Thoughts on Ukraine

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They say the truth is the first casualty of war...so, here we are about one week into the Russian invasion of Ukraine and the fog of war is still very thick.

Over the past few weeks, it has been conventional wisdom that Russia would take parts of Ukraine (maybe all) and then things would settle down while the world awaited further actions. In the worst-case scenario, those moves could include closing the current 40-mile wide border between Poland and Lithuania, which could lead to direct NATO military involvement and a wider conflict.

So far, things haven't unfolded as many thought they would. Supply-chain issues for the Russian military and formidable opposition are slowing Russia's advance. In addition, more sanctions and military help from countries around the world have given many hope that hostilities end early with Russia falling well short of its goals.

If Russia is unable to take control of Ukraine or even forced to retreat, Vladimir Putin could be in more than just political trouble. His inner circle may not like risking access to their personal wealth on what they might believe is an ill-advised military adventure. For Putin, this is a huge incentive to continue his attack, and escalate. Nothing is totally clear.

What we are more confident about is what the conflict means for public policy. Policies designed to suppress US energy production are going to be tougher for the voting public to digest. The same is true for many European countries, with Germany now discussing building a natural gas reserve.

How about green energy? Many will keep pushing it, and those projects will continue, but it's going to be tougher to curtail drilling, extraction, and pipelines for old-fashioned fossil fuels.

Meanwhile, Build Back Better, President Biden's plan to raise spending and taxes for the next decade, looks even less likely than before. War means disruption and many will argue we should wait and see how the economy reacts to the conflict.

In addition, while the war will likely make global supply-chain issues even more problematic and inflationary, the Federal Reserve is likely to pull back on tightening plans because of the potential economic upheaval. A rate hike of 50 basis points in March is unlikely.

Meanwhile, at least one polling average now shows the GOP ahead in the congressional generic ballot by 3.7 points over the Democrats. Comparing this to historical readings suggests the government will be politically divided in 2023. In turn, divided government reduces the odds of future tax hikes and spending increases.

In addition, while not related to Ukraine, we think the Supreme Court's recent decision slapping down private-sector vaccine mandates by OSHA is a sign that it is willing to limit the power of bureaucrats. This is good news for growth.

Put it all together and we think the prospects for more bills that expand government are waning while the Court seems to be more wary of regulatory expansions, as well.

While war is hell and our prayers are with the Ukrainians, the direction of policy is moving toward the better.