

The Outlook: Feb. 24, 2022

“The facts are never as good or bad as they first appear.”

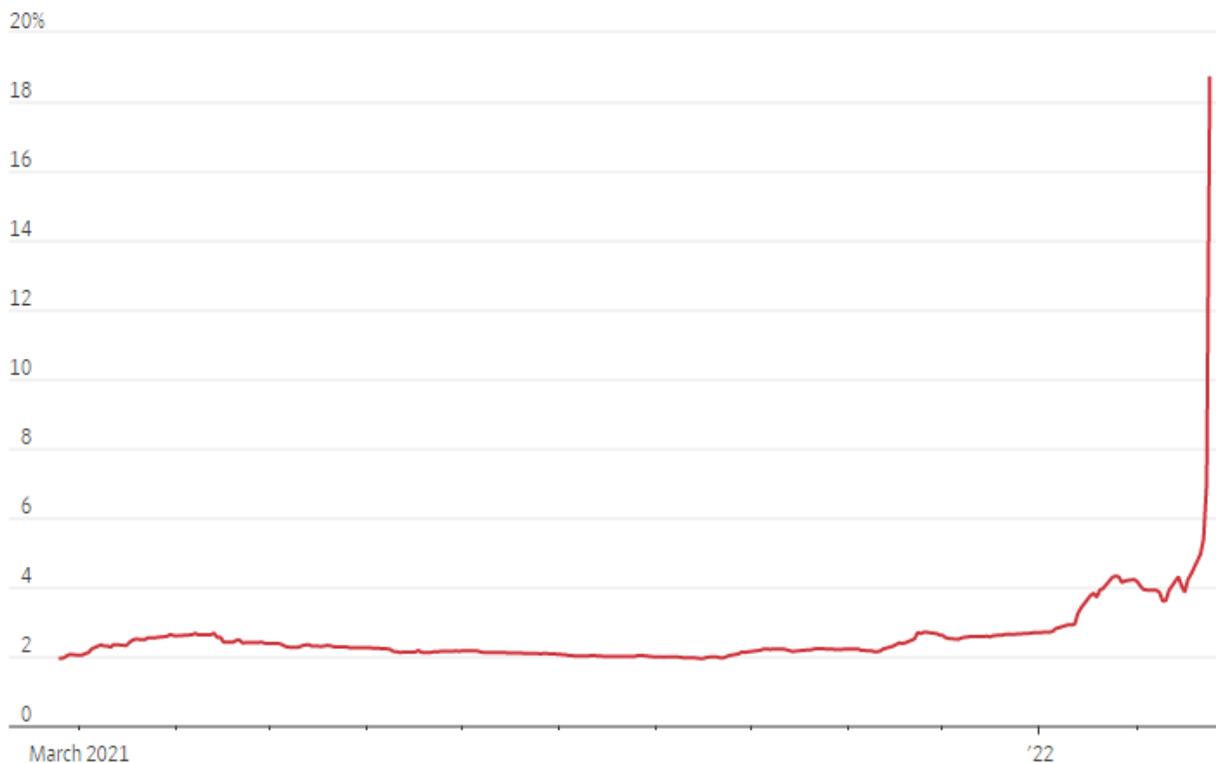
Just a bit ago we remembered General William Slim’s remark about his experiences in World War II: “The facts (from a battle) are never as good or bad as they first appear.” Taking General Slim’s rule forward 77 years to this “Day One” of the Ukraine War, at Outlook our guess is that Russia isn’t doing as well as the first foggy impressions; and Ukraine is doing better.

The most important thing for the long-term peace and prosperity of Europe and the world is pretty simple: the cost to Mr. Putin of his “might is right” action must not be trivial. It must be sharp enough to hurt. Will it be? That’s the “Big Question.” On Day One, Ukraine has answered the Big Question this way: “Yes, it will fight.” Also on Day One, the West’s answer to the Big Question, so far, is: “Maybe.” That’s not too surprising . . . and “Maybe” is a much better Day One answer than “Nope.”

Peering through the Fog of War, to Outlook the most significant news items of the day were:

- Instantaneous anti-war demonstrations and protests in many Russian cities including Moscow. A human rights group said 1200 Russians have been arrested.
- A 33% to 50% collapse in the Russian stock market; and sharply rising interest rates. Here’s one picture, though as a dollar-denominated bond it’s a special case. But it gives us the general idea.

Yield on Russian dollar bond maturing in June 2027



Source: Tradeweb

- Germany's cancelation of the Nordstream 2 gas pipeline from Russia. That's a couple of days old . . . but it is a sign of the kind of backbone that will be crucial. Germany is already paying through the nose for energy. Mr. Olaf Scholz, who as new Chancellor leads a shaky coalition of parties which disagree on almost everything, could have waffled on Nordstream out of fear that "paying through the nose" would become "paying the sun, the moon and the stars" for energy. It's good that he did not . . . so far.
- A "probably true" report that 30 Russian tanks and dozens of armored vehicles were destroyed by Ukraine's army on Day One. Once an army starts fighting for its country, it's pretty likely to keep fighting. The first hurdle is toughest.

Economist Brian Wesbury, as usual, put his finger on the essence of the market's strange behavior, today. "The Fed," he observed, "suddenly became even more likely to "go slow" with 2022 interest-rate hikes than it was yesterday." Today it must worry a little more about American and global economic health than yesterday. Even though the Fed's idea, yesterday, that a few half-point hikes in rates in 2022 would be "aggressive" didn't make sense; the market's betting crowd hates any rate hikes on principle. Explaining any of the market's "strange days" is always guesswork, not serious work—but at Outlook we'd bet a cup of tea that Mr. Wesbury got this one right.

"The facts are never as good or bad as the early reports make them seem." We'll keep that in mind as we watch the headlines in the days ahead.

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