Russia-Ukraine, The U.S. Elections, The Middle East

1. Russia-Ukraine

Any material downward trend in oil prices would be a problem for the Kremlin. Low oil prices pose a significant threat to the stability of the Putin regime. Historically, Russia and the Soviet Union have invaded other countries when oil prices were high and have faced severe domestic crises, such as collapse and defaults, when prices fell (Chart 1). While Western sanctions haven't reduced Russian oil prices, a market-driven decline would severely degrade Putin's ability to continue the war in Ukraine and possibly, to retain power.

Bottom line: Putin's regime will be considerably more vulnerable if oil prices drop significantly.

2. The U.S. Elections

We continue to hold our out-of-consensus view that Donald Trump is favored vs. Kamala Harris, and still assign a 60% probability to it. While Harris has trended up in polls, we still tend to think that is a "sugar rush" — though if

Chart 1   **Soviet And Russian Stability, Propensity For Aggression, And Oil Prices**

Note: Series shown on a log scale; source: IMF

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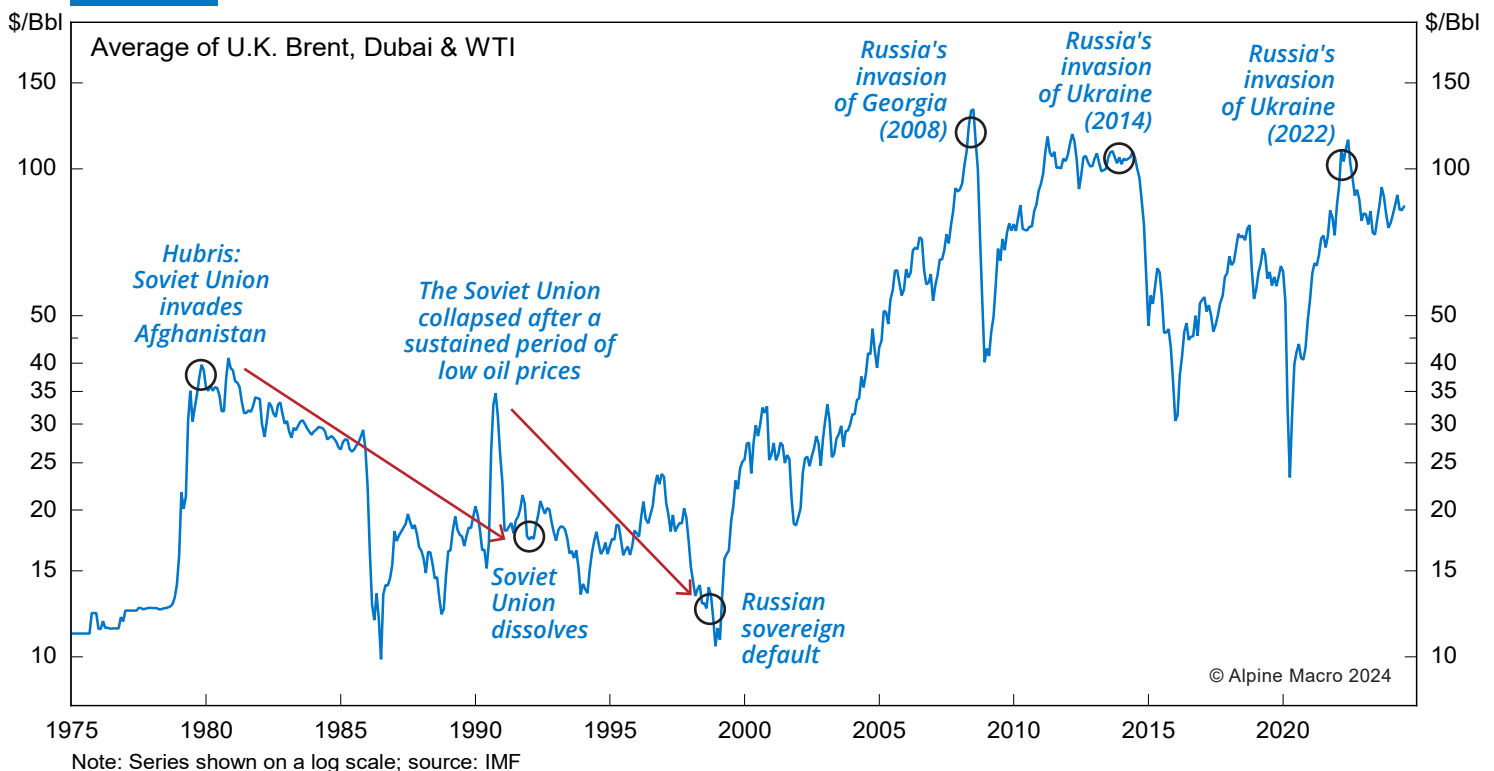
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Mike Dooley

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Tavi Costa

Lenka Martinek

Adam Rozencwajg

this continues into September, we will reassess. One reason why we are skeptical of Harris' chances is that she is an incumbent VP who is trying to distance herself from her own administration's record. This rarely works for Vice Presidents (e.g. see Al Gore in 2000). The other reason is that both in national polls, and more notably in swing state polling (Chart 2), Trump outperforms his own numbers vs. his polling in 2016 (vs. Clinton) and 2020 (vs. Biden).

Bottom line: Still Trump's election to lose.

3. The Middle East

The most recent bout of fighting between Israel and Hezbollah seems to have been contained. Hezbollah signaled de-escalation after its missile strikes on Israel were largely blunted by Israel's preemptive air strikes last weekend. While some uncertainty remains, it appears that Iran and its proxies want to claim victory and avoid a deepening war at this point.

However, as long as the Gaza conflict continues and Iran and its proxies continue striking Israel, the risk of an expanding conflict remains very high. We continue to believe that a broadening and sustained Middle East war is the most significant conflict risk over the next 6-9 months.

Bottom line: Oil prices would face significant geopolitical tailwinds in the event of a broader and sustained Middle East conflagration.

Dan Alamariu
Chief Geopolitical Strategist

Chart 2 **Trump's Swing State Polling Outperformance**
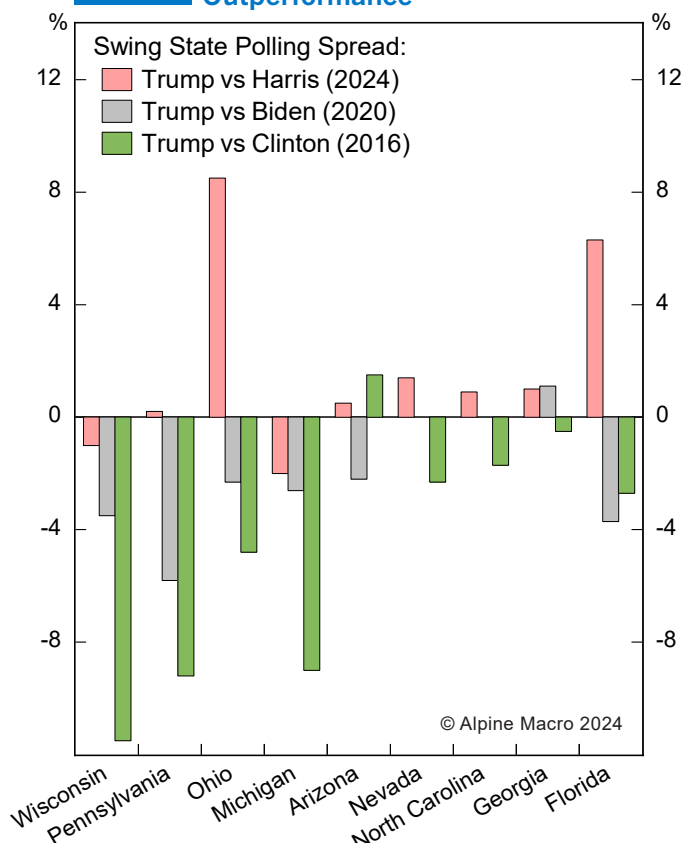
Note: Data as of Aug 28 for all 3 years; source: RealClearPