



# Annual Dinner 2023

Featuring: Marko Papic





CLOCKTOWER  
STRATEGY

# What if the World Is *Not* Ending?

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# High Level Summary

- **Framework:** Investors have to understand that geopolitics is not a risk. It is a framework for investing, like valuations or momentum. As such, it can sometimes offer a signal to sell, or a signal to buy. Russia's invasion of Ukraine is a great example of how a constraint-based framework can be useful... even when it is wrong!
- **Is Taiwan a Risk?** Our constraint-based framework posits that Beijing is unlikely to invade Taiwan this decade. It is not militarily ready and its economy is more addicted to the West, not less, than ten years ago.
- **Multipolarity Is Critical for Investors:** China-US conflict is embedded in a multipolar global context, which will continue to shape and define the limits of what both the US and China can do. Most importantly, **multipolarity will ensure that the world does *not* bifurcate neatly into two camps**, a Western and Chinese. This will **limit the inflationary impulses** that would wash over the world in a complete de-globalization scenario. At the same time, a **multipolar world will incentivize the rebuilding of supply chains** and other assorted capex projects that **will be inflationary**. The end result may actually be a Goldilocks outcome of *just enough* inflation. In addition, **multipolarity will incentivize technological progress and rise in productivity**.
- **Three Risks:** Most investors are overly focused on US-China tensions and the war in Ukraine. Three risks that are not paid enough attention are the situation in the Middle East, threats to the supply of commodities, and the ongoing high levels of political polarization in the US.

A large, light purple graphic on the left side of the slide. It consists of a large circle containing several concentric, slightly offset lines that form a series of nested, elongated shapes, resembling a stylized arrow or a series of steps pointing towards the right.

Geopolitics Is Not a Risk,  
It Is a Framework

# The Constraint Framework

*Policymaker preferences are optional and subject to constraints, whereas material constraints are neither optional nor subject to preferences.*

- **Alpha:** Geopolitical alpha is harvested when markets overstate or understate geopolitical risks and opportunities.
- **Beta:** Geopolitical beta is about catching phase shifts and long-term trends.

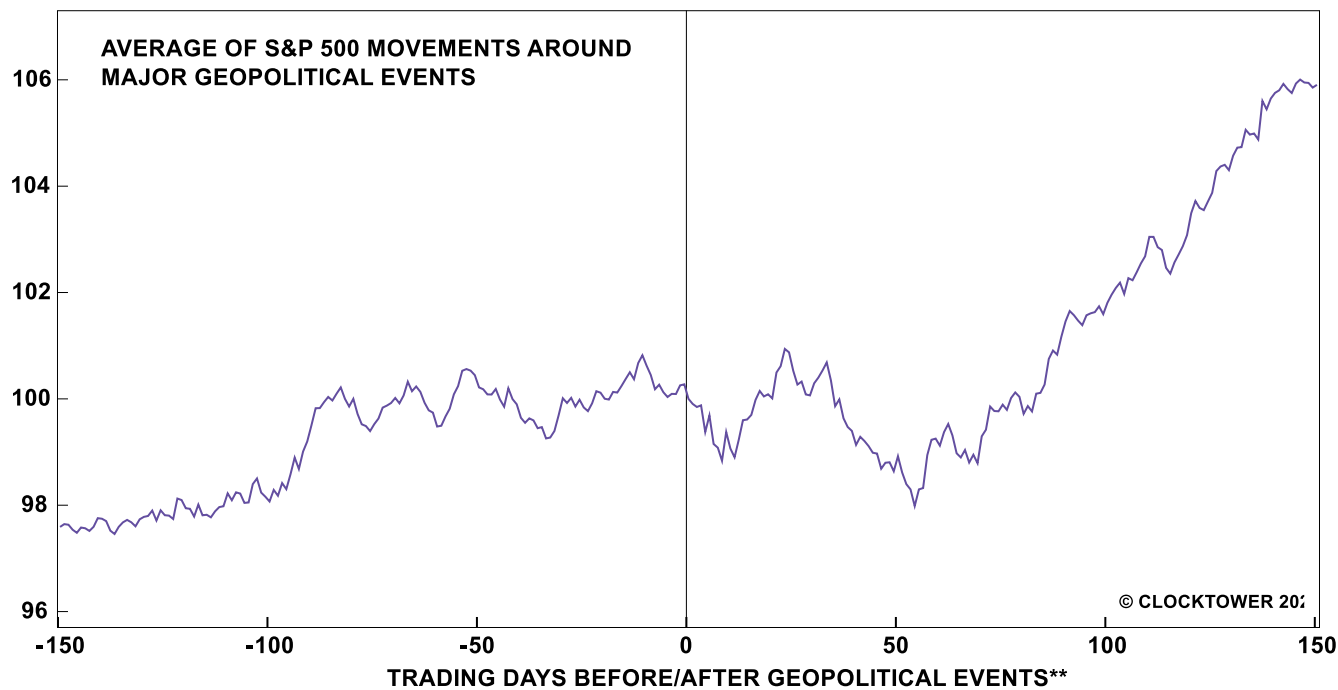




# Framework | Most Important Lesson: Geopolitics Is Not a Risk

Geopolitics is neither a risk nor an opportunity. It is a “knowledge realm,” a “tool,” and a “factor.”  
Simple extrapolation rarely works in practice. First order effects are often wrong.

**I Am Not Here to Tell You to Buy Defense Stocks!!!!**



\* REBASED TO FIRST DAY OF GEOPOLITICAL EVENT = 100.

\*\* INCLUDES 26 MAJOR GEOPOLITICAL EVENTS FROM THE CUBAN MISSILE CRISIS IN 1962 TO THE RUSSIAN-UKRAINE WAR IN 2022.

SOURCE: MACROBOND.

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Is Russia Going to Invade Ukraine?



# Case Study: Russian Invasion of Ukraine

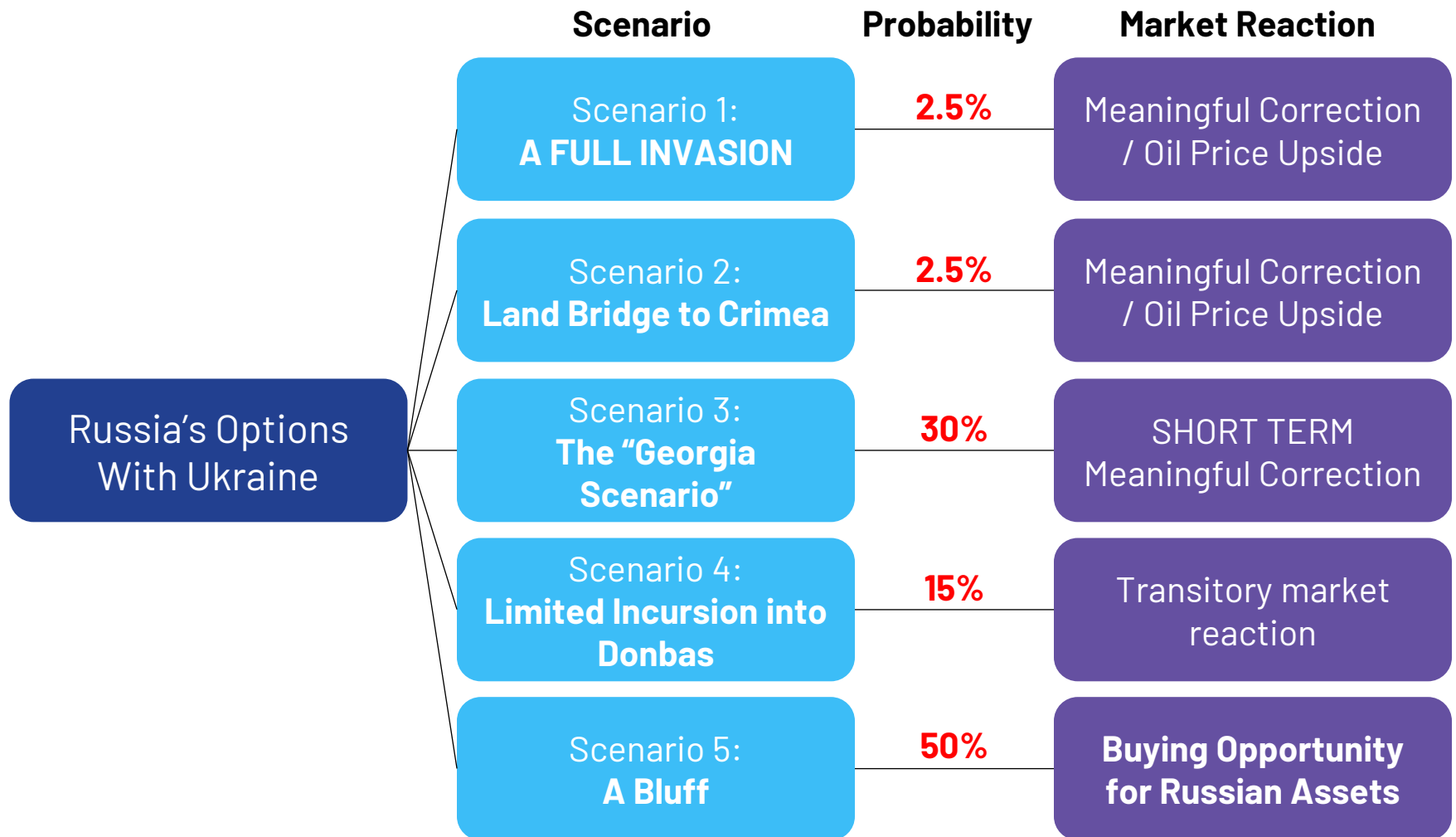
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1. **Demographics:** Russian-speaking Ukrainians tend to be urban, educated, elites. Furthermore, they are not necessarily pro-Moscow. The insurgency against Russian military will be serious.
2. **Politics:** By annexing Crimea and supporting rebellion in Donetsk and Luhansk, Moscow has hived off the most pro-Russian parts of Ukraine, leaving an all-together far more politically homogenous whole. This was a **strategic mistake** by Moscow.
3. **Geography:** Ukraine is the *largest country of Europe*, comparable in size to Germany and the UK *combined*. It has a population of ~44 million, with another ~2 million Ukrainians living in Russia.
4. **Military:** Russian military is quantitatively strong, but it has not conducted a large, land-based, war since Afghanistan in the 1980s. Its incursion into Syria was limited, Georgia had no army, and Chechen conflicts in the 1990s are not comparable.
5. **Response from the West:** The economic sanctions, SWIFT exclusion, and support of insurgents in Ukraine will sap Russia immensely.



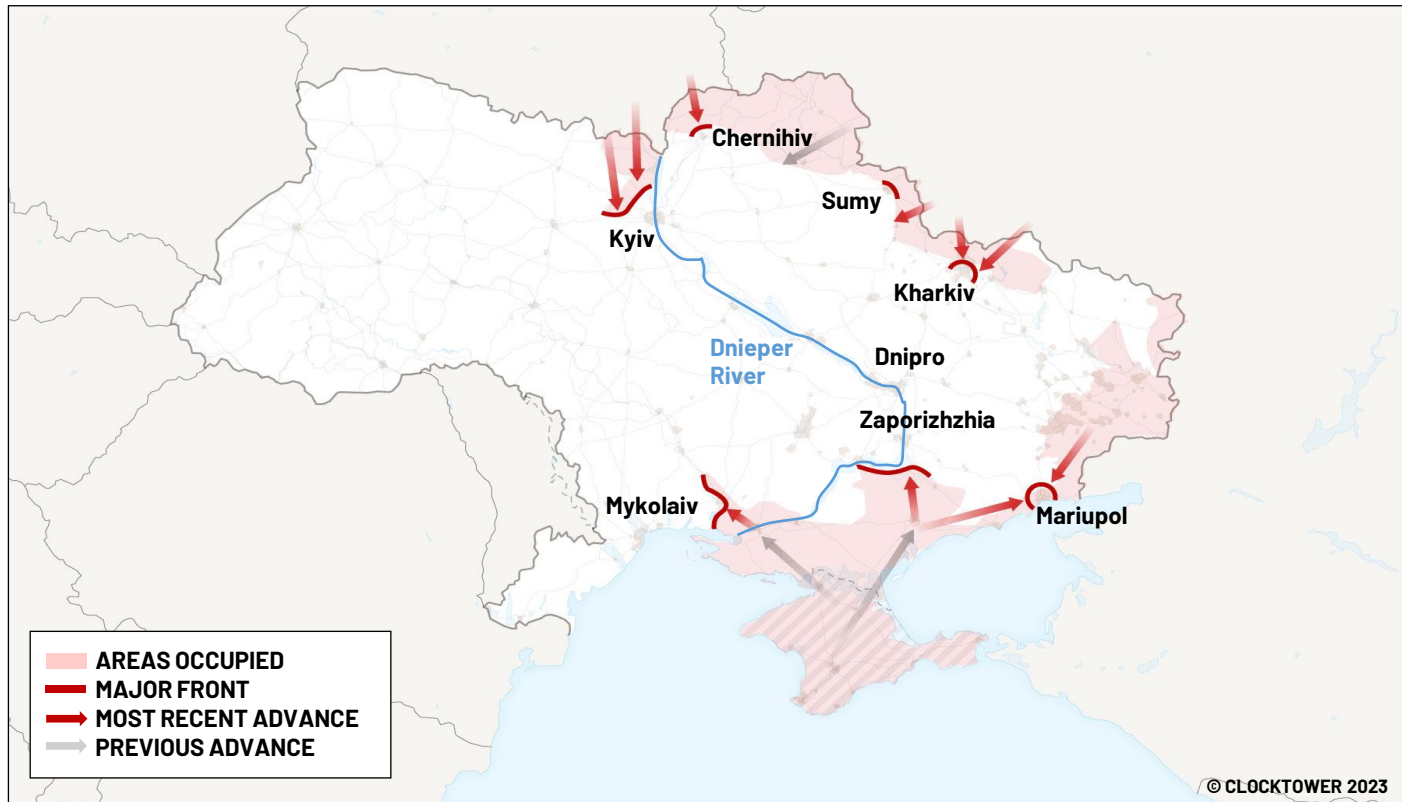


## Constraints | Scenario Probabilities





# Constraints | Russian Military Invasion Made No Sense



NOTE: OCCUPIED AREAS ARE AS OF 3 P.M. EASTERN ON MARCH 3.

SOURCE: INSTITUTE FOR THE STUDY OF WAR WITH AMERICAN ENTERPRISE INSTITUTE'S CRITICAL THREATS PROJECT.



# Constraints The Constraints Are *Material*

Russian intervention in Ukraine will go down in history as one of the most botched military operations ever. Constraints have overcome preferences (of both combatants!).

Russia Is Stuck in Ukraine – Current Line of Control Is Likely Long-Term Ceasefire Line



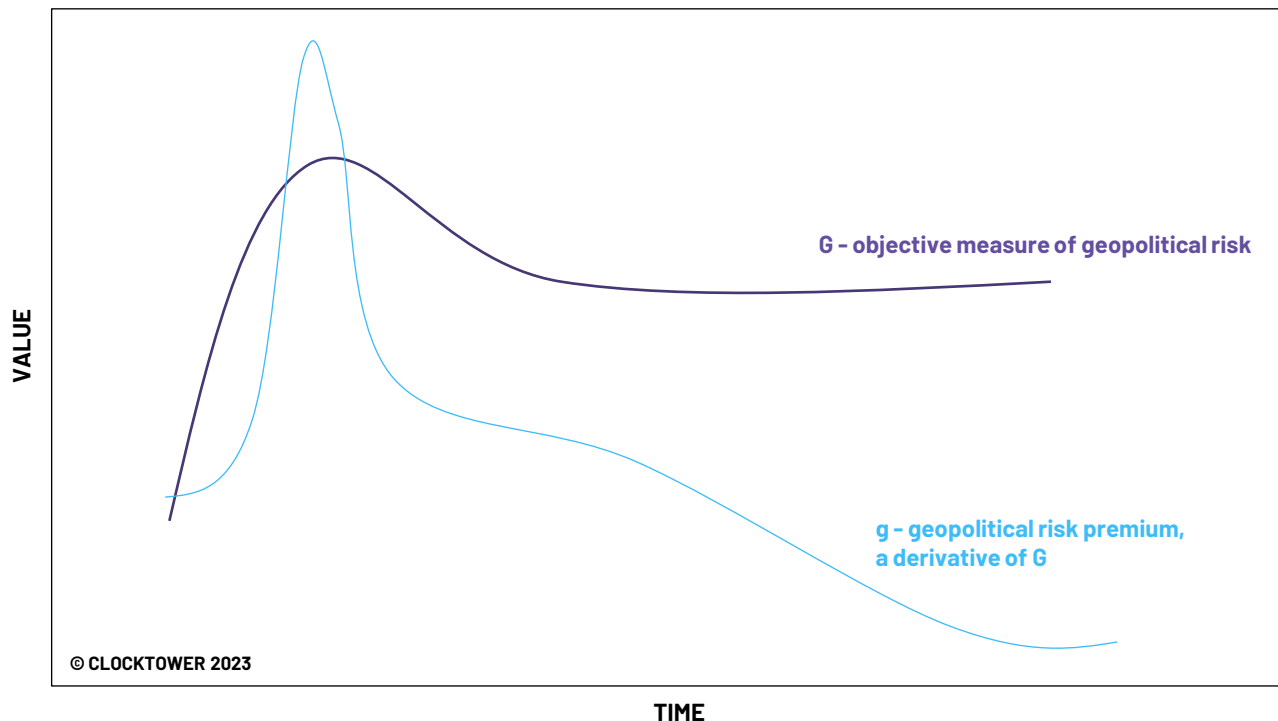
SOURCE: INSTITUTE FOR THE STUDY OF WAR, BBC.  
© CLOCKTOWER 2023



## Constraints | The Market Sniffed out the Constraints...

If the war becomes settled in a back-and-forth around a line of control, it is unlikely to matter anymore for the market. **Geopolitical risk premium requires *objective* risk to continue to appreciate.**

Geopolitical Risk Premium Does Not Correlate With the Objective Measure of Geopolitical Risk



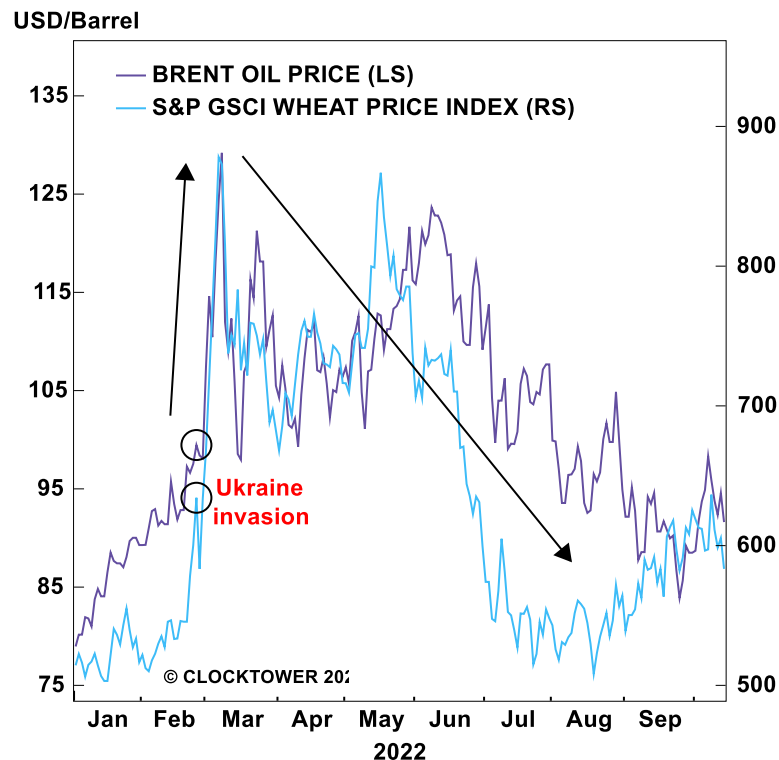
SOURCE: CLOCKTOWER GROUP.



# Constraints | Eventually, Fundamentals Matter

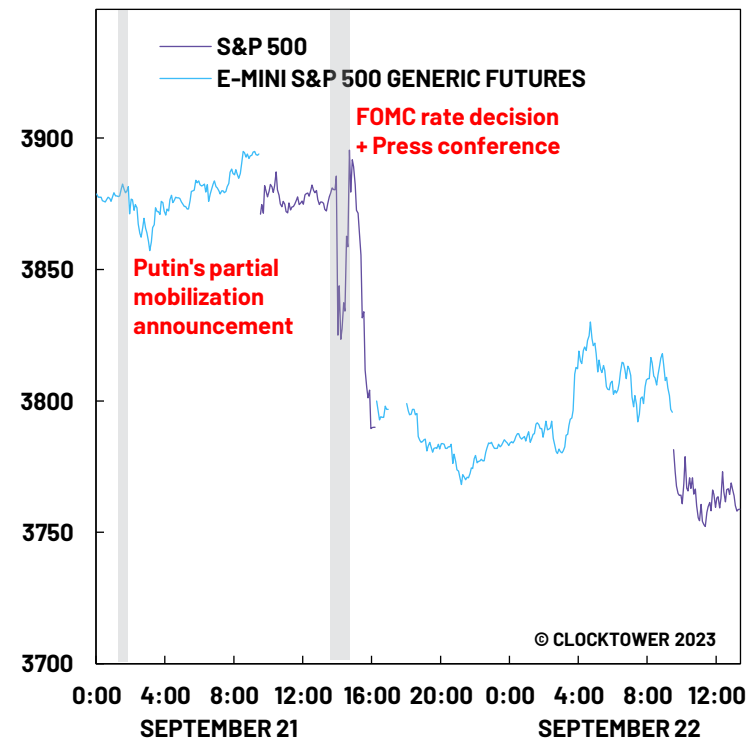
For geopolitics to matter, it needs to impact *fundamentals* and *material constraints*. Even the Ukraine War stopped mattering to the markets. Commodities *and* bonds sold off in the face of supposed risk.

