the exercise is to drain the US dry of funds. It’s not to fight in a traditional military strategic sense. It’s a bleed-you-dry strategy.”

Let me stop there and note how we in the US are doing a fine job bleeding *ourselves* dry. Defense spending worsens the debt, but it would be far too high anyway.

Pippa went on about how this affects the economy.

“I think we’re in a massive race between inflation and innovation, and part of the reason the Fed did the zero interest rate and the free-money policy, their view was if we throw enough cash at it, the innovators will get going and they will build the next Apple and the next Microsoft, and that will begin to pull the economy into the future. And I remember being very skeptical about that at the time because I’m a little bit more hardcore on inflation. But I am now looking at it, and I’m not sure it was wrong. And we have had such extraordinary innovation.

“Interestingly, once you start getting into strategic-security conflict, then the defense community becomes a provider of dollars. And I’ve gone so far as to say that defense spending is the new quantitative easing because you can spend an unlimited amount of money. Nobody ever asks any questions. If you tried to do it through the Fed, everyone would be having a heart attack. But if it comes through this strategic-security fiscal angle, nobody can complain, especially because the risk of conflict is real and it’s a clear and present danger.

“One reason you see the private equity firms aligning with the defense community is because that’s where the dollars are, and it is where the innovation occurs. War and conflict spur innovation. No question about it.

“So the question is, can we get through this period without actually having the war, or can we remain in the invisible war that’s very real? Can we get to a resolution without the public really registering what the real dangers are?

“And I think the chances are yes, because everybody *does* want to cut a deal on Ukraine, which implies also a deal over Gaza, Israel, because Russia and China and Iran would back off supporting Hamas and the Houthis if there was an agreement on Ukraine—or rather, China and Russia would stop giving them so much support if there’s an agreement on Ukraine...

“And if we get that—and here’s maybe my key takeaway from today, because I’ve given you a lot of dark stuff about the realities of geopolitics, so it makes everybody nervous and scared. But here’s the thing: A peace dividend is rare and valuable. How many of us missed the fall of the Berlin Wall and the end of the Soviet Union, and the extraordinary peace dividend that ensued? I would say most people did not anticipate that that was going to happen.

“This is another shot at that, and I would say in addition to whatever time you spend worrying about the downside, I want you to really think about, what is your strategy for the day that we get the headline in the *Washington Post*, ‘There’s a deal on Ukraine?’

“Because that is the day the peace dividend will begin again, and markets will go up and all this innovation will go crazy, and suddenly inflation will be an issue again. And there’ll be a question about how to solve that. But I would bet that in the race between inflation and innovation, in a peace dividend, innovation wins. So I just want to leave you with, I think there’s a real upside that most of the market isn’t even thinking possible.”

That was a curveball I didn’t expect, but an important one. We are often quick to assume the worst, but good outcomes *are* possible. The Cold War had one. While the various smaller conflicts brought tremendous pain and suffering, we avoided nuclear war.

It’s hard to imagine all today’s conflicts working out so peacefully. Yet it’s possible, and Pippa is right to say we should consider that scenario in our investment planning.

Intelligence Failures

Finally, we’ll turn to old friend Dr. George Friedman of Geopolitical Futures. I asked him to share his outlook for the Ukraine and Israel wars.

“The Russian situation is a disaster for the Russians. After two years, they have not succeeded in defeating a miserable little country like Ukraine. They’ve had a coup d’état, tried to overthrow the government. And a whole lot of people dodging a draft. So, when you take a look at the Russian position, they’ve advanced somewhat, but they are unable to surge forward. When they take a city militarily, they should hit hard with everything they have to punch through to the end. And they don’t do it. They don’t do it because their military is not formed properly and because they got into this war with an intelligence failure of enormous proportions.

“They failed to understand how the Ukrainians would fight. They failed to understand that Germans were not more interested in oil than the United States. And they failed to understand that the United States had a way to fight a war that didn’t lead to casualties so that we wouldn’t have what’s called a ‘Dover problem’ of corpses coming back. So I look at Russia and I say, ‘You may win, but boy, you should have won long before this.’

“Ukraine can’t win. Russia is not winning. We have to have a negotiation. The problem is that Putin cannot admit that he didn’t take Ukraine. He expected to; he didn’t believe he couldn’t. So he wants to have some victory of some kind walking away from it. The United States is negotiating this, and the United States is not inclined to give him that, but in the end, we’re going to have to give him a little flag saying, ‘Oh, you’re a great guy’ or something. But the problem is he failed to take Ukraine, and the United States is in a position that it wants to get out of the war. It’s had enough. So we’ll have a negotiation.”

This is, again, hard to imagine right now. But George says negotiation is the best *possible* outcome for both sides, so that’s where it will go.

As for Israel and Hamas...

“There’s two things to remember about this. No Arab country came to the support of Hamas in battle. So whereas Hamas, I think, expected at least Hezbollah to come in, they haven’t, which means the Iranians haven’t. For the Israelis, this is a second massive intelligence failure. Previous one was 1973 where they missed an attack by the Egyptians and the Syrians supported by the Russians. In this one, they failed to see—in a ditch sitting next to you—that something may have been going on. So you have internal crises in both countries, in both groups. The Arabs simply cannot figure out how to deal with the Israelis.

“The Israelis have a strategy of pounding the enemy until he gives in. They don’t have to give in. So the Israelis have a problem. They see themselves as a superpower. I see them as a nice little superpower, very good. You are a small country. You can’t take major casualties, and you can’t maneuver widely. So try something else. And they won’t; they keep coming back to the same strategy...

“So two incompetent forces have met together and have no idea what to do now.”

That’s harsh but also hard to dispute. Neither side can achieve victory, but the situation also isn’t amenable to negotiated compromise. That makes me think it could drag on for a long time, extending the pain and raising the odds it spreads elsewhere.

Remember, too, how this war came out of nowhere, sparked by a brutal surprise attack on civilians. What *other* geopolitical surprises are brewing right now, and where?

New York and Oh, Canada!

As you read this, I will likely be on an airplane coming back from Cape Town. The people at RMB were very gracious hosts. I will be flying to New York for a quick meeting with David Bahnsen and his team at the Bahnsen Group and then a fabulous dinner.

I have mentioned I am going to British Columbia for a fishing trip at the end of August. Usually, I go to Maine with my youngest son Trey. About 30 readers will join me at the West Coast Fishing Club this year. But there is a hiccup with Trey coming. Canadian law that says if you have a DWI (and Trey did have one in an earlier life) the customs official can decide to not let you enter the country. From what we can learn from attorneys and officials, there doesn't seem to be a way to deal with it in advance. I wonder if there is someone who knows how to finesse this issue? Should I ask Pierre Poilievre to join us?

And with that, it's time to hit the send button. You have a great week! And don't forget to [follow me on X!](#)

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