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All-In Moment for Putin in Ukraine War

Boston - Despite reports of notable damages and casualties inflicted by Ukrainian armed forces on Russian troops, Russia continues to make modest gains in the amount of land controlled. Until Russia stops making gains, we think it is unlikely that there will be a negotiated peace agreement.

Here is the latest update on the Ukraine war from the Emerging Markets Debt investment team. Please recognize that we are working with primary and secondary sources of information that often cannot be easily verified. Some could be misinformation or disinformation. We should bear in mind that "the first casualty in war is the truth." Citations for that quote date back to before the Common Era.

Russian gains come with casualties and equipment losses

Taken together, the balance of the evidence suggests that Russia is making measured gains, but also suffering significant casualties and equipment losses. Reports indicate that Russia has more than 90% of its combat-ready troops inside Ukraine now. We may be looking at an all-in moment for Putin, whose war has so far resulted in moderate land gains and abject destruction of Ukrainian-held cities.

The large convoy outside Kyiv remains idle, being sniped at by Ukrainians according to Western media. Russian forces appear to have stuck to Soviet-style large maneuver tactics, moving in long convoys that are vulnerable to strikes by small reconnaissance units and Ukraine's fleet of Turkish-made armed drones. Ukrainian officials say they are focused on targeting supply convoys to reduce Russia's access to equipment refueling.

Recognizing the risk here that we are in an echo chamber, listening too exclusively to Western and Ukrainian news outlets, we have a Russian speaker on our team to follow many of the pro-Kremlin information channels. Our colleague reports that Russia may be running out of reserve equipment, citing videos of Russian troops bringing 40-year-old tanks to the battlefield.

The imbalance of power that characterized invasion day appears to be moderating with the transfer of weapons to Ukraine. The New York Times has reported that 17,000 anti-tank missiles have been delivered to Ukraine, and a three-way fighter jet trade between the US, Poland and Ukraine remains under discussion. This could be quite provocative, possibly leading Putin to strike at Poland either kinetically or through cyberattacks.

Perhaps indicating just how negative the battlefield facts may be for the Russian audience, Russia has blocked social media. Similarly, BBC, CNN, CBC and other



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foreign media have been pressured to stop reporting from within Russia. Even Radio Free Europe has suspended operations in Russia after tax officials there started a bankruptcy proceeding on March 4.

World order continues to reorder

We continue to see the world order reordering right before our eyes. Finland's president said this weekend that the country will attempt to join NATO as soon as possible. In Sweden, the majority of the population now supports NATO membership. The whole plan to limit the expansion of NATO appears to be backfiring for Putin.

In some ways, we have perceived instances where individuals may be establishing their own foreign policies. For example, at the Stanlow oil refinery near Liverpool, a German-flagged tanker had been granted permission to berth its cargo of oil legally purchased from Russia. A British labor union has instructed workers not to handle the shipment.

This is important because the UK and other European countries have yet to ban Russian oil imports, though headlines on March 7 indicated that the US has pushed for sanctions on Russian oil exports. Altogether, this suggests that an apartheid-like disinvestment campaign could be afoot, regardless of official sanctions.

Economic and financial markets feel effects of war

Such grassroots foreign policy extends even further with the emergence of self-sanctions. For example, Visa, MasterCard and American Express have suspended processing transactions in Russia out of public pressure, not because that activity would be illegal.

Meanwhile, on the Russian side, we see a *soft iron curtain* being erected. Russia's national airline halted all international flights except to Belarus, arguably to keep rented planes away from foreign owners trying to take them back.

With oil sanctions being discussed, we can certainly expect much higher prices for oil. As the third largest oil producer, Russia supplies 5 million barrels per day, which meets 12% of the world's oil demand. We think investors may need to consider the very material possibility that Russia could retaliate by halting or reducing natural gas exports to Europe.

As for capital markets, the Russian ruble had declined another 10% in offshore markets early on March 7. Other Russian markets largely remain frozen, while those assets close to Russia — like those of other central European countries — are being hardest hit as investors moved to reduce risk at the beginning of the week.

Bottom line: We view Putin's situation as a *Zugswang* in a chess game, where every move he can make will worsen his situation. We think that if he recognizes his position, he would begin to build an off-ramp. When Putin stated over the weekend that the Ukrainian Army was nearly destroyed, one interpretation could be that the job is nearly done. However, we could also interpret this statement as disinformation meant for local Russian consumption.

country/ies are carried out in compliance with applicable sanctions.

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