After an Initial Rally, Commodities Sold Off...



SOURCE: MACROBOND.

... While Jay Became More Relevant than Vlad



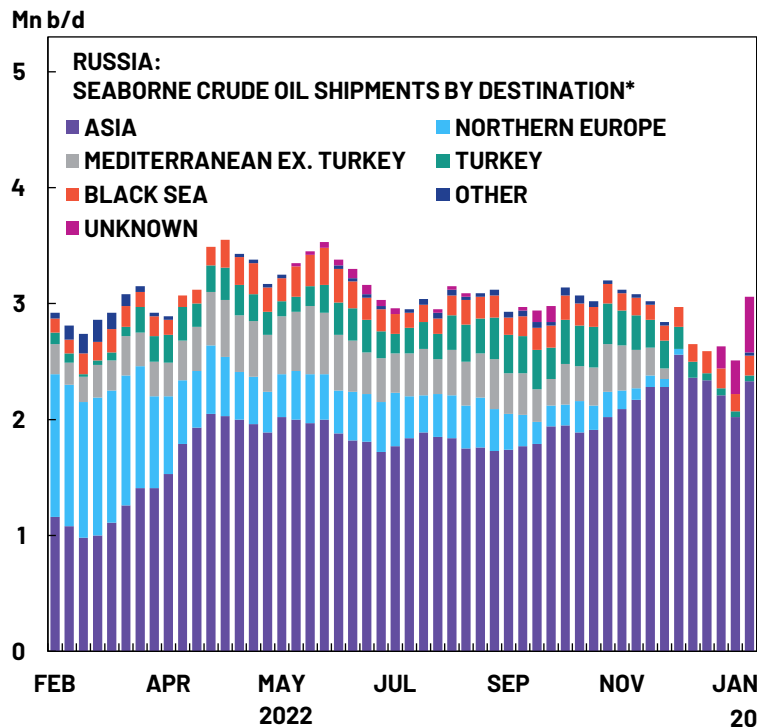
SOURCE: BLOOMBERG FINANCE L.P.



## Constraints | By June, Oil Prices Became the *Alpha*

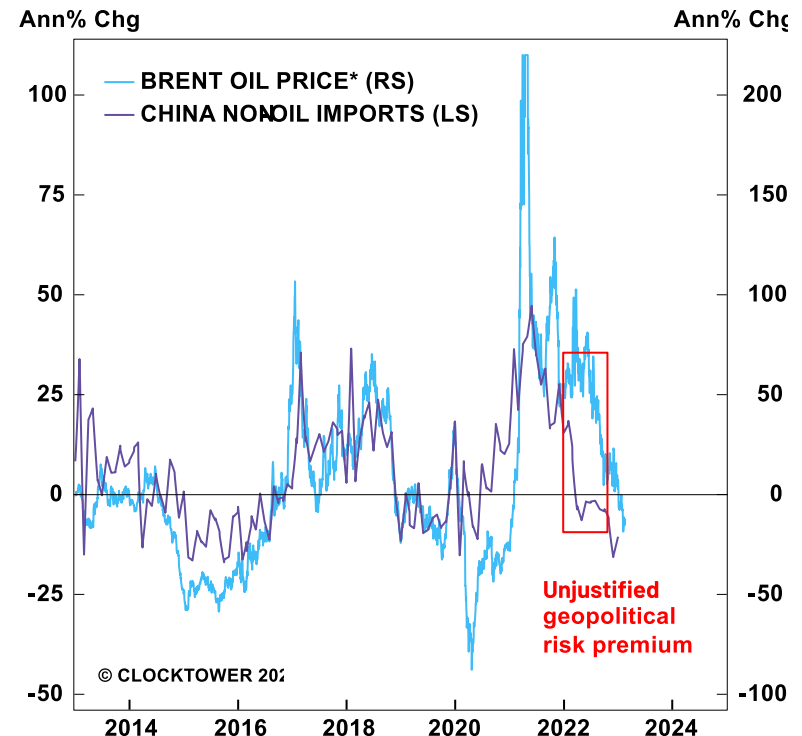
By the summer, three things became evident. First, war in Ukraine was in a stasis. Second, Russian oil exports were unaffected by the embargo. Third, Chinese demand was weak. Short oil was *the* call.

The EU Oil Embargo Was Largely a PR Exercise...



\* SHOWN AS A 4-WEEK MOVING AVERAGE.  
SOURCE: VESSEL TRACKING DATA MONITORED BY BLOOMBERG.  
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... Allowing Fundamentals to Take Over



\* TRUNCATED AT 220.  
SOURCE: MACROBOND.



## Summary

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The constraint-based net assessment underestimated the probability of Russian invasion into Ukraine. However, its tenets held true *even if Russian policymakers ignored them*. Putin's preferences broke on the rock of material constraints.

By sticking with the constraints, investors were able to generate alpha by:

- Shorting commodities (ex-oil) from May onwards;
- Shorting oil from June onwards;
- Going long risk assets once it became clear that CPI peaked (which was helped by oil peaking).



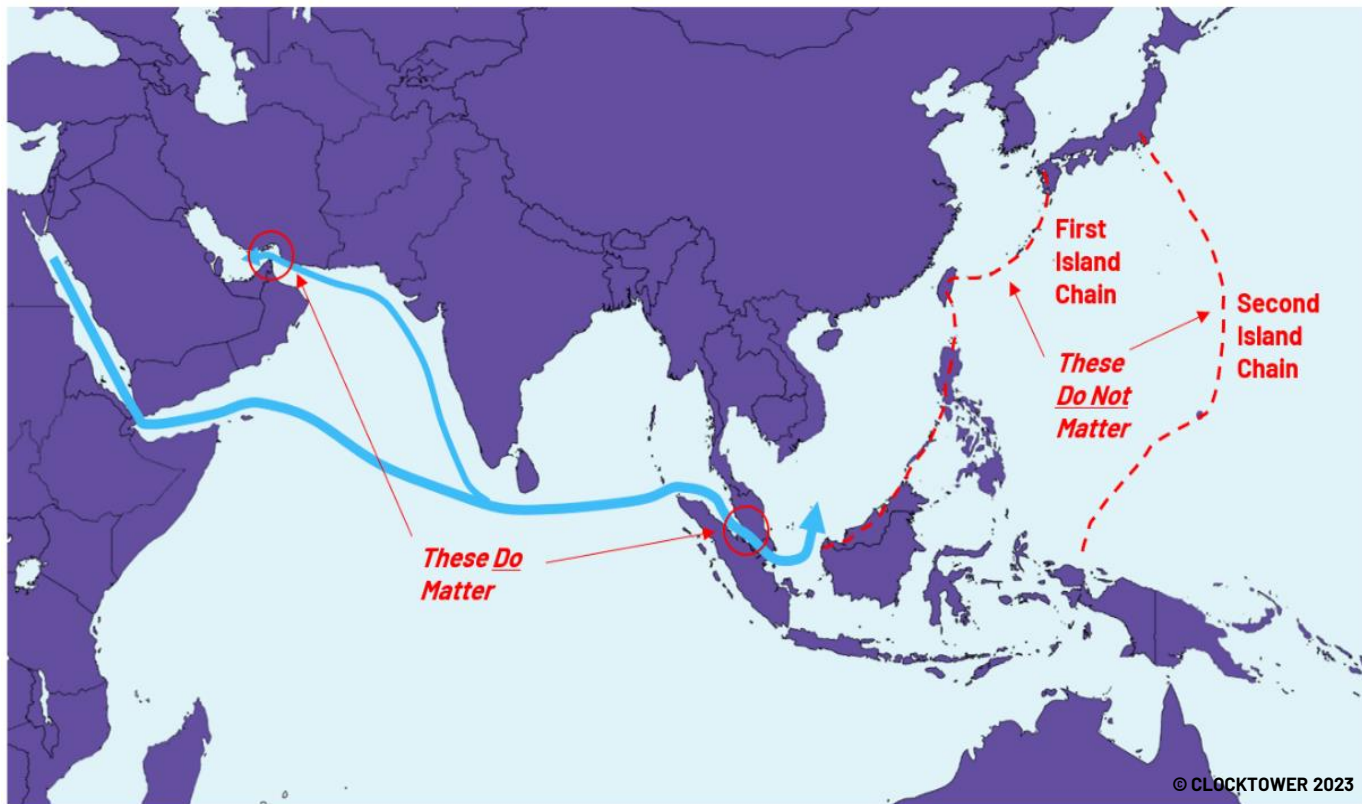
# Is China Going to Invade Taiwan?





## Peak China | China's Trap #1: Geography

Many geopolitical strategists talk of First & Second Island Chains... this is all nonsense.  
China's geographic fulcrum is half the planet away: **The Strait of Hormuz**.

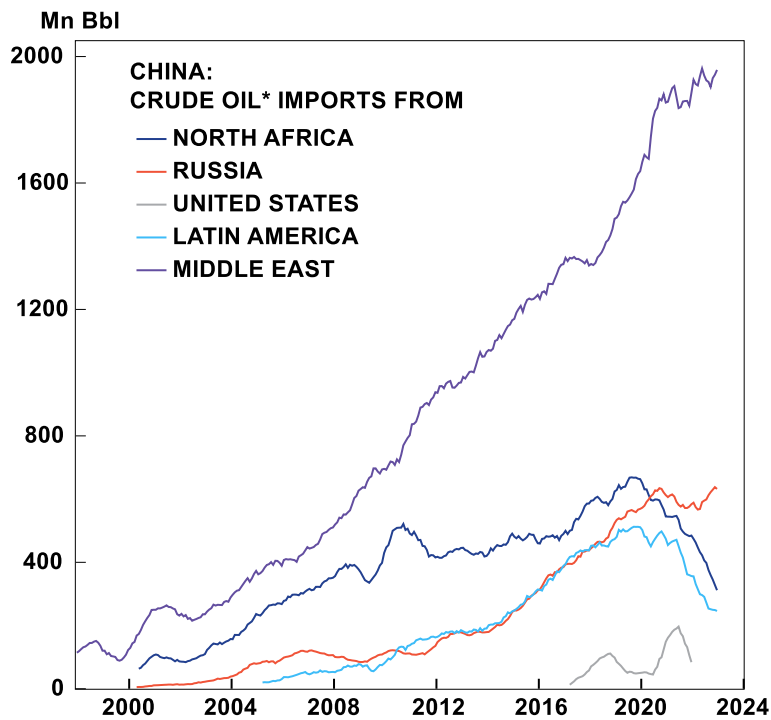




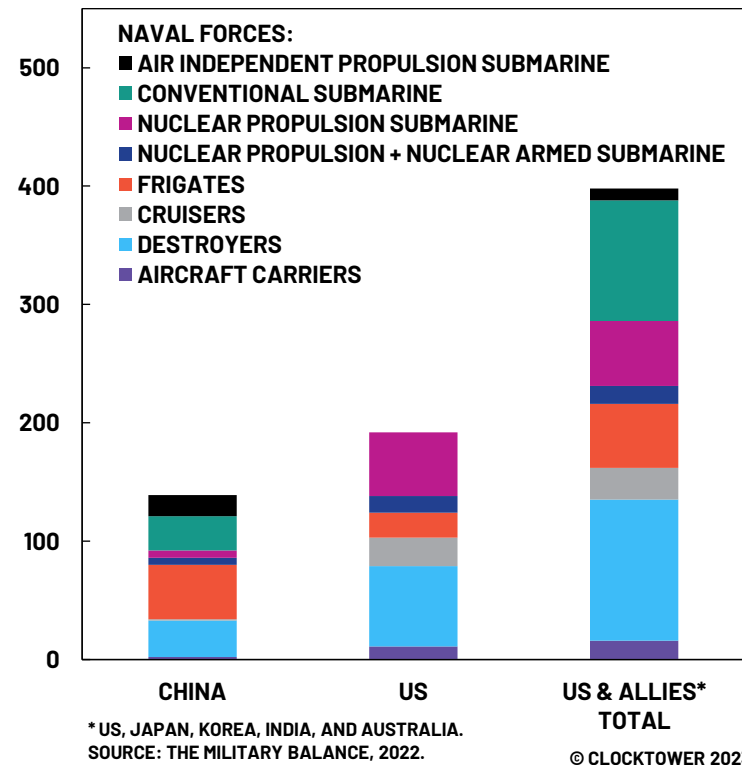
# Peak China | China Will Struggle to Project Power

From the US perspective, the Middle East is really China's problem. It is Beijing that sources most of its oil from the region. So, if chaos ensued, it would be China's problem primarily.

China Sources Most of its Oil from Middle East...



...And Lacks Naval Capability to Protect its Supply

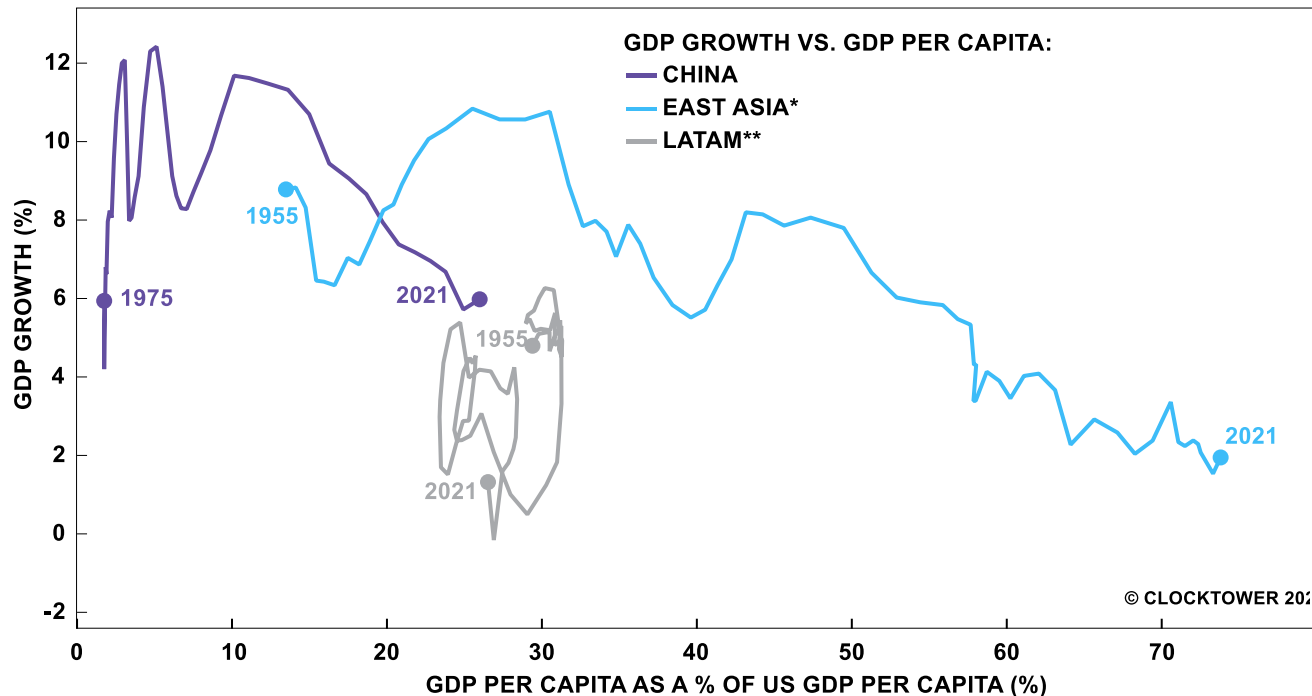




# Peak China | China's Trap #2: The Middle-Income Trap

China's productivity growth is declining, a dire outcome that will result in the country potentially being trapped in the middle income. **China needs to avoid the middle-income trap.**

China Is Too Poor to Get Stuck in the Middle-Income Trap



\* AVERAGE OF JAPAN, SOUTH KOREA, AND TAIWAN.

\*\* AVERAGE OF ARGENTINA, BRAZIL, CHILE, COLOMBIA, ECUADOR, GUATEMALA, MEXICO, AND PERU.

NOTE: ALL SERIES SHOWN AS 5-YEAR MOVING AVERAGE.

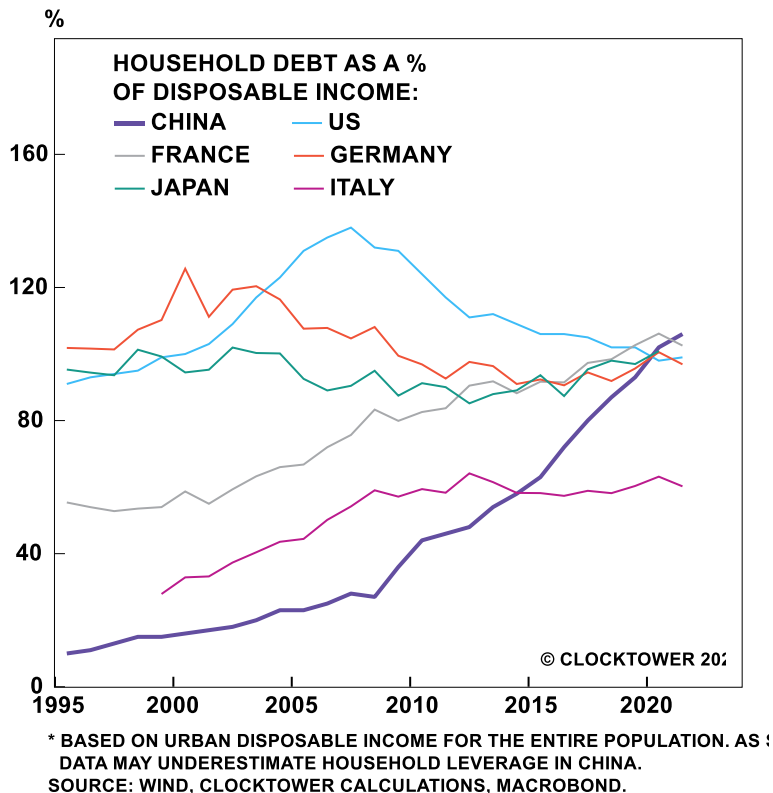
SOURCE: CONFERENCE BOARD TOTAL ECONOMY DATABASE, BCA RESEARCH, MACROBOND.



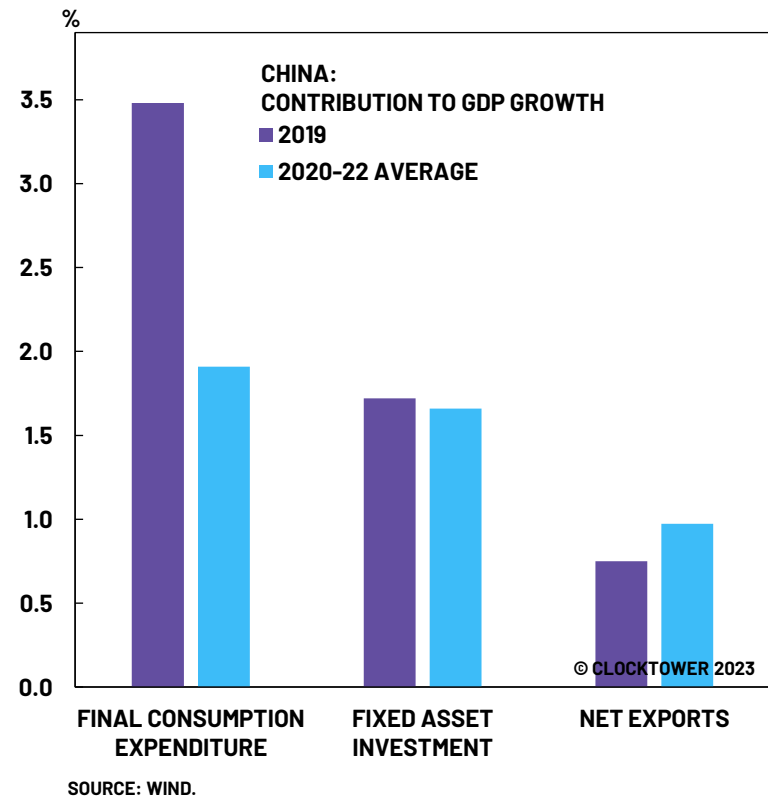
# Peak China | Exports Are the Only Thing that “Works”

The private sector is at the end of its debt supercycle and policymakers are pushing on a string. The only source of growth for China are exports, which means the economy is leveraged to foreign demand.

Chinese Private Sector Is Leveraged...



...Forcing Beijing to Depend on Foreign Demand

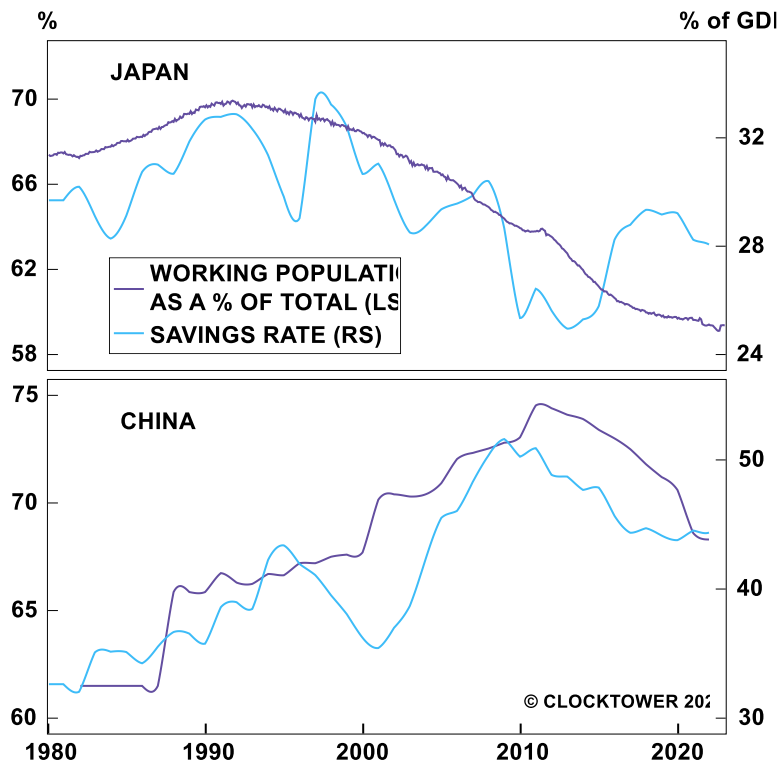




# Peak China | Trap #3: Demographics Are A Risk to the BoP

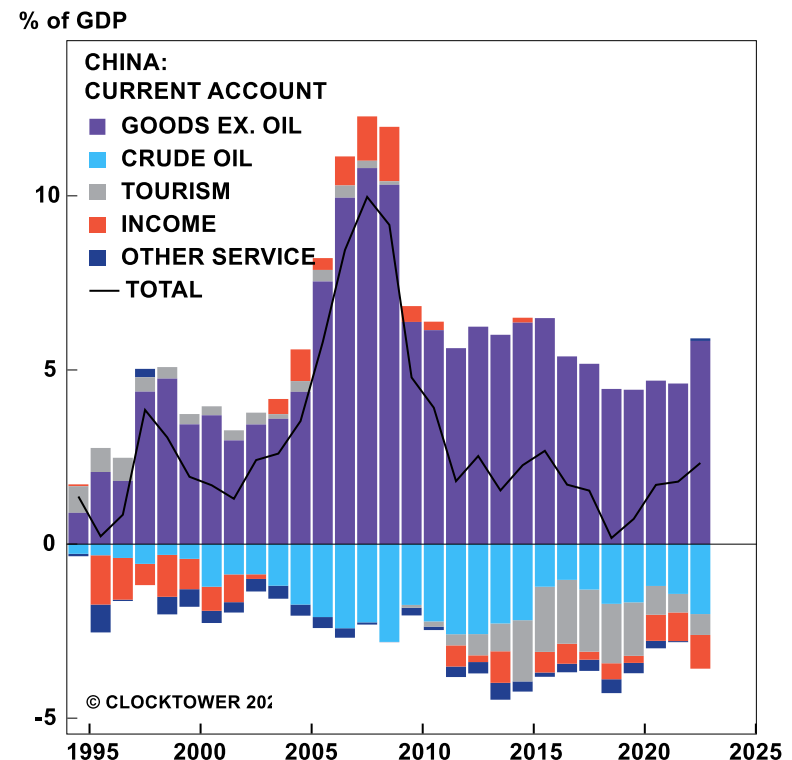
If  $Y = C + I + G + NX$ , and  $S = Y - (G + C)$ , then  $S - I = NX = CA$ . Math story put simple:  
China's demographics will guarantee to tip the country into a CA deficit.

China's Demographics Portend...



SOURCE: WORLD BANK, MACROBOND.

... A Risk to its CA Surplus



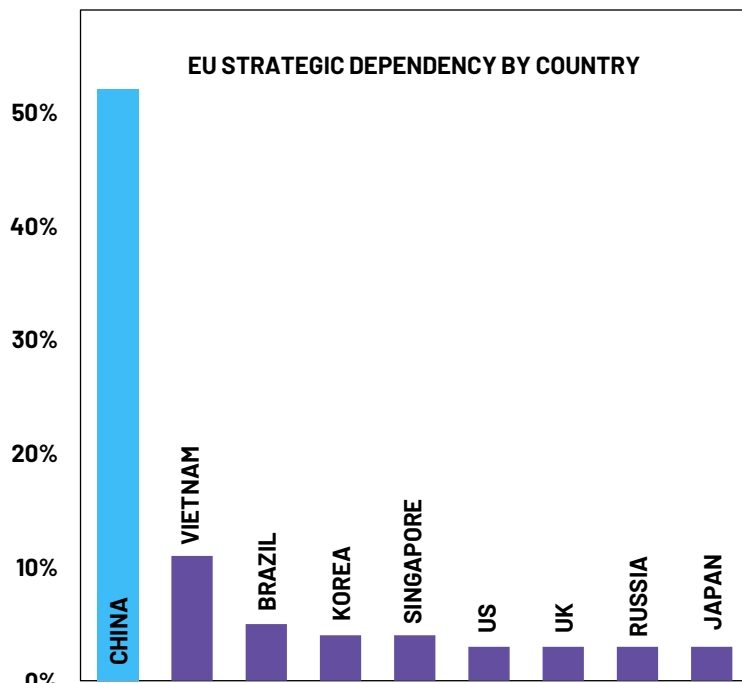
SOURCE: MACROBOND.



# Peak China | The Importance of Sino-EU Relationship

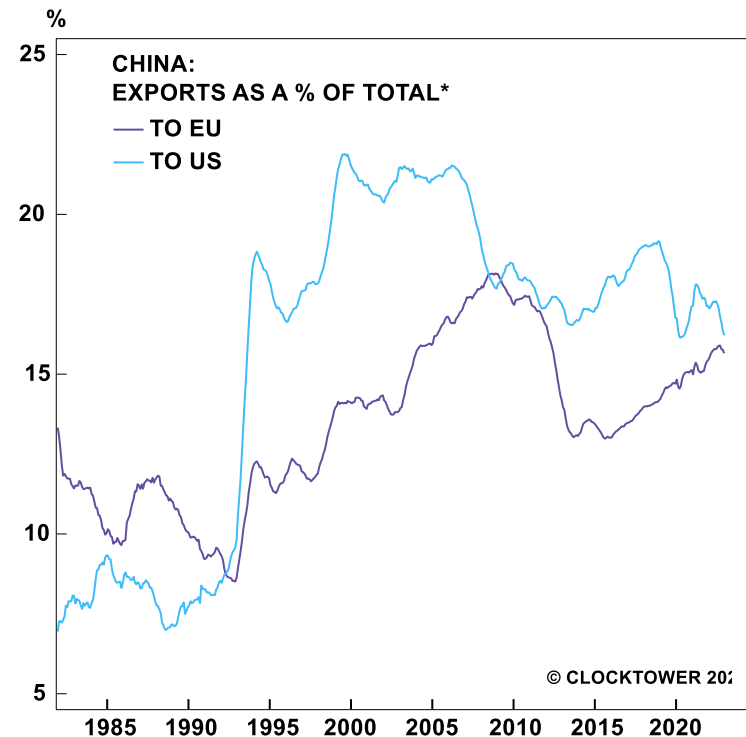
The value of bilateral trade between China and the EU is now the world's largest, with China's export dependence on the European market gradually growing to match that of the US.

## The EU Depends on China...



SOURCE: EUROPEAN COMMISSION, "EUROPEAN INDUSTRIAL STRATEGY"  
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## ...And the EU Is Growing in Importance to China



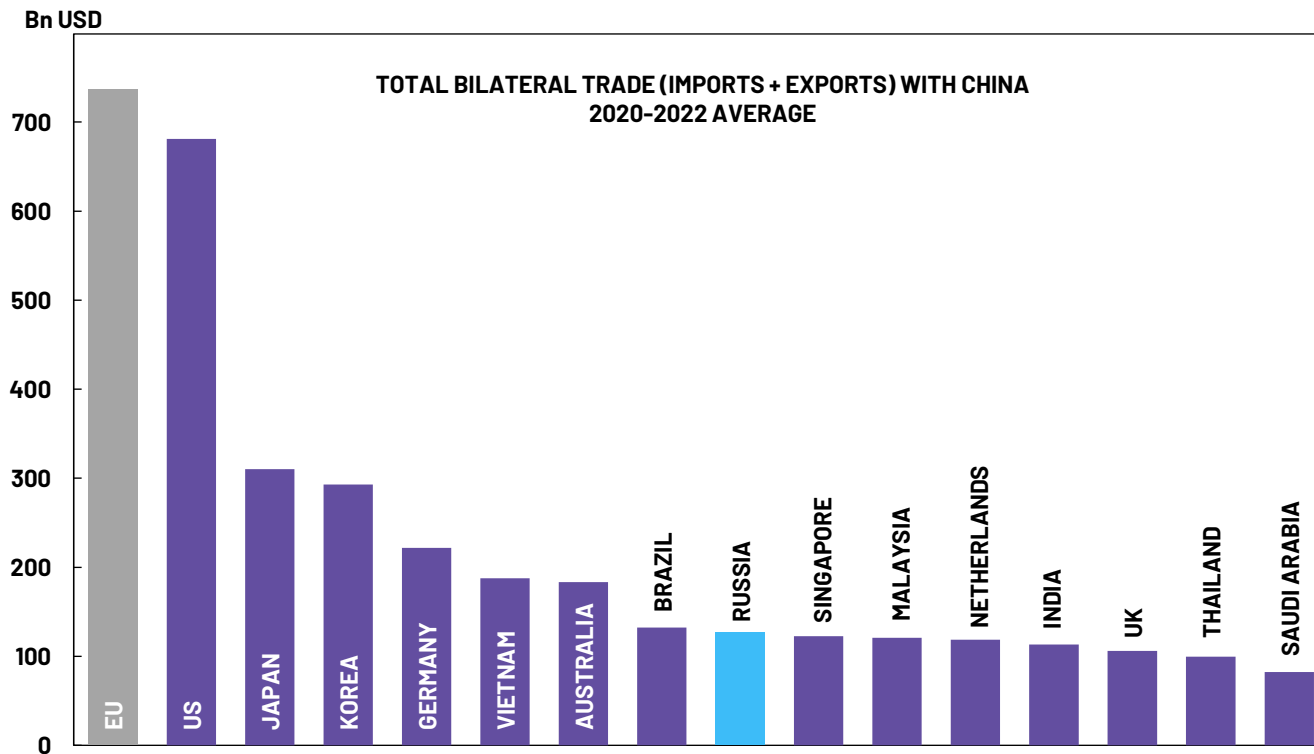
\* SHOWN AS A 12 MONTH MOVING AVERAGE.  
SOURCE: IMF DIRECTION OF TRADE, MACROBOND.



# Peak China | Less Substance in Sino-Russia Partnership

The substance of the Sino-Russia comprehensive strategic partnership is far less significant than many think, particularly in the West.

Russia Is Not Even in the Top Five Trading Partners of China



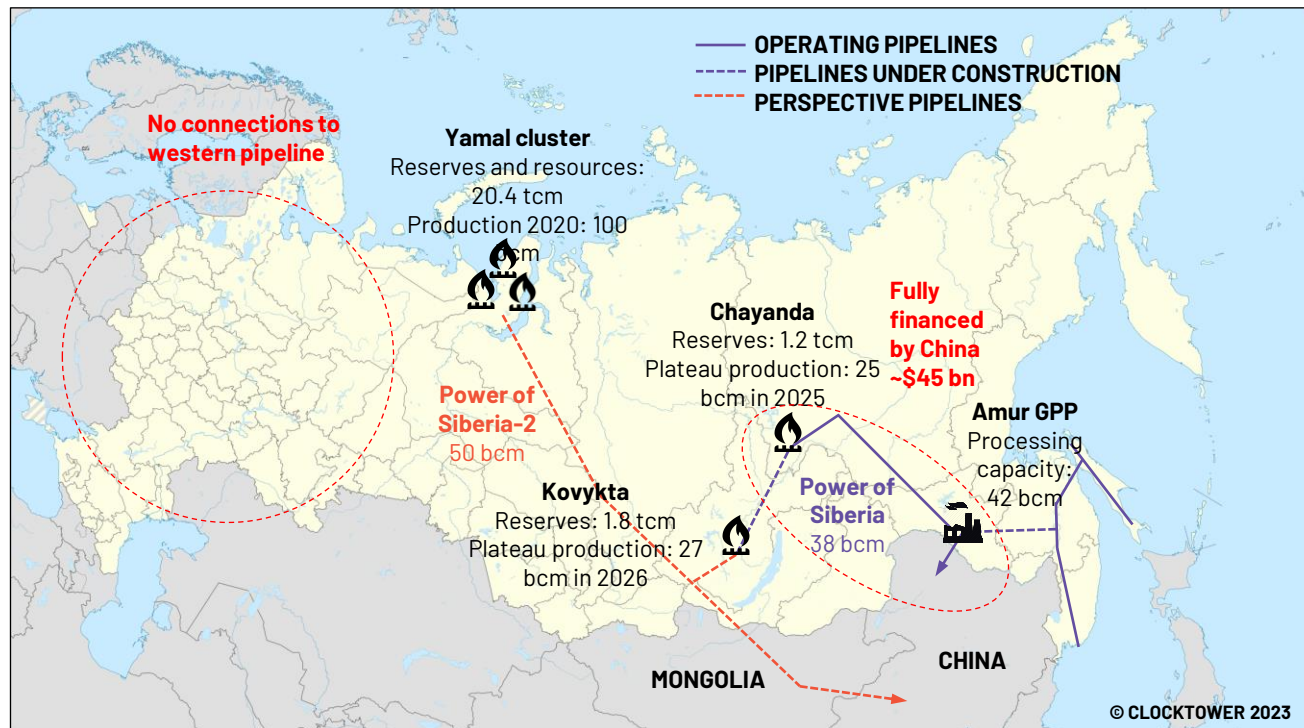
SOURCE: IMF DIRECTION OF TRADE STATISTICS, MACROBOND  
© CLOCKTOWER 2023



# Peak China | Russia-China Infrastructure Links Are Paltry

Infrastructural needs for a robust Sino-Russian relationship are huge. They have not been built yet. Getting Yamal Peninsula gas to China would be one of the greatest infra projects ever attempted.

## Russia-China Infrastructure Links Are Paltry



SOURCE: SONNENFELD, JEFFREY AND TIAN, STEVEN AND SOKOLOWSKI, FRANEK AND WYREBKOWSKI, MICHAL AND KASPROWICZ, MATEUSZ, BUSINESS RETREATS AND SANCTIONS ARE CRIPPLING THE RUSSIAN ECONOMY (JULY 19, 2022).

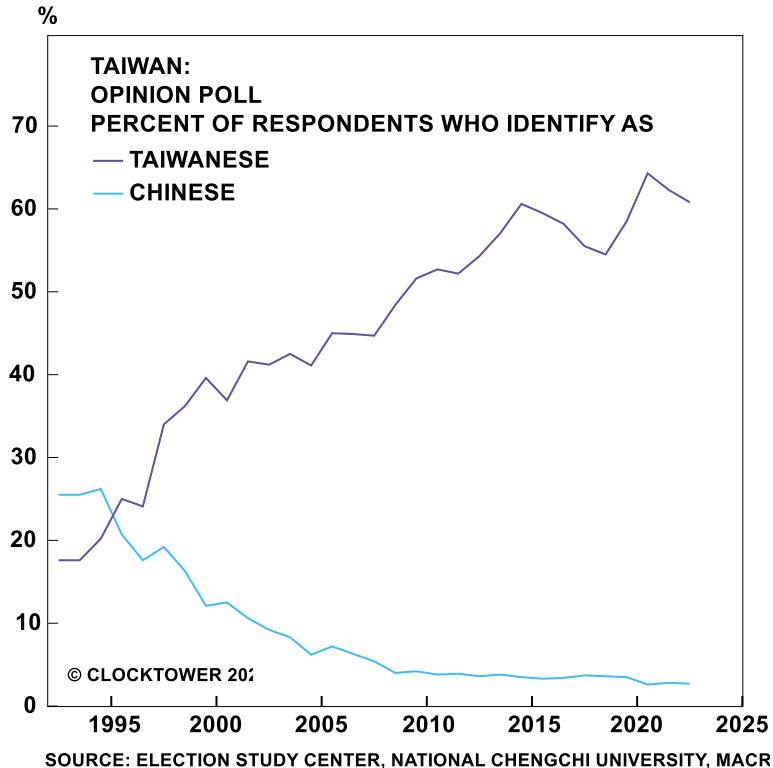




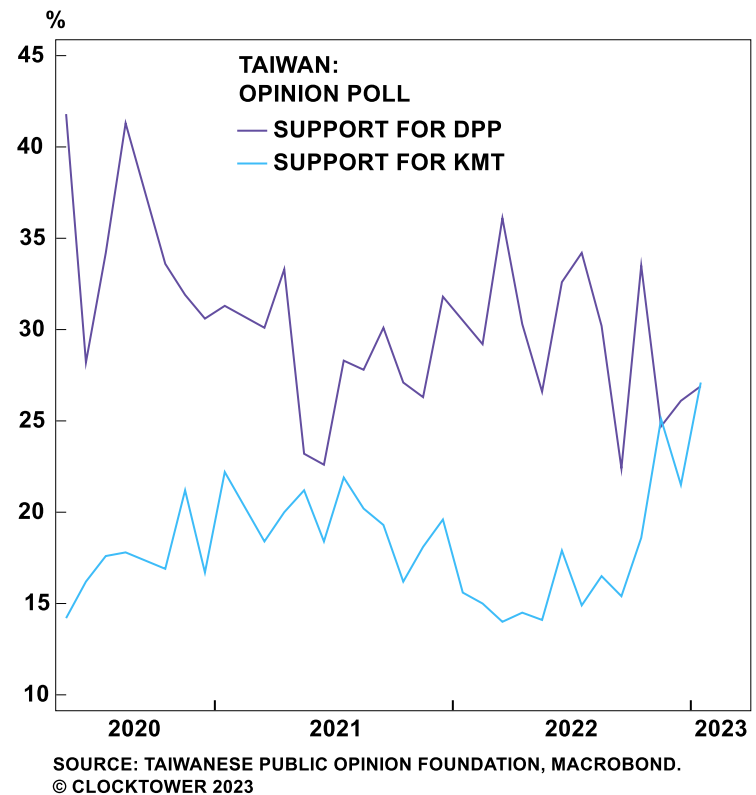
# Peak China | Finally, Do Not Forget About Taiwan!

Yes, very few people in Taiwan still consider themselves as primarily “Chinese.” The Taiwanese identity has ossified. However, ruling DPP has seen its support collapse. Taiwan does not want to be Ukraine!

Taiwanese People Clearly Have a Distinct Identity...



...But there May Be Limits to Their Assertiveness



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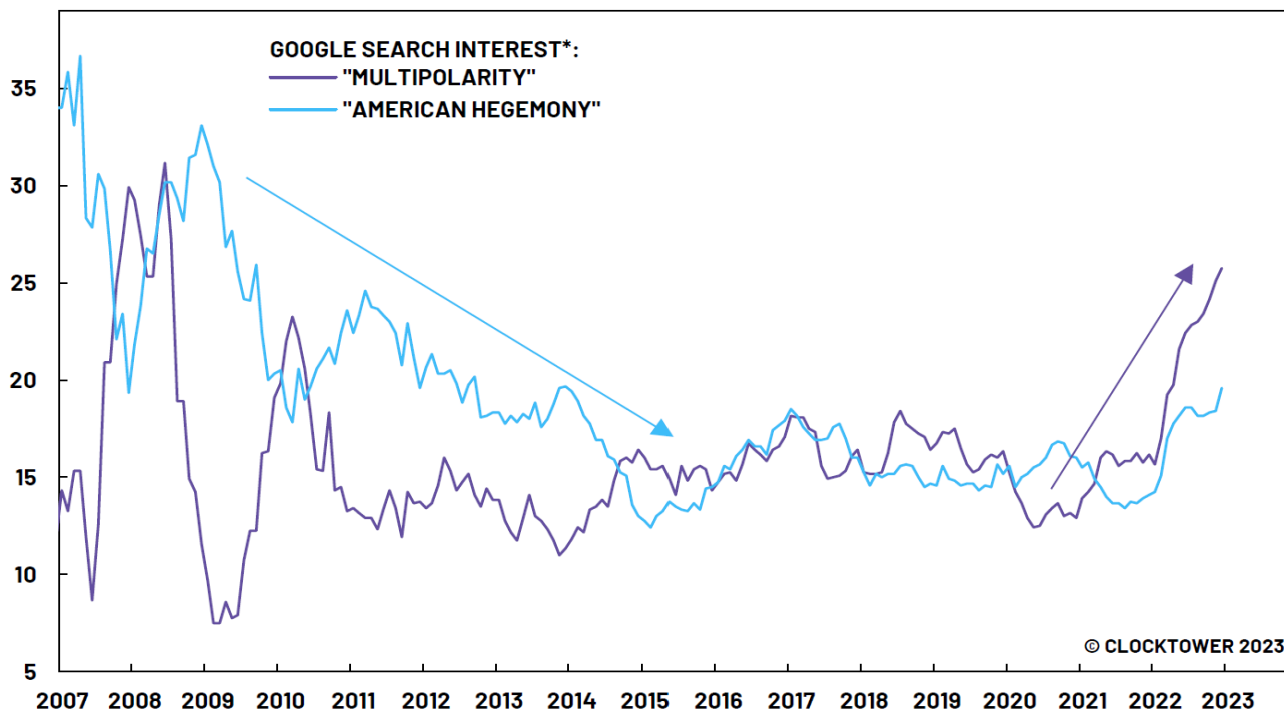
# If China and Russia Are Constrained, Where Are the Risks?



# Multipolarity | What Does Multipolarity Mean?

Multipolarity has become the buzzword of 2023! Russian and Chinese policymakers use it as part of their PR. American policymakers are unhappy about it. But what does it mean?

Multipolarity Is the Buzzword of 2023



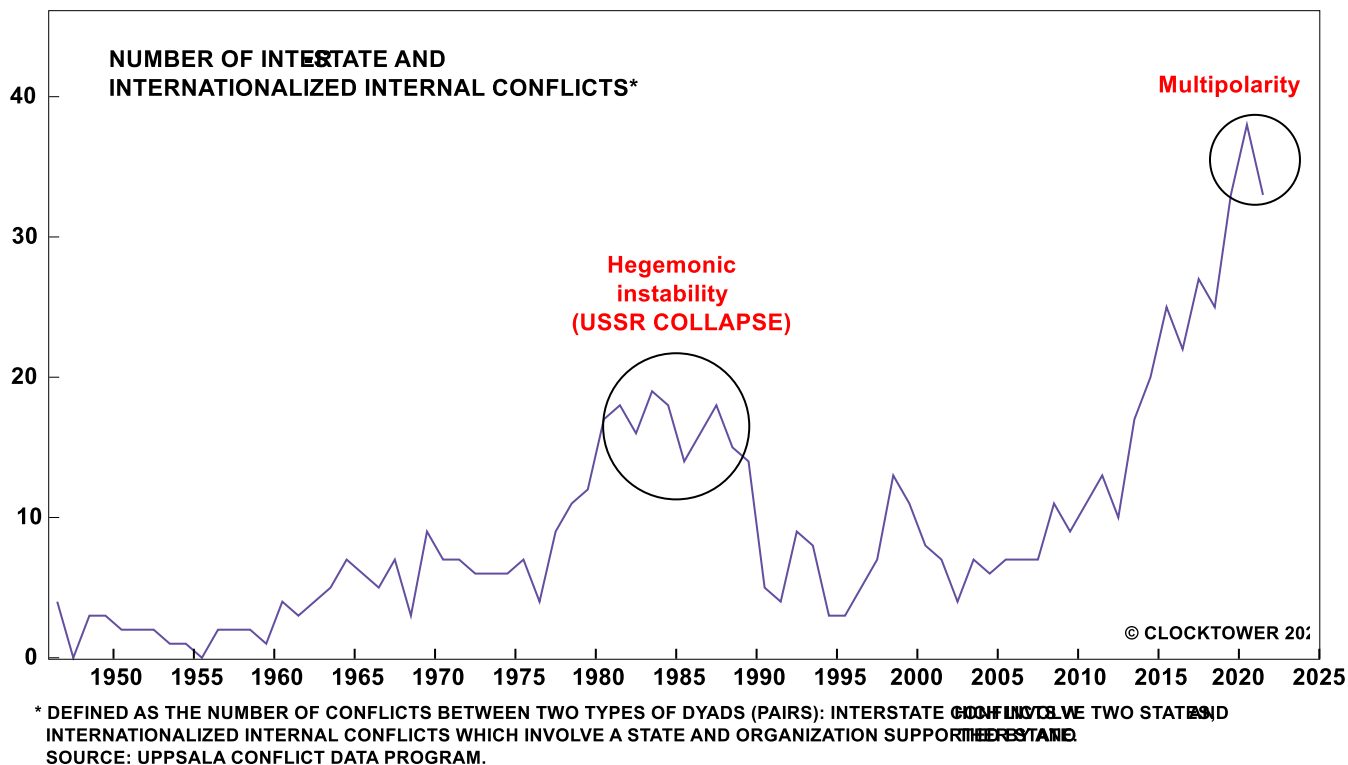
\* SHOWN AS A 1-YEAR MOVING AVERAGE. REBASED TO 100 AT PEAK.  
SOURCE: GOOGLE TRENDS.



# Multipolarity | A Multipolar World Is Fraught With Risks

A multipolar world is one where a geopolitical equilibrium is tough to come by, military conflict is more likely, as is overall human suffering.

Multipolarity Leads to Higher Odds of Conflict

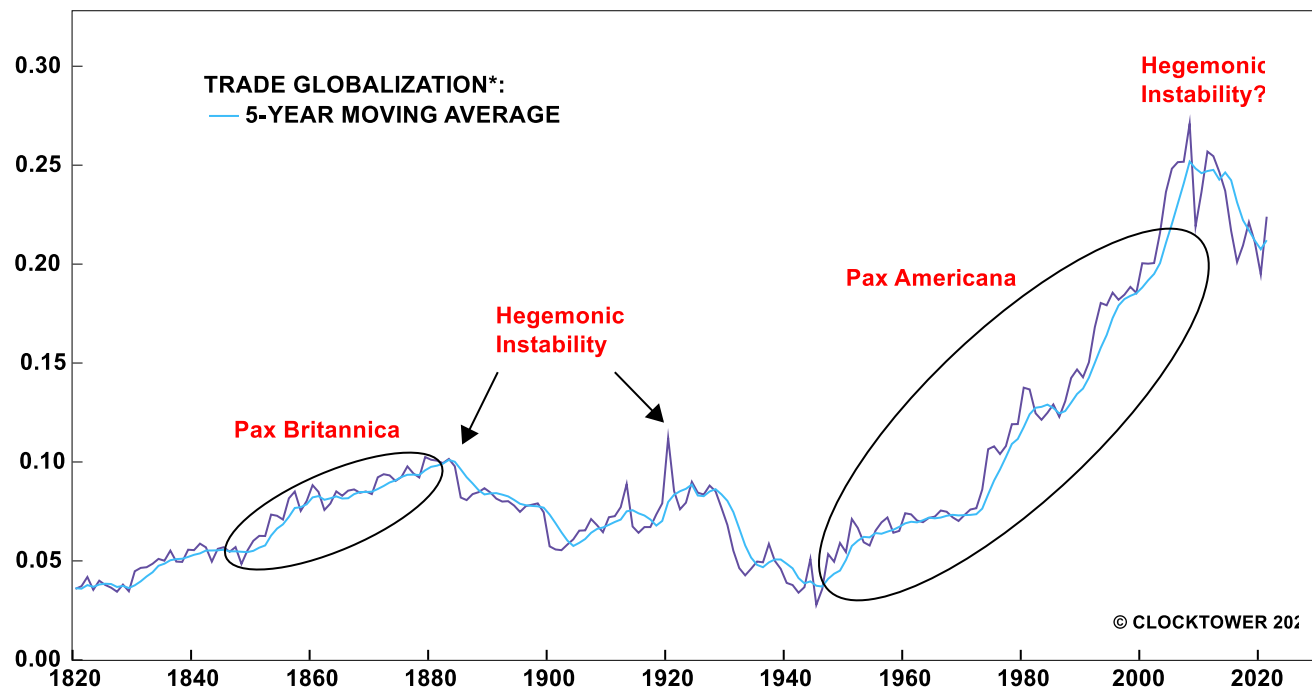




# Multipolarity | Globalization Weakens in Multipolarity

Multipolarity is also not ideal for globalization. Without a hegemon to provide the expensive global public goods, globalization will fray, but not collapse completely.

We Are Living Through the Apex of Globalization



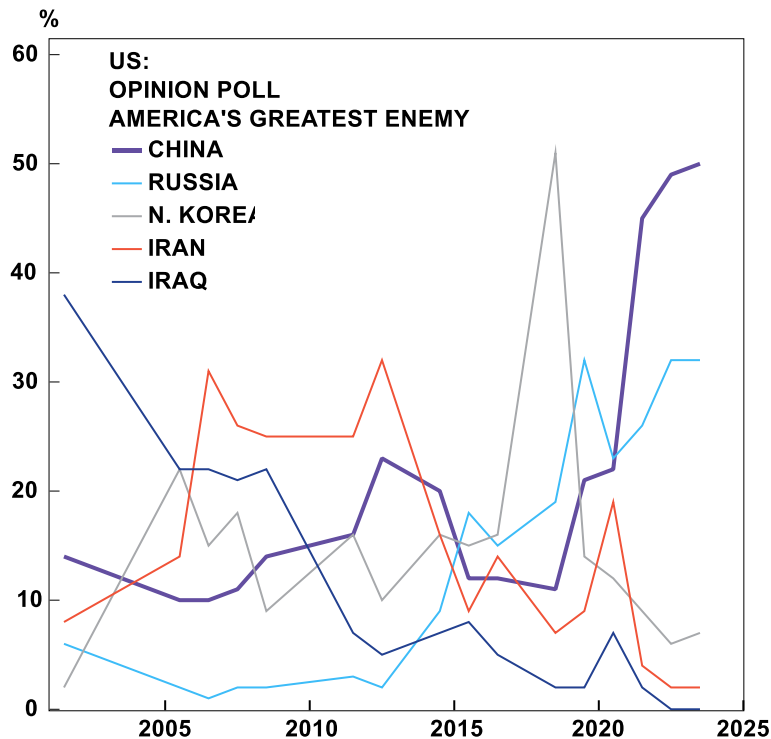
\* TRADE GLOBALIZATION IS MEASURED BY IMPORTS AS PERCENTAGE OF GDP WEIGHTED BY POPULATION  
SOURCE: MACROBOND, BCA RESEARCH, CHASE C., KAWANO Y., AND BREWER B., "TRADE GLOBALIZATION SINCE 179 WAVES OF INTEGRATION IN THE WORLD SYSTEM," AMERICAN SOCIOLOGICAL REVIEW, VOL. 65, NO. 1 AND CLOCKTOWER RESEARCH 1994.



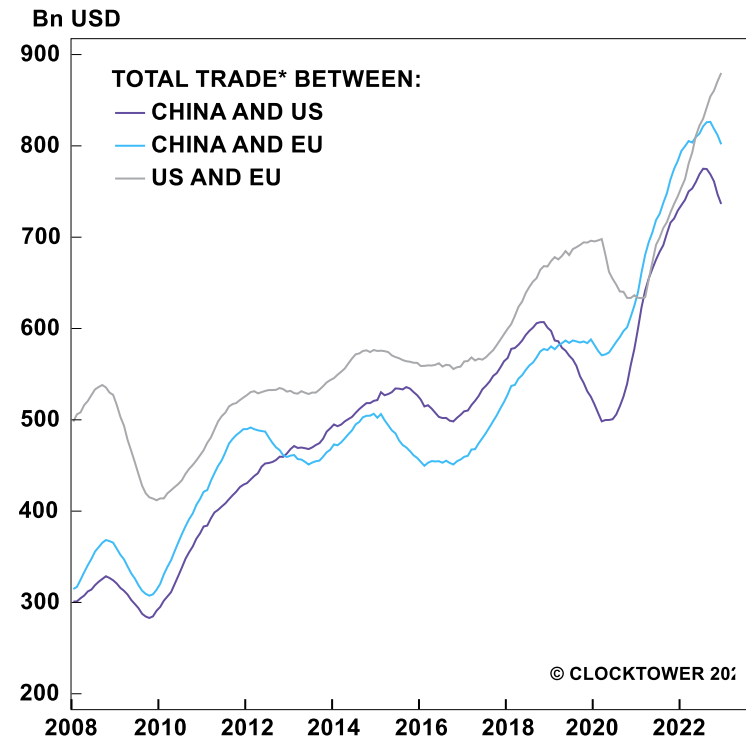
# Multipolarity | A Geopolitical Paradox!

However, today we are observing a world where states have highly contentious relations, while trade continues unabated. How do we explain this paradox?

Rhetoric Sharpens and Borders on Hysteria...



...As Trade Continues Unabated



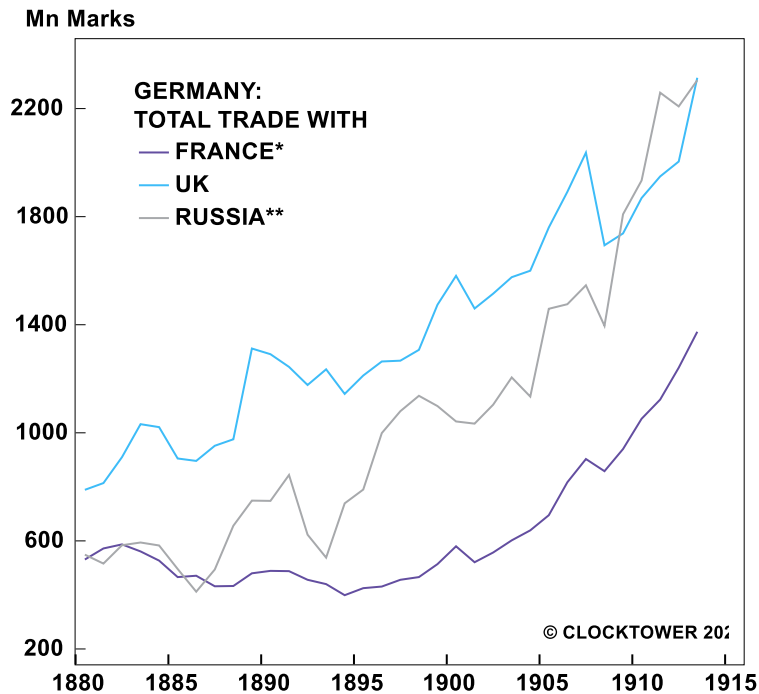
\* SHOWN AS A 12 MONTH MOVING TOTAL.  
SOURCE: IMF DIRECTION OF TRADE, MACROBOND.



# Multipolarity | This Is a Replay of the 19<sup>th</sup> Century

A multipolar global ordering of power does not lead to neatly decoupled economic spheres.  
Both history and political science teach us that trade between enemies continues.

## A Trade War Did Not Precede World War One...

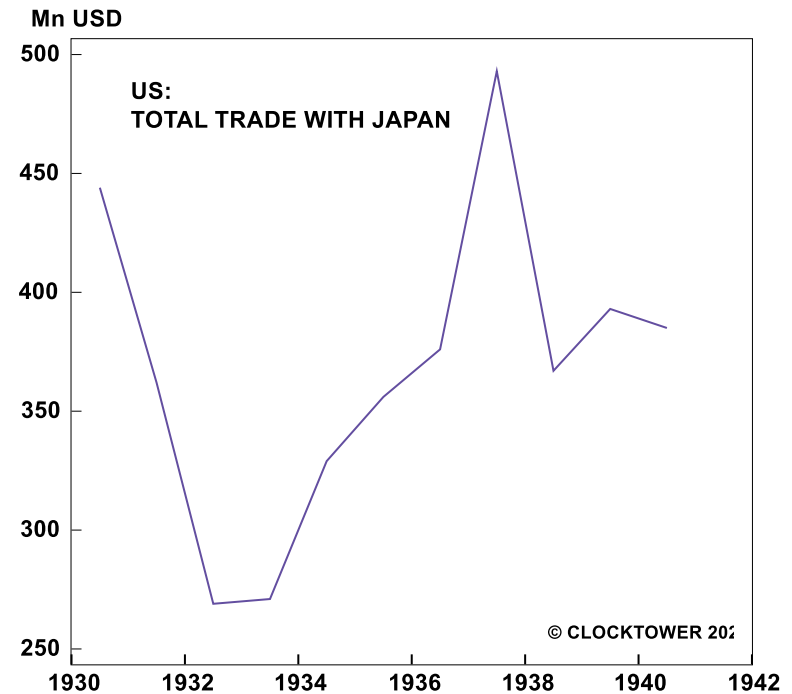


\* INCLUDES ALGERIA AND TUNISIA UNTIL 1897.

\*\* INCLUDES FINLAND UNTIL 1897.

SOURCE: B.R. MITCHELL, INTERNATIONAL HISTORICAL STATISTICS, EUROPE 1750-1988, MACROBOND.

## ... Nor World War Two



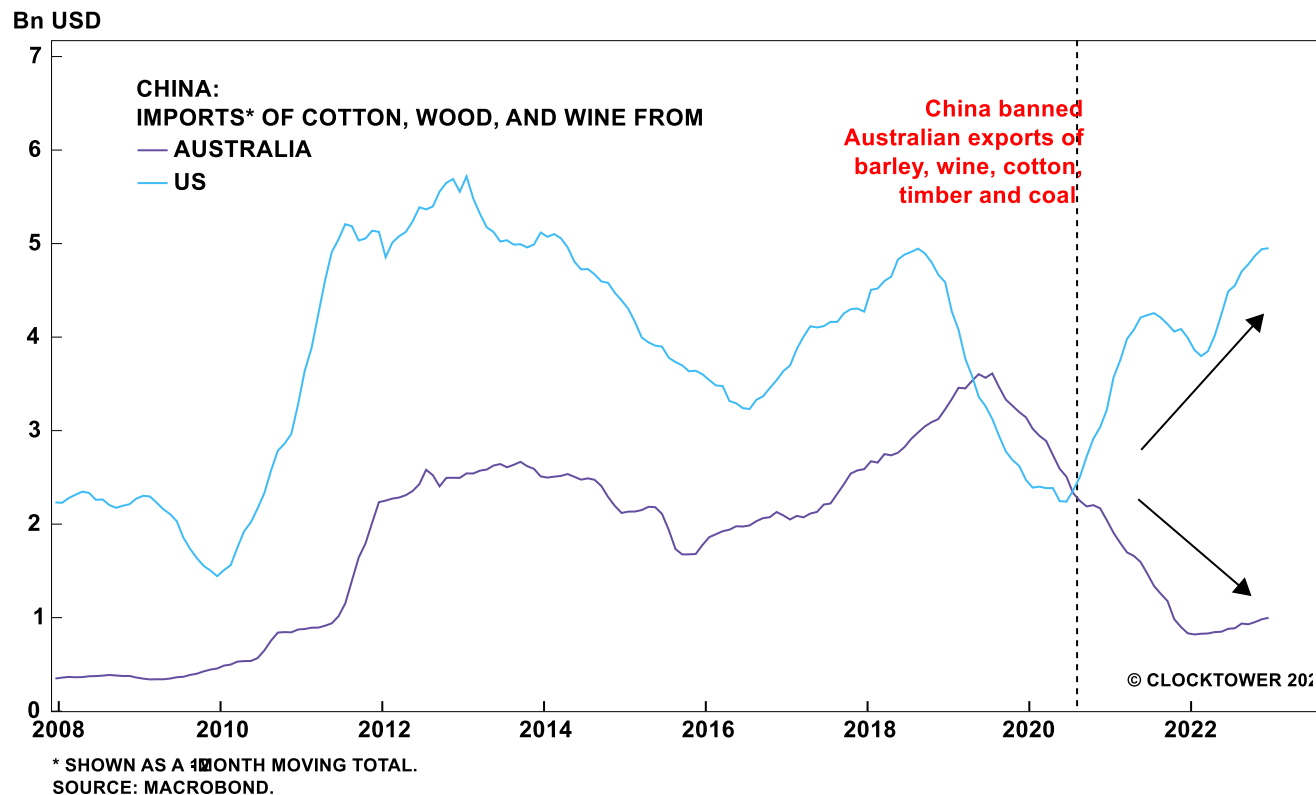
SOURCE: INTERNATIONAL HISTORICAL STATISTICS: THE AMERICAN  
B.R. MITCHELL., MACROBOND.



# Multipolarity | Misjudging Multipolarity Is Folly!

The one country that does not understand that the world is multipolar is Australia. Its "loss" has been America's "gain," its purportedly strongest ally. That is multipolarity at work.

With Friends Like These... Who Needs Enemies?



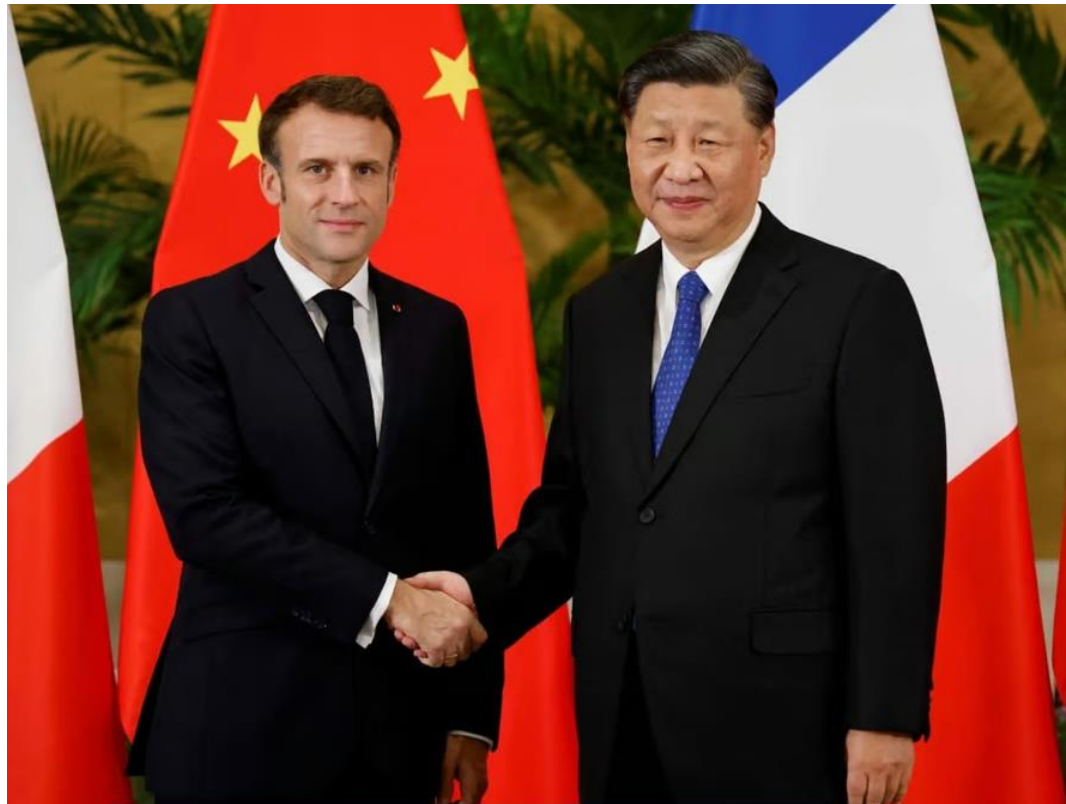




# Multipolarity | So No, Macron Is Not a “Traitor” to the West

The French president understands what geopolitical world his country inhabits, and he is defending its interests accordingly. Eventually, this “logic” takes over, preventing deglobalization.

**“We can’t afford to be locked out of that [China] market. Our competitor [Airbus] will jump right in.” Boeing CEO David Calhoun**

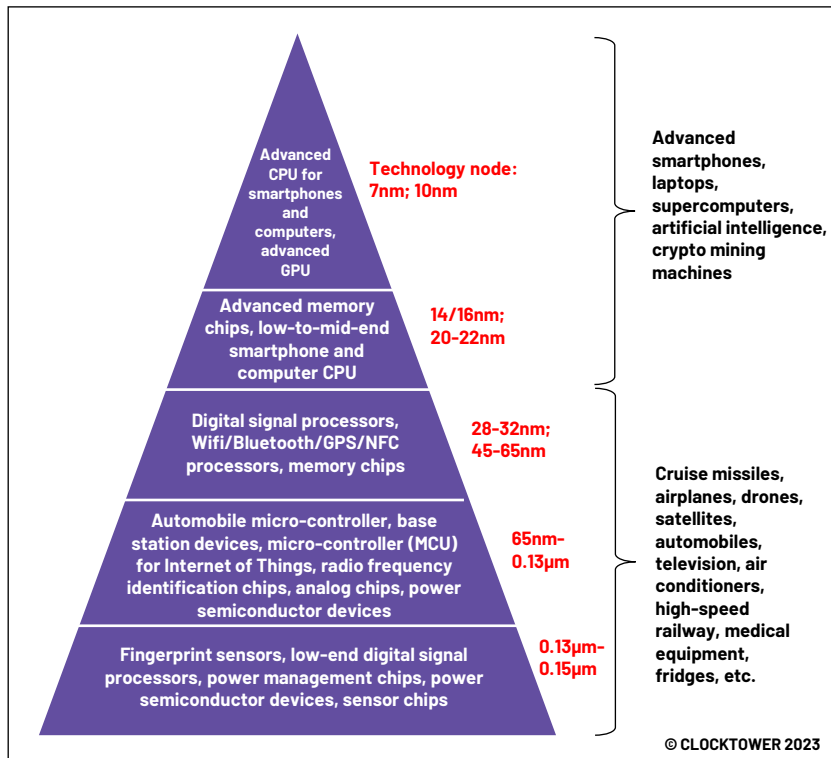




# Multipolarity | And No... It Is *Not* Different With High Tech

The Commerce Department semi export ban has been high contentious with both allies(Japan and the Netherlands)and US corporates. Both are already working against this *limited* move to subvert it.

## The US Chip Ban on China Is Highly Specialized...



## ... Corps Will Find Loopholes(NVDA Already Has!)



Technology

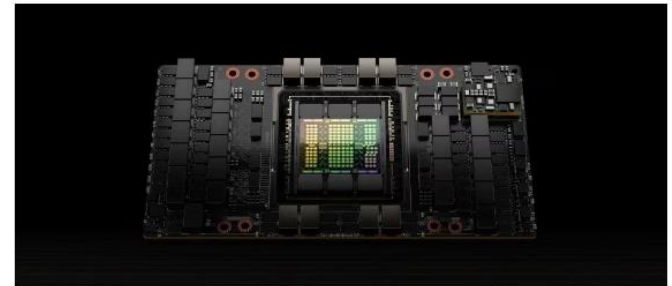


2 minute read · March 21, 2023 6:14 PM PDT · Last Updated a month ago



## Nvidia tweaks flagship H100 chip for export to China as H800

By Stephen Nellis and Jane Lee



H100, Nvidia's latest GPU optimized to handle large artificial intelligence models used to create text, computer code, images, video or audio is seen in this photo." Santa Clara, CA U.S., September 2022. NVIDIA/Handout via REUTERS

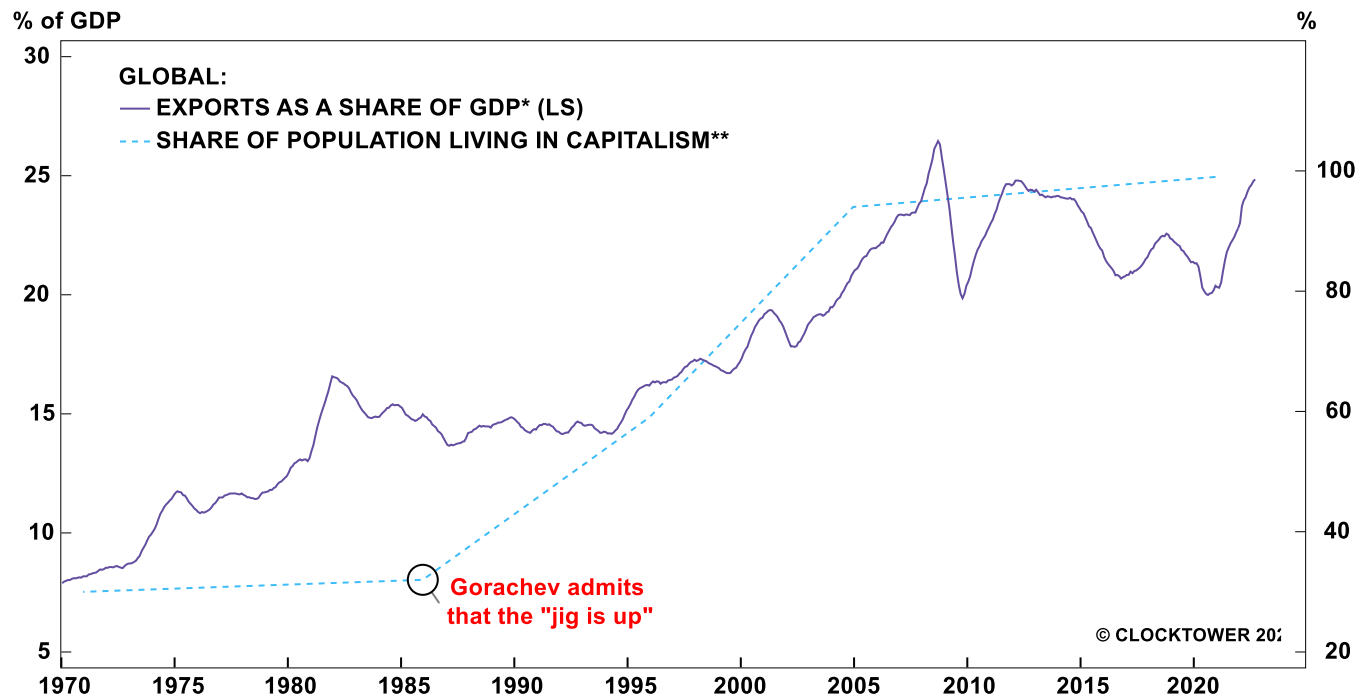
SAN FRANCISCO, March 21 (Reuters) - Nvidia Corp ([NVDA.O](#)), the U.S. semiconductor designer that dominates the market for artificial intelligence (AI) chips, said it has modified its flagship product into a version that is legal to export to China.



# Multipolarity | We Are *Far* from 1970s

Instead of de-globalization, we will get *less efficient* globalization, but large swaths of human population will not be segmented into different geopolitical/political camps.

Globalization May Be Exhausted, but it Is Not Going to Collapse



\* SOURCE: IMF.

\*\* PERCENT OF GLOBAL POPULATION LIVING IN COUNTRIES WITH A FRASER INSTITUTE ECONOMIC FREEDOM RATING OF FIVE OR GREATER.

SOURCE: FRASER INSTITUTE, WORLD BANK.

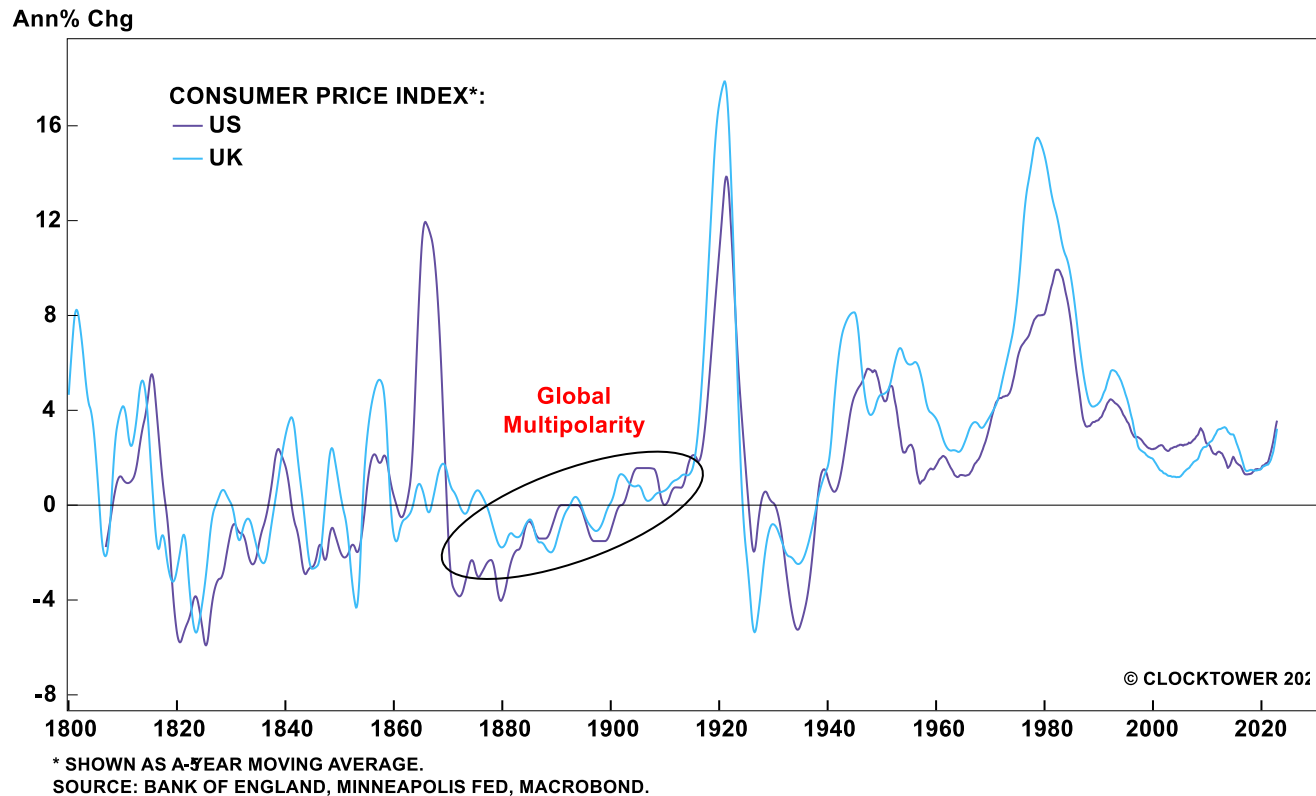
SOURCE: BCA RESEARCH, MACROBOND.



# Multipolarity | Multipolarity Is Therefore Not Inflationary

Yes, inflation will be higher than the current long-term inflation expectations...  
but don't expect it to become pernicious (unless you own a lot of bonds).

## Globalization Is Not Necessarily Inflationary

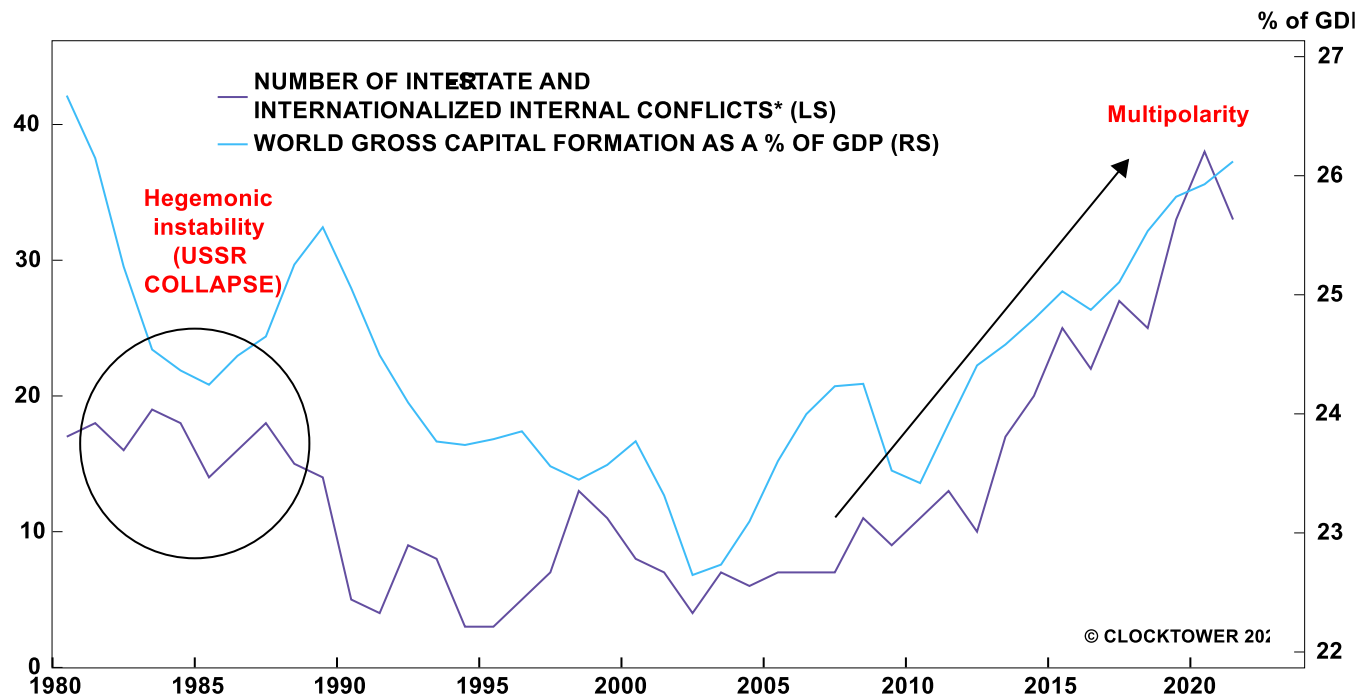




# Multipolarity | More Importantly, CAPEX Is Key

Multipolarity will incentivize capex. *That* is how this geopolitical ordering is inflationary. The redundancy prerogative – motivated by national security – will incentivize rebuilding of **inefficient supply chains**.

Multipolarity Leads to More CAPEX



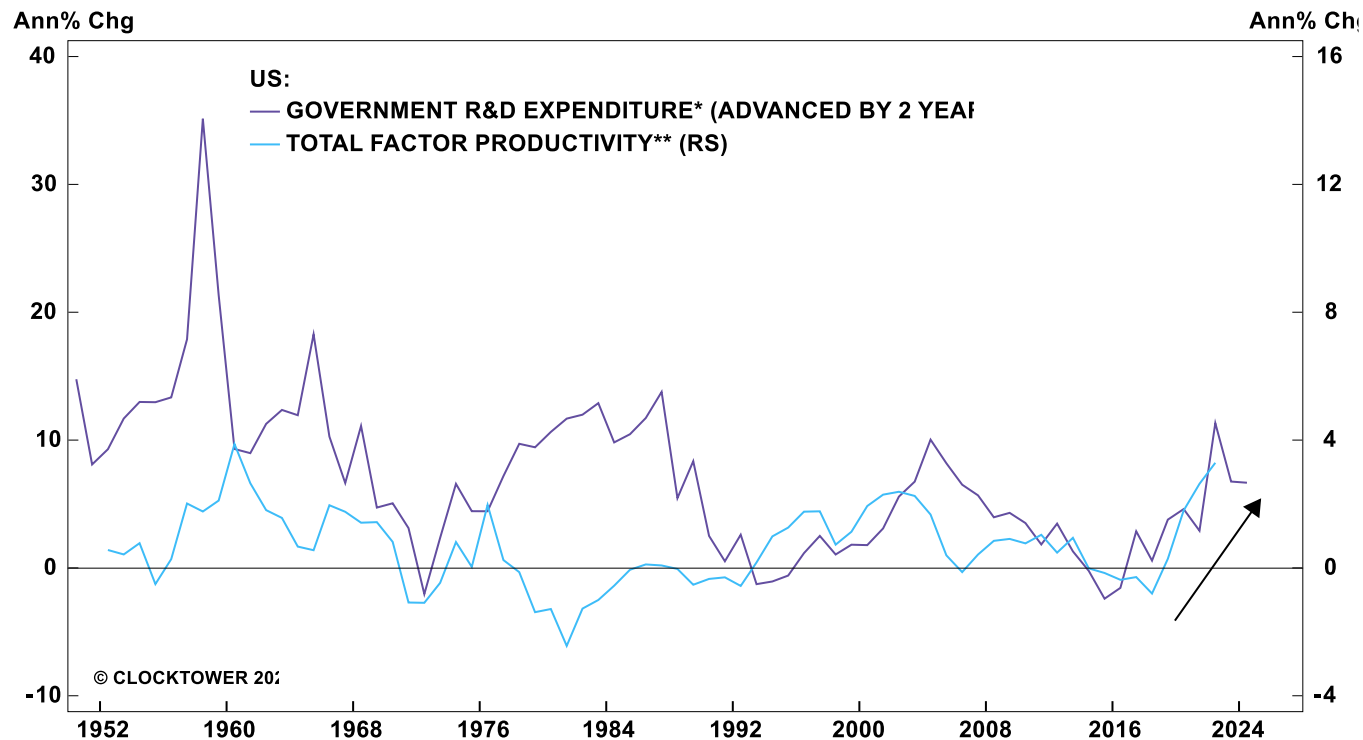
\* DEFINED AS THE NUMBER OF CONFLICTS BETWEEN TWO TYPES OF DYADS (PAIRS): INTERSTATE AND INTERNATIONALIZED INTERNAL CONFLICTS WHICH INVOLVE TWO STATES AND INTERNATIONALIZED INTERNAL CONFLICTS WHICH INVOLVE A STATE AND ORGANIZATION SUPPORTING THE STATE. SOURCE: UPPSALA CONFLICT DATA PROGRAM.  
SOURCE: MACROBOND.



# Multipolarity | Government Is Back...

...and so is the statist/dirigiste approach to innovation and R&D, which has a much higher success rate than many investors are willing to admit.

Mission-Based Capitalism Is Back!



\* INCLUDES DEFENSE AND NON-DEFENSE R&D SPENDING. SOURCE: BEA, MACROBOND.

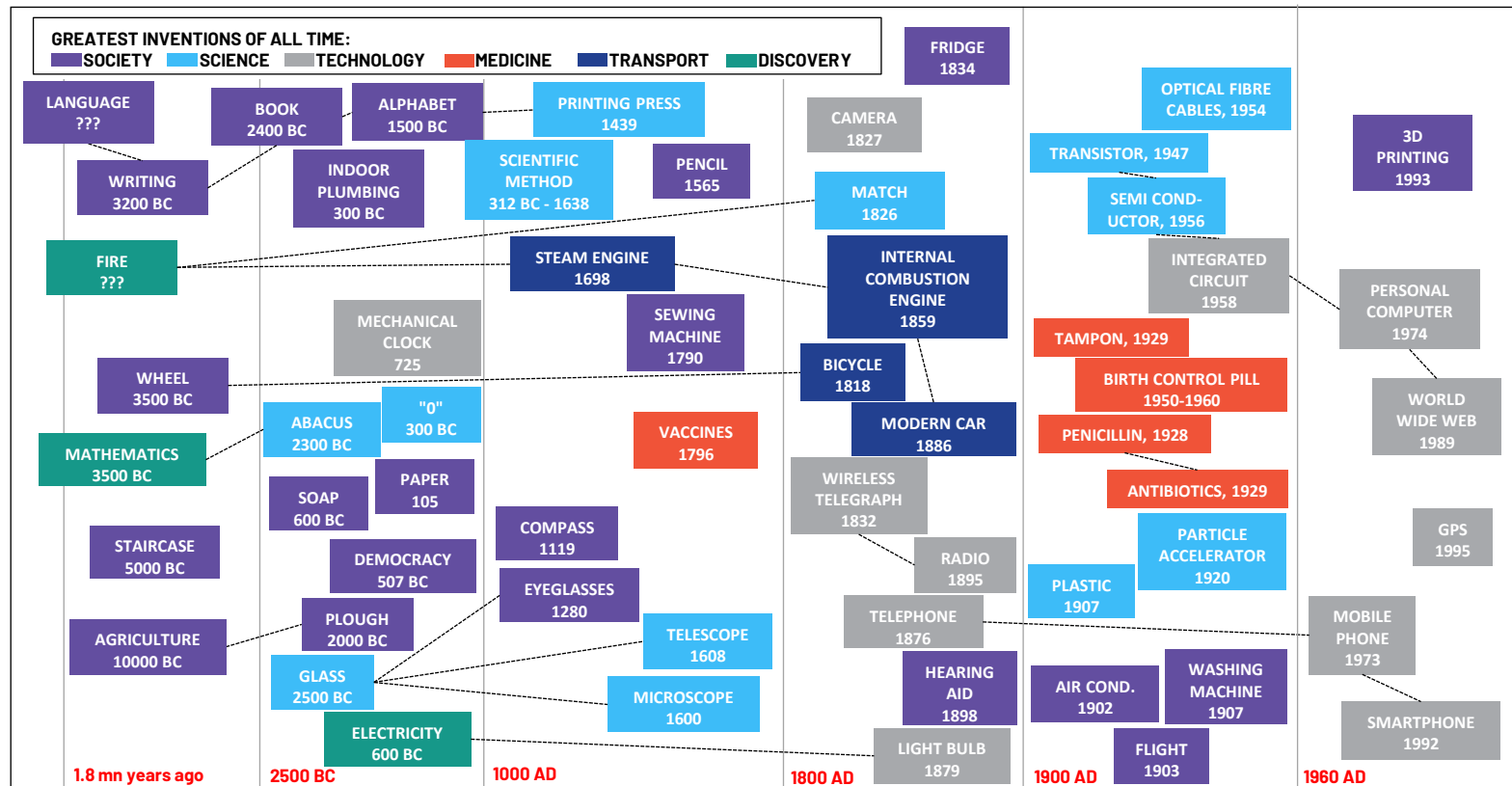
\*\* UTILIZATION OF CAPITAL & LABOR YEAR MOVING AVERAGE. SOURCE: FEDERAL RESERVE BANK OF SAN FRANCISCO, MACROBOND.



# Multipolarity | *Dirigisme* Will Spur *Meaningful* Innovation

The state will spur game-changing technological innovation thanks to competition.

## Meaningful Technological Innovation Occurred in the Multipolar Geopolitical Context





# So What? | Multipolarity Is Not a Risk for Growth & Inflation

		GLOBAL DISTRIBUTION OF GEOPOLITICAL POWER		
		Unipolarity (25%)	Bipolarity (25%)	Multipolarity (50%)
DOMESTIC POLITICAL SYSTEM	Laissez-faire (25%)	<ul style="list-style-type: none"> <li>A unipolar order would see a renewed period of unfettered globalization, reducing global inefficiencies, and dampening inflationary pressures.</li> <li>A <i>laissez-faire</i> system would see the government take a back seat and encourage deregulation. Global free trade would not be impeded.</li> <li><b>Historical analogy: 1995-2010</b></li> <li>• Probability: 6.25%</li> </ul>	<ul style="list-style-type: none"> <li>A bipolar world order would see the degree of deglobalization deepen, creating global inefficiencies that provide a tailwind to inflation.</li> <li>A <i>laissez-faire</i> system would see the government take a back seat and encourage deregulation. Global free trade would not be impeded.</li> <li><b>Historical analogy: 1980-1995</b></li> <li>• Probability: 6.25%</li> </ul>	<ul style="list-style-type: none"> <li>A multipolar world would see globalization persist, albeit at a lower level than in its zenith decades 2000-2010.</li> <li>A <i>laissez-faire</i> system would see the government take a back seat and encourage deregulation. Global free trade would not be impeded.</li> <li><b>Historical analogy: 1918-1929</b></li> <li>• Probability: 12.5%</li> </ul>
	Dirigisme (50%)	<ul style="list-style-type: none"> <li>A unipolar order would see a renewed period of unfettered globalization, reducing global inefficiencies, and dampening inflationary pressures.</li> <li>A statist economic system would see the government take a more direct role in the economy, but not an outright debasement of currency and assets.</li> <li><b>Historical analogy: Unclear</b></li> <li>• Probability: 12.5%</li> </ul>	<ul style="list-style-type: none"> <li>A bipolar world order would see the degree of deglobalization deepen, creating global inefficiencies that provide a tailwind to inflation.</li> <li>A statist economic system would see the government take a more direct role in the economy, but not an outright debasement of currency and assets.</li> <li><b>Historical analogy: 1945-1980</b></li> <li>• Probability: 12.5%</li> </ul>	<ul style="list-style-type: none"> <li>A multipolar world would see globalization persist, albeit at a lower level than in its zenith decades 2000-2010.</li> <li>A statist economic system would see the government take a more direct role in the economy, but not an outright debasement of currency and assets.</li> <li><b>Historical analogy: 1945-1980</b></li> <li>• Probability: 25%</li> </ul>
	Populism (25%)	<ul style="list-style-type: none"> <li>A unipolar order would see a renewed period of unfettered globalization, reducing global inefficiencies, and dampening inflationary pressures.</li> <li>A populist economic system would see policymakers seek to generate nominal GDP growth with little regard to long-term consequences.</li> <li><b>Historical analogy: Unclear</b></li> <li>• Probability: 6.25%</li> </ul>	<ul style="list-style-type: none"> <li>A bipolar world order would see the degree of deglobalization deepen, creating global inefficiencies that provide a tailwind to inflation.</li> <li>A populist economic system would see policymakers seek to generate nominal GDP growth with little regard to long-term consequences.</li> <li><b>Historical analogy: Unclear</b></li> <li>• Probability: 6.25%</li> </ul>	<ul style="list-style-type: none"> <li>A multipolar world would see globalization persist, albeit at a lower level than in its zenith decades 2000-2010.</li> <li>A populist economic system would see policymakers seek to generate nominal GDP growth with little regard to long-term consequences.</li> <li><b>Historical analogy: 1929-1940</b></li> <li>• Probability: 12.5%</li> </ul>

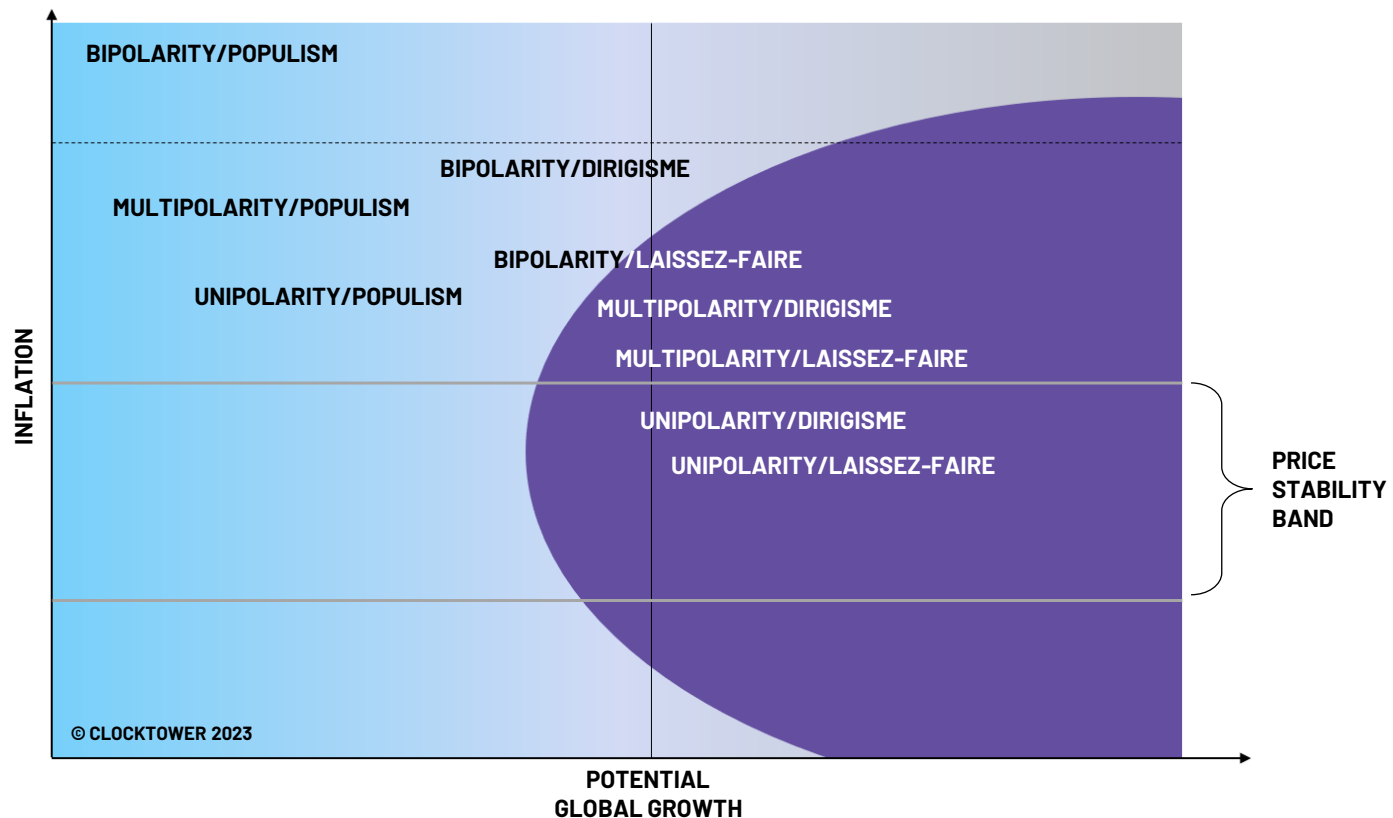




## So What? | Slightly Inflationary & Good for Growth

A multipolar world that does not descend into outright populism *should* be positive for growth and somewhat inflationary. But somewhat higher inflation than arbitrary CB target is not tragic!

Not All Is Negative in a Multipolar Environment

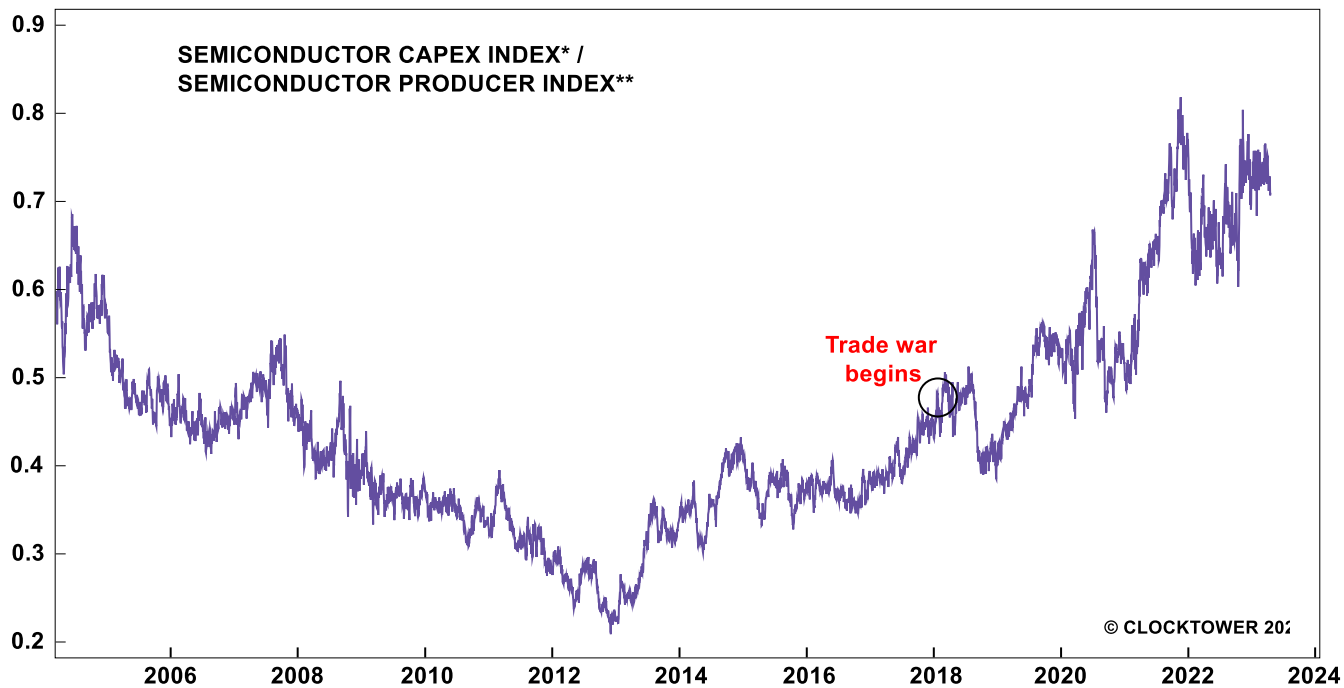




## So What? | Long Capex, Short Producers

Manufacturers are the biggest losers as they will have to dip into revenues to build out new capacity according to the whims of Washington and Beijing. Long Capex, Short Producers.

### Long Capex, Short Producers



\* INCLUDES AMAT, LRCX, KLAC, MKSI, AEIS, BRKS, TER, ASML, TOELY.

\*\* INCLUDES TSMC, SAMSUNG, UMC, SMIC.

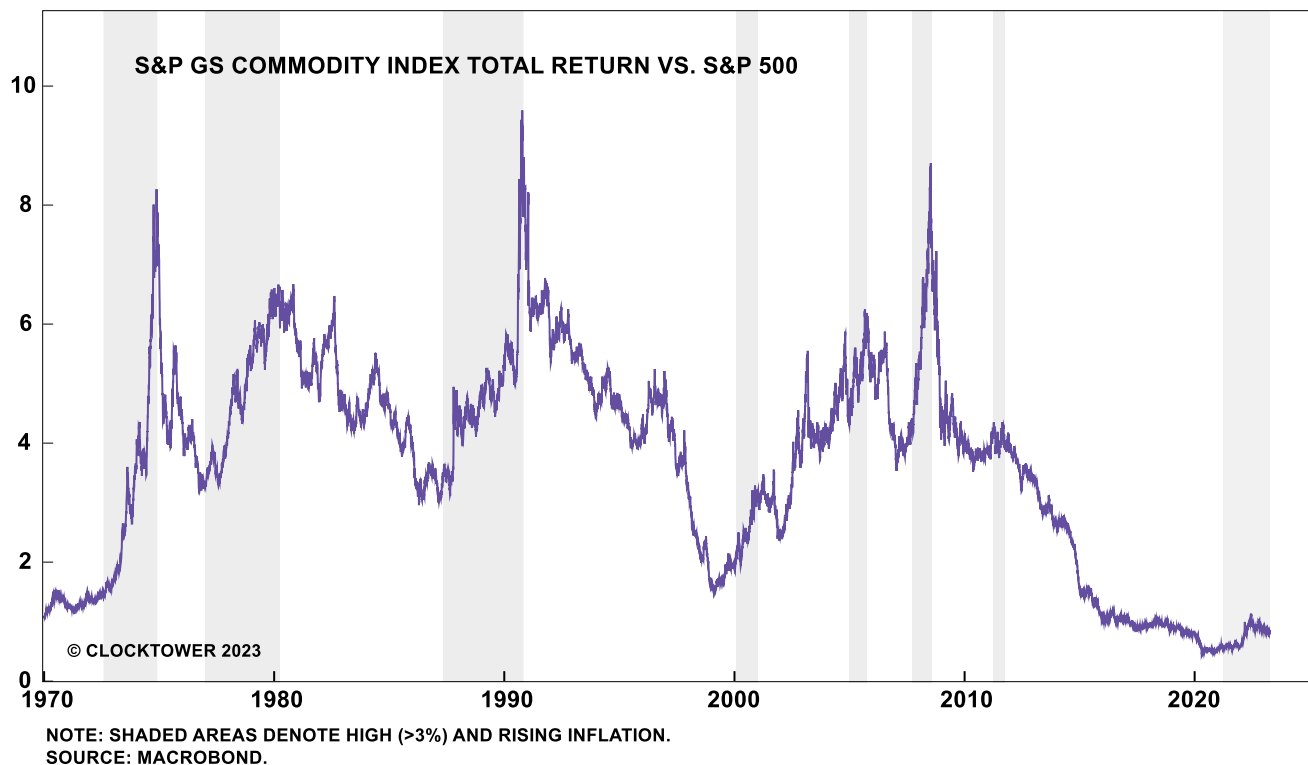
SOURCE: MACROBOND.



# So What? | We Are in a Commodity Supercycle Decade

The 2020s will be characterized by a decade of building stuff out of atoms, not bytes. **As such, invest in commodities on a long-term horizon, even if they are overstretched in the short-term.**

## A Decade of Atoms

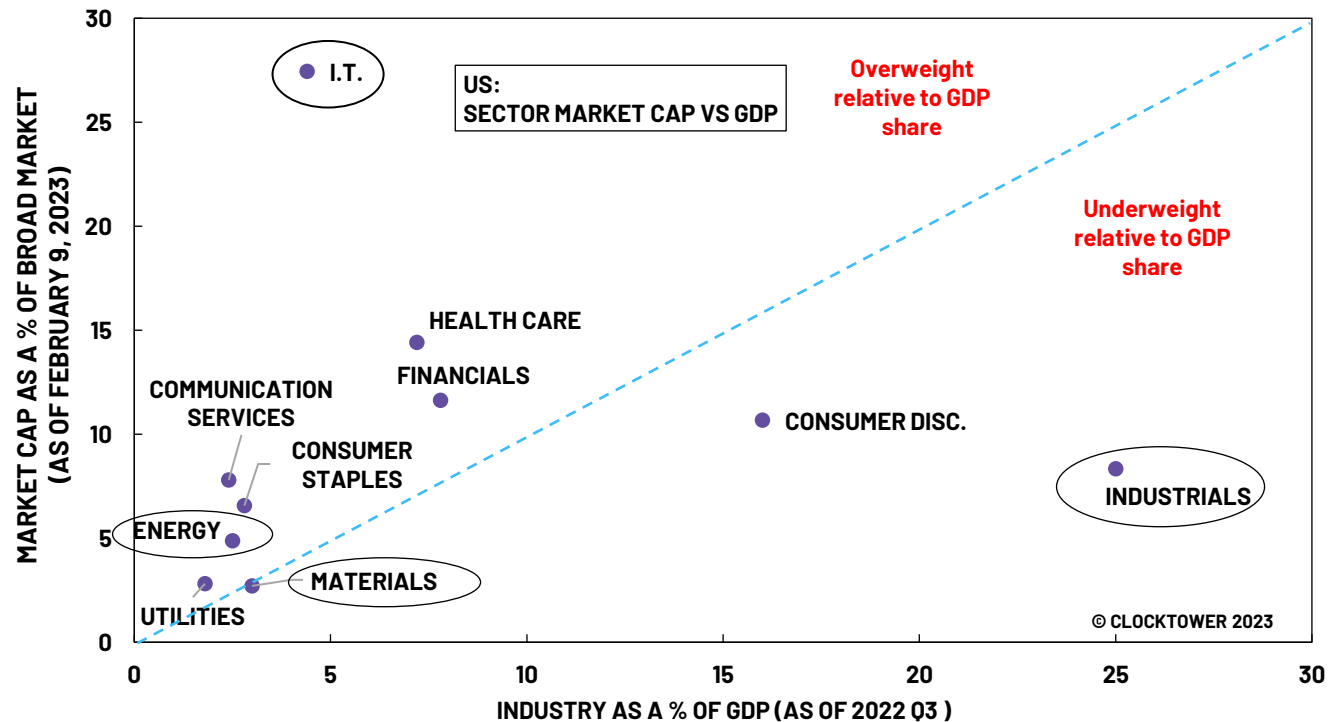




# So What? | The Tech Decade Is Over

The bottom line is that investors should short tech and go long the sectors of multipolarity: industrials, materials, and commodities.

Go Long Kinetic, Short Computational



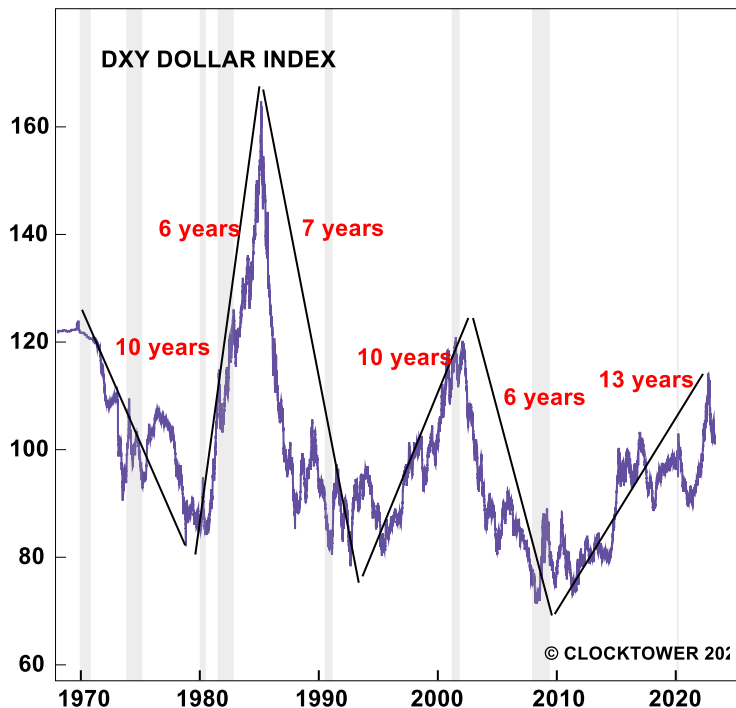
SOURCE: BEA, MACROBOND, CLOCKTOWER CALCULATIONS.



# So What? | Short USD? Sure... But Not Because of Geopolitics

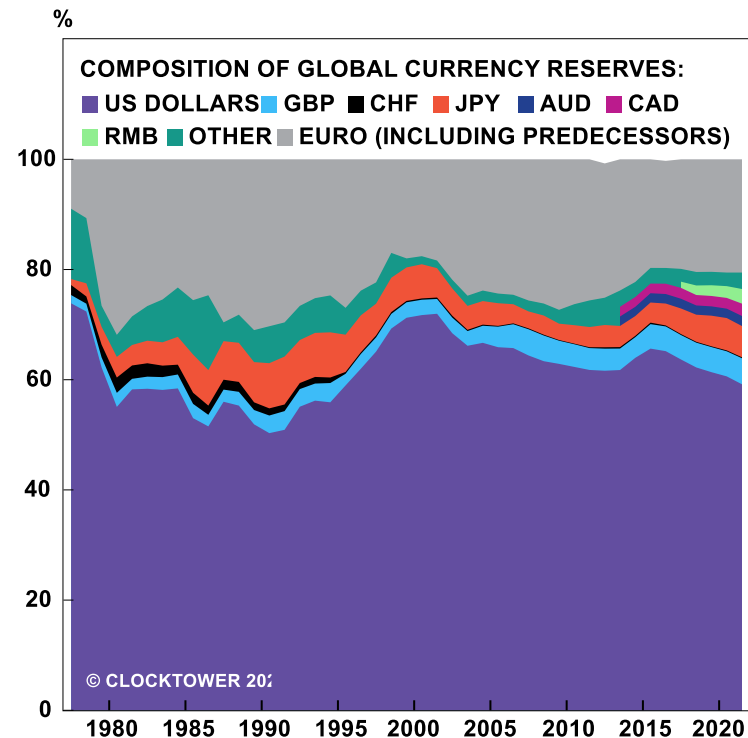
We could list 99 reasons to be short USD at this moment but doing so because of geopolitics is difficult. Yes, multipolarity *should* be a headwind for USD as a reserve asset, but it won't be dramatic.

The Greenback Was in a Bear Market at Height of US Power...



NOTE: SHADED AREAS DENOTE NBER RECESSIONS.  
SOURCE: BCA RESEARCH, MACROBOND.

... Biggest Beneficiaries of Multipolarity Are (Probably) Gold & EUR



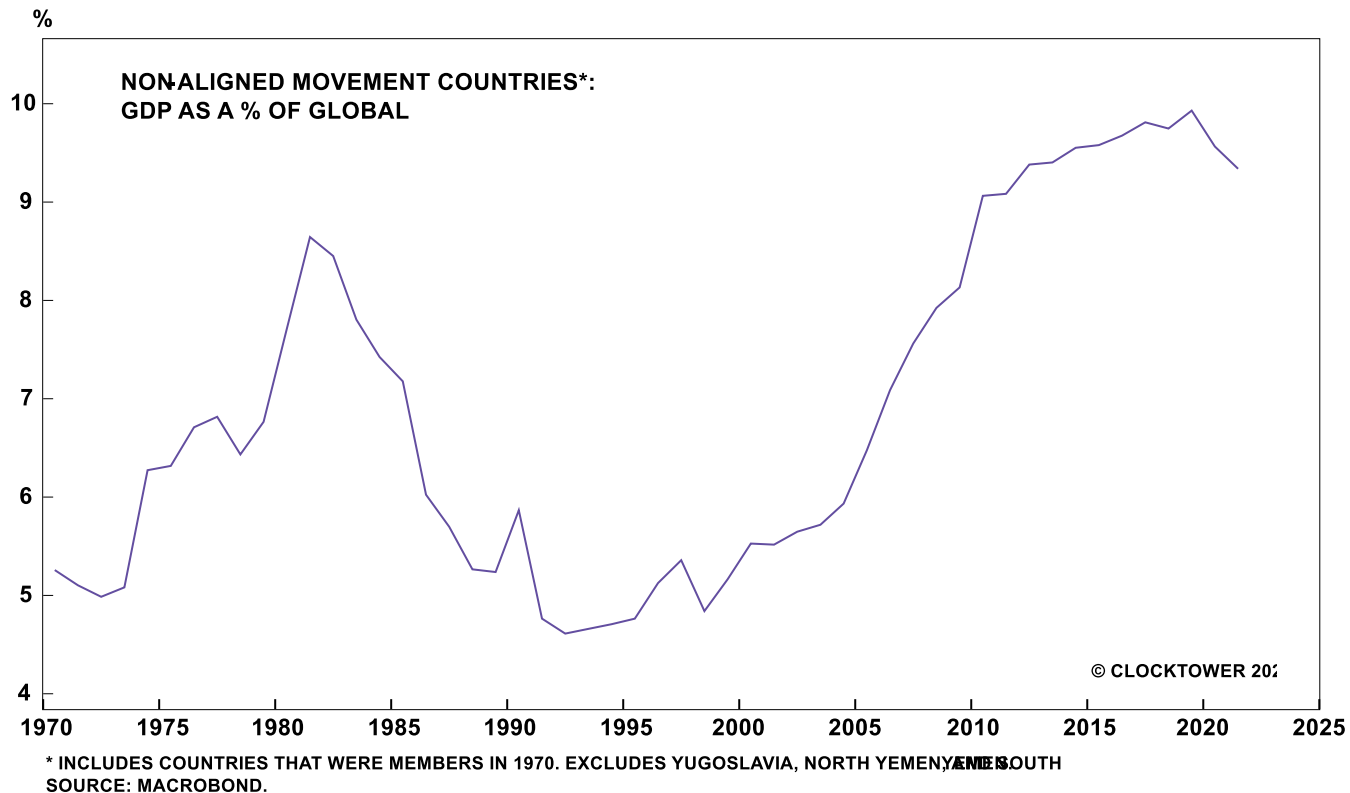
SOURCE: CURRENCY COMPOSITION OF OFFICIAL FOREIGN EXCHANGE RESE  
MACROBOND.



## So What? | Invest in the Non-Aligned Countries

A multipolar distribution of power will give an upper hand to middle and large powers that can play different camps against one another. **Watch India, Indonesia, Vietnam, Latin America, KSA, etc.**

The Rise of the Non-Aligned Movement

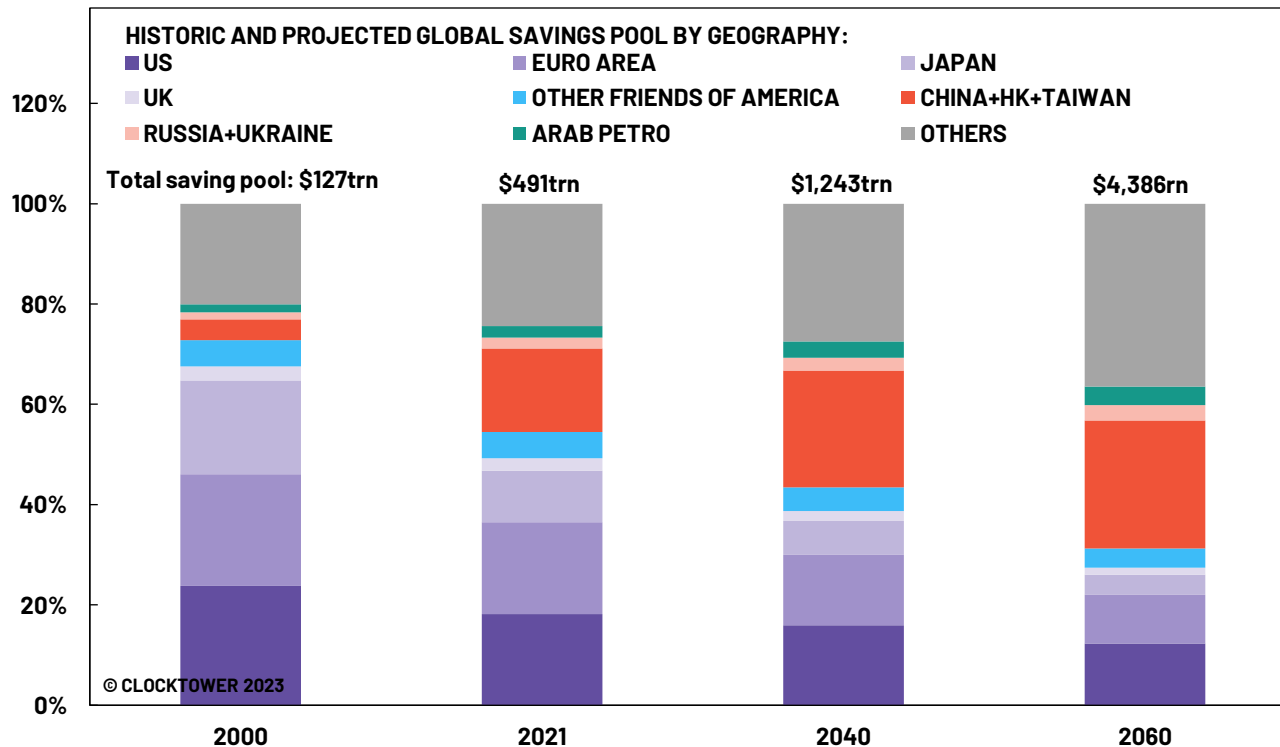




## So What? | Global Pool of Savings Is Also Multipolar

Don't want to invest in EMs because of ESG? A multipolar world is no longer dominated by the West. If you want to stay out of *Country X* for ESG reasons, that is a "sin premium" someone else will willingly harvest.

### The West Is Not the Only Game in Town



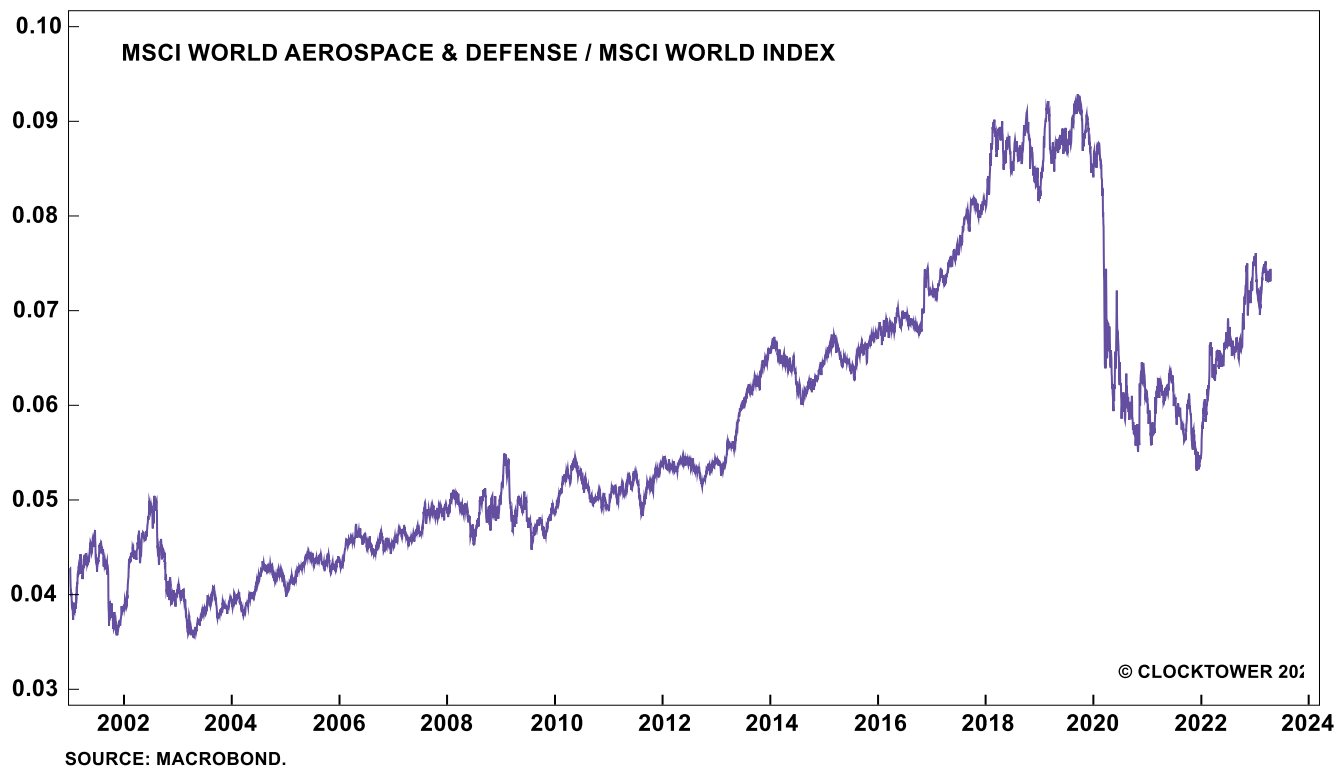
SOURCE: WORLD BANK, IMF, OECD, UN, MAN GROUP, CLOCKTOWER CALCULATIONS



# So What? | Ok Fine... Also Go Long Defense Stocks!

Yes... geopolitical multipolarity will *also* be a boon for defense stocks!

Long Defense Stocks... But Make Sure to Diversify Your Risk







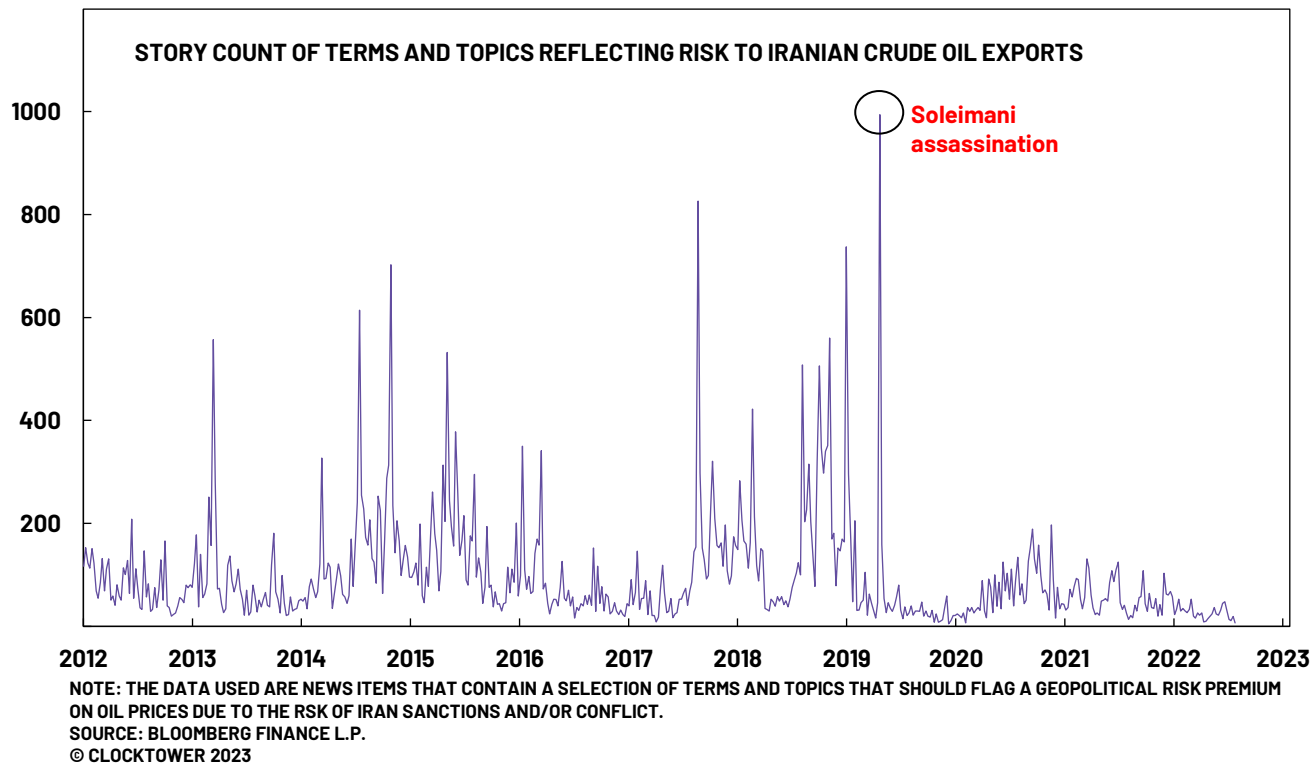
## Three Risks to Consider



## Middle East | The Media/Market Is Overly Sanguine

Most of the media obsesses about Ukraine and US-China tensions. **Very little attention is paid to the risks to oil supply out of Middle East. This is a mistake.** Iranian and Israeli domestic politics are a risk.

Risk to Iranian Oil Supply (Sanctions and/or War) Is too Low

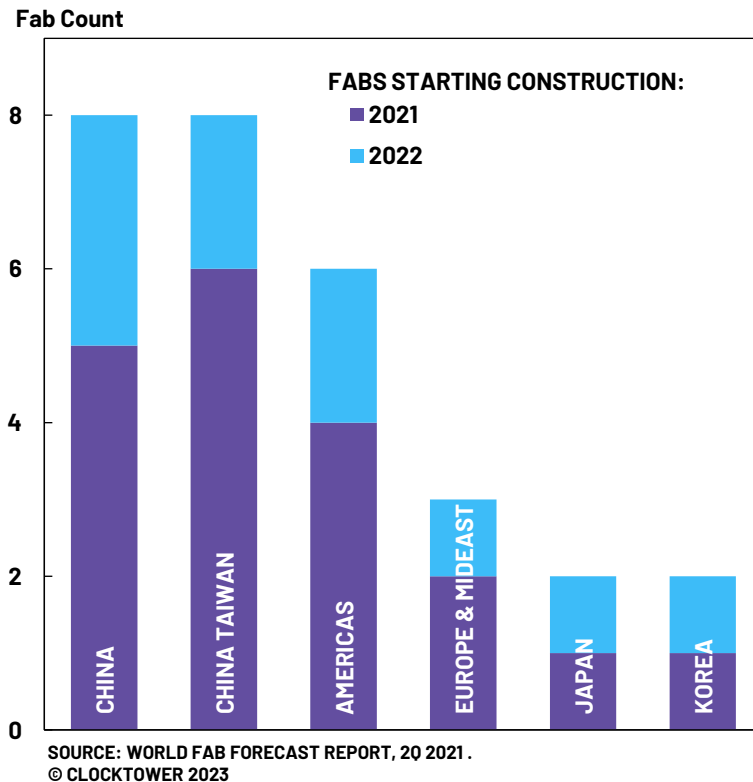




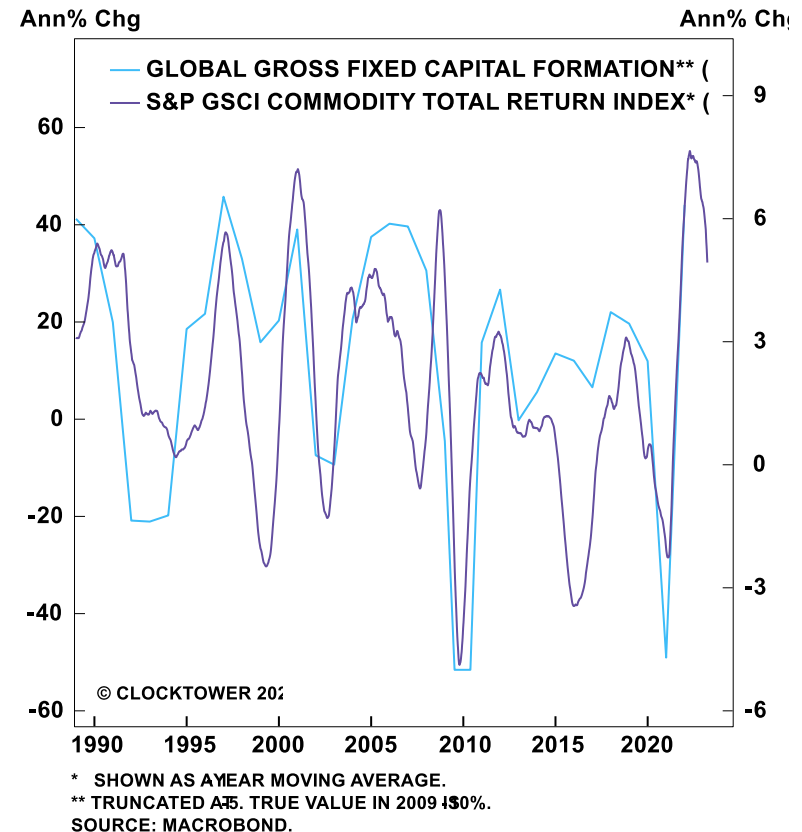
# Commodities | Supply Chains Are Being Redrawn...

...Due to geopolitical risks and national security concerns. On top of that, the green energy revolution will continue to create new demand for industrial metals. This global capex push will raise prices.

## With Supply Chain Reorganization...



## ...Commodity Demand Will Remain Strong

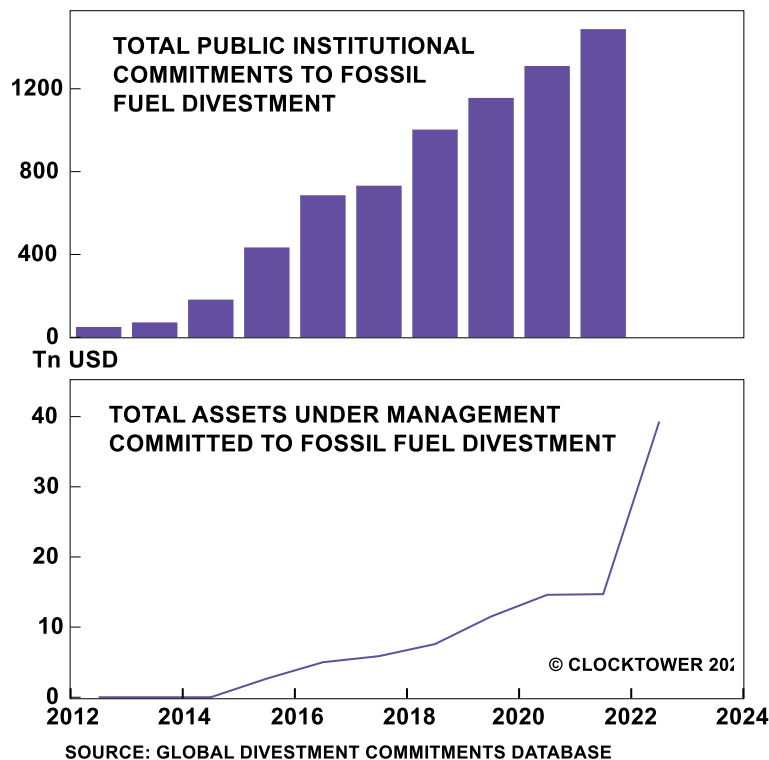




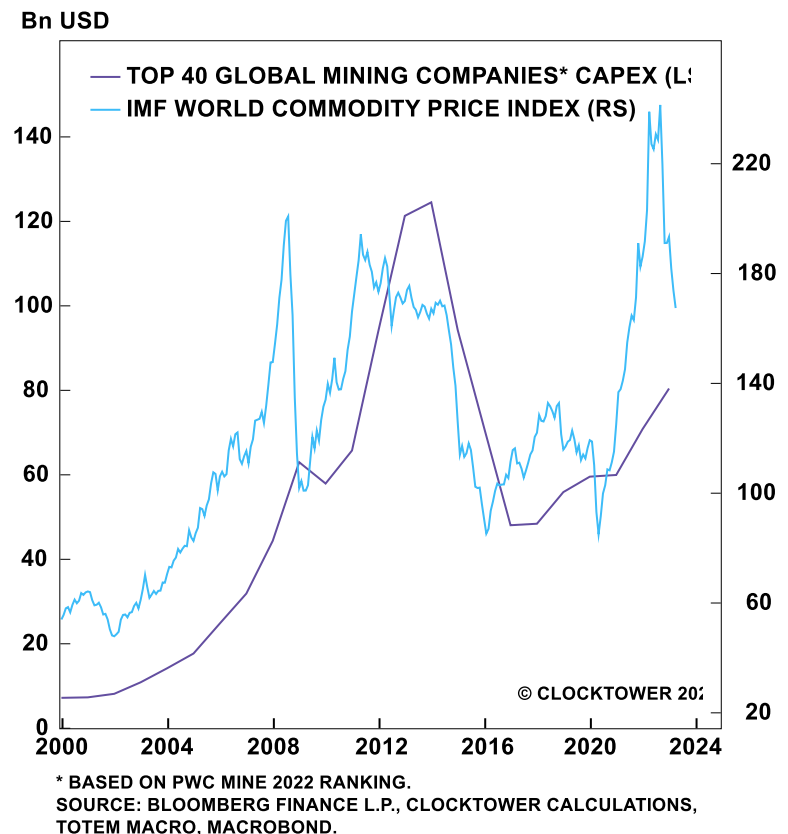
# Commodities | Capex Has Not Responded to Prices

But while global capex is on the rise, actual capital investment *in commodities* will continue to lag. The main reason is that the ESG agenda has made it difficult to plan for long-term projects.

## Divestment from Commodities Is Ongoing...



## ...Slowing Down the Usual Response to Prices

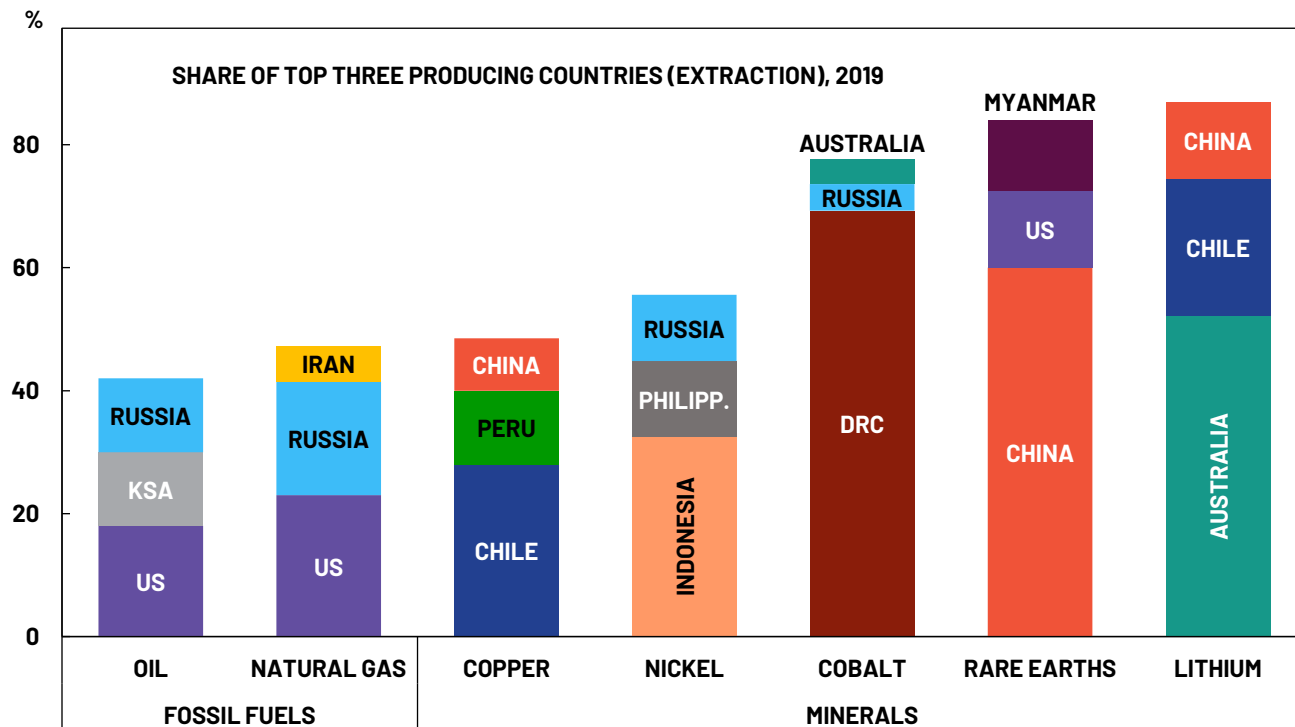




# Commodities | Green Commodities Are Concentrated

Unlike fossil fuels, the commodities necessary for the green energy transition are often concentrated in geopolitically unsafe countries.

Commodities Necessary for the Green Energy Transition Are Concentrated in Often Insecure Countries



SOURCE: "THE ROLE OF CRITICAL MINERALS IN CLEAN ENERGY TRANSITIONS," IEA.  
© CLOCKTOWER 2023



# Commodities | Russia Is Critical for Commodities...

...and it is now engaged in a geopolitical conflict with potential domestic uncertainty over the rest of the decade.

Watch Domestic Stability in Russia



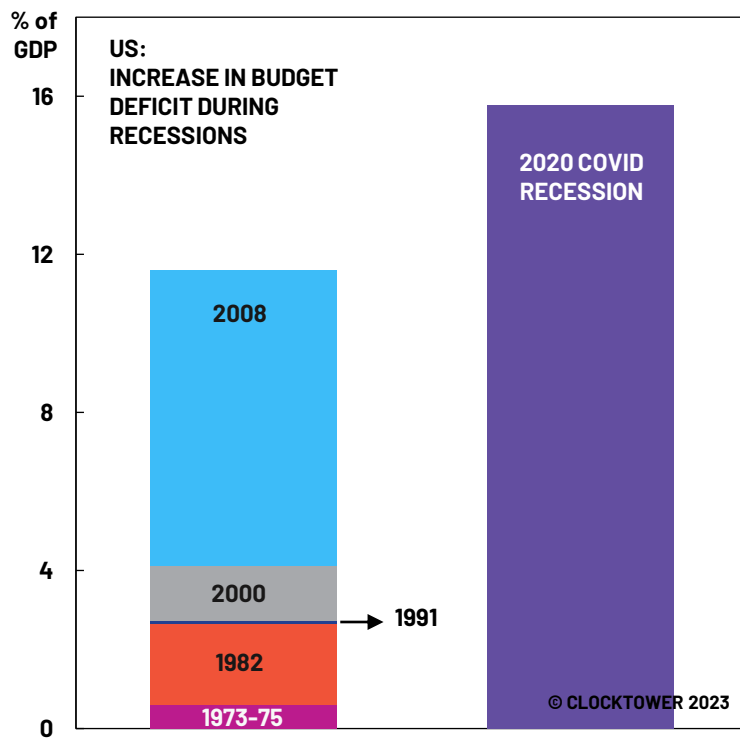
SOURCE: FREE NETWORK.



# US Politics | The Pandemic Did Not Cause the Stimulus

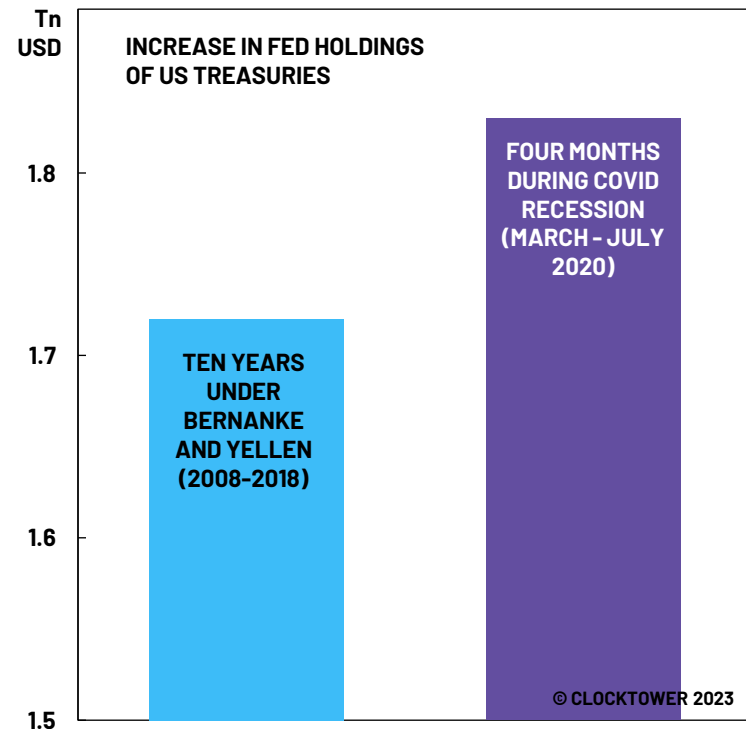
While it is impossible to prove, we would argue that policymakers would have responded to *any* recession with gargantuan stimulus. **As the pandemic dissipates, unorthodoxy will not.**

Both Fiscal and Monetary Profligacy Are...



SOURCE: US DEPARTMENT OF TREASURY.

... Responding to Populism, Not Just the Virus



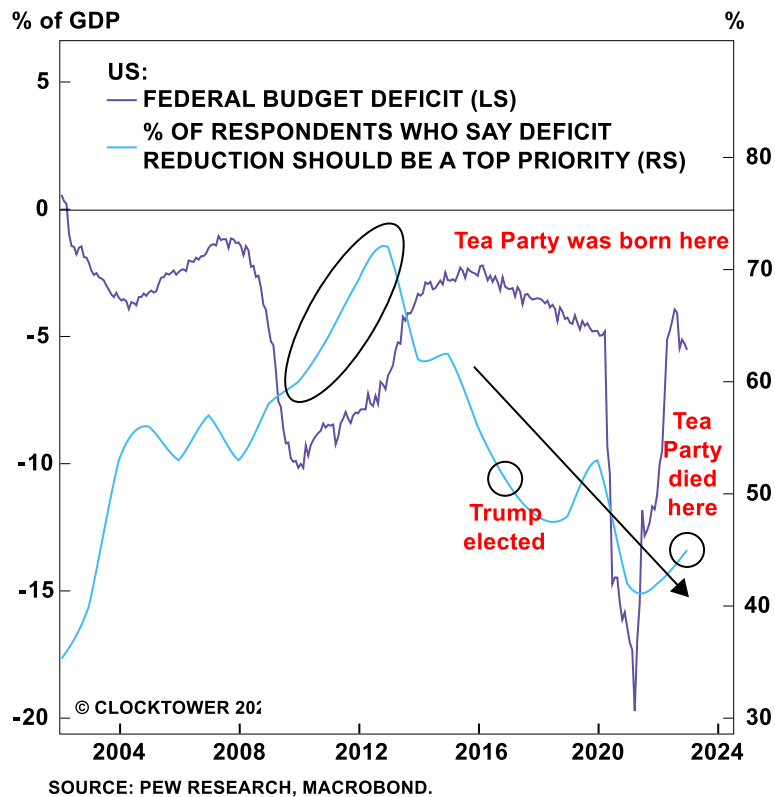
SOURCE: FRED.



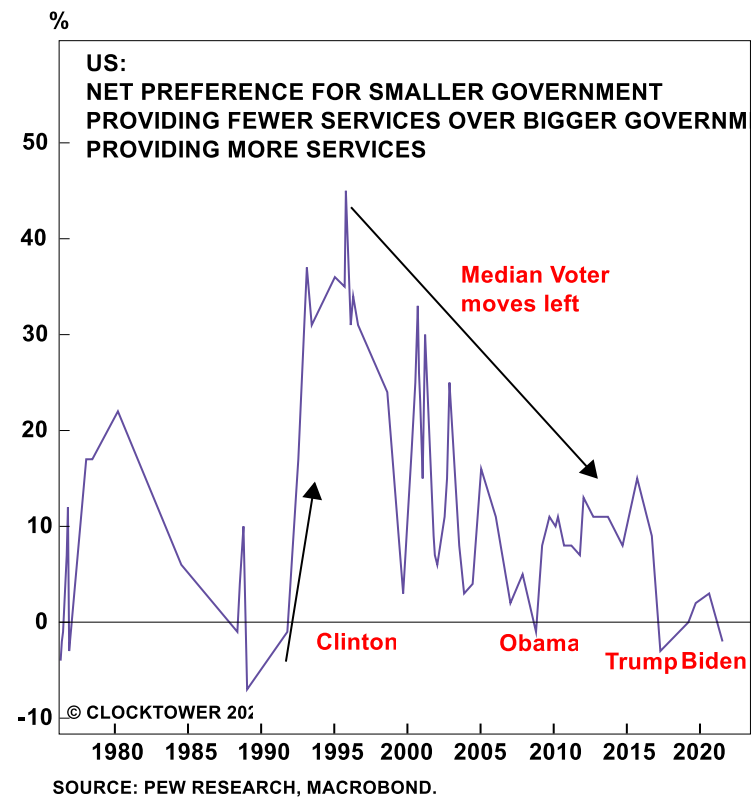
# US Politics | US Voters Are Not Interested in Orthodoxy

The US median voter is not interested in orthodoxy or austerity. They remain scared by the secular stagnation cycle. As such, **a recession will see another significant policy response.**

Who Cares About Budget Deficits?



Not Americans!



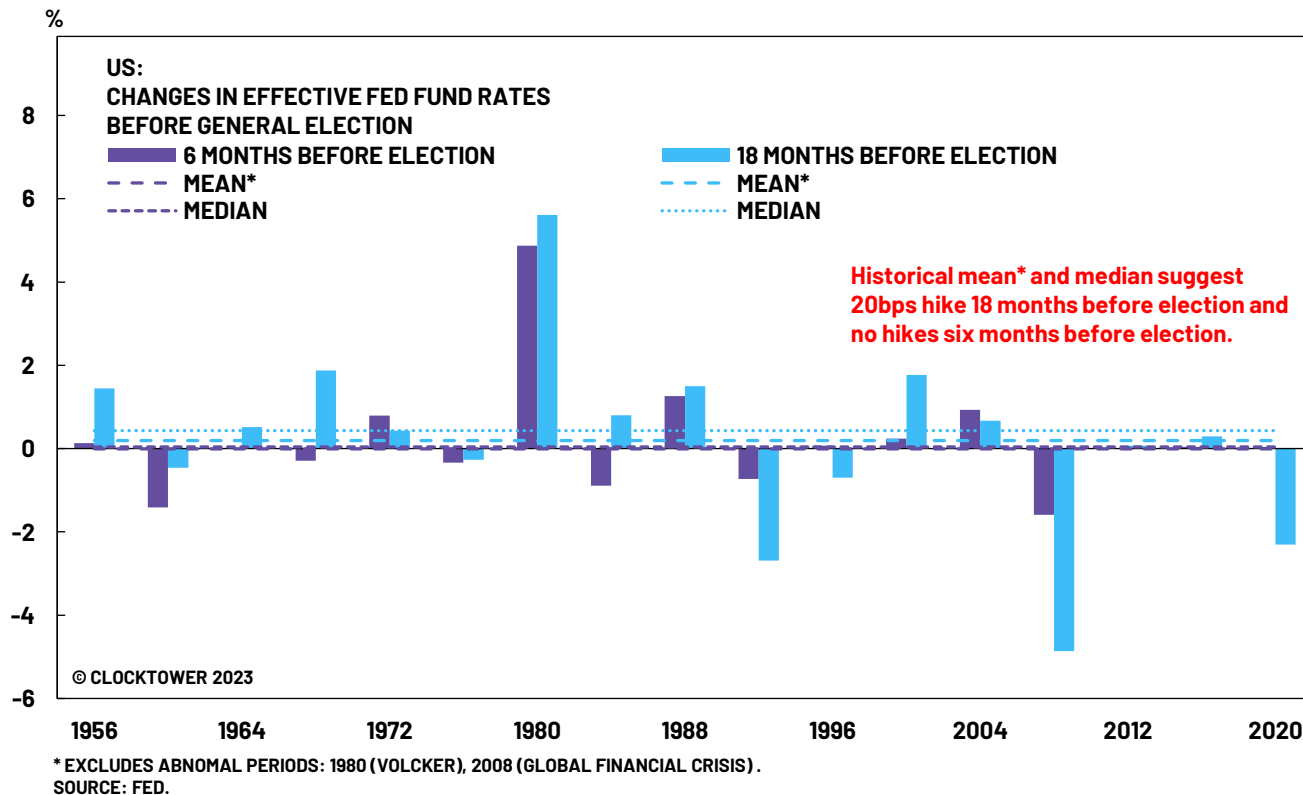




# US Elections | The Fed Is Pausing...

...Just as its window for hawkishness nears its end. **Eight months from now, that window will close, with US presidential elections 12 months away.** The Fed has almost never raised rates ahead of the election.

## The Fed Does Not Raise Rates Ahead of a General Election





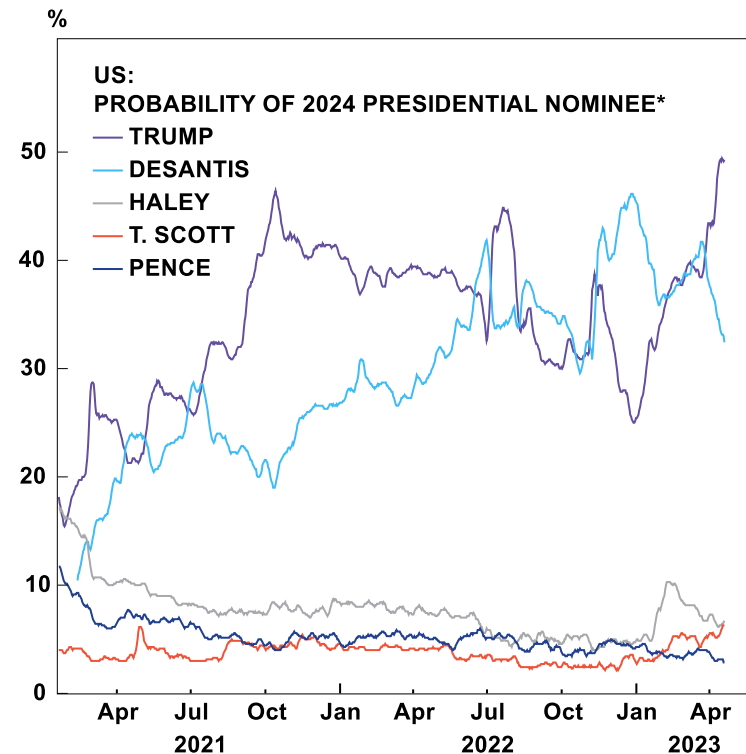
# US Elections | US Domestic Politics

The US election in 2024 could be highly contentious. If Donald Trump wins the GOP primary, a recession could put a genuine anti-establishment candidate in the White House.

## The Incumbent Party Loses After a Recession...

Election Year	Recession in 18 months leading up to election?	Who won presidency?	Winning party
2020	YES	Opposition	D
2016	NO	Opposition	R
2012	NO	Incumbent	D
2008	YES	Opposition	D
2004	NO	Incumbent	R
2000	NO	Opposition	R
1996	NO	Incumbent	D
1992	NO	Opposition	D
1988	NO	Incumbent	R
1984	NO	Incumbent	R
1980	YES	Opposition	R
1976	NO	Opposition	D
1972	NO	Incumbent	R
1968	NO	Opposition	R
1964	NO	Incumbent	D
1960	YES	Opposition	D
1956	NO	Incumbent	R
1952	NO	Opposition	R
1948	NO	Incumbent	D
1944	NO	Incumbent	D
1940	NO	Incumbent	D

## ...Which Means an Anti-Establishment Outcome





## Questions/Comments?

Please email Marko Papic and team at [research@clocktowergroup.com](mailto:research@clocktowergroup.com)



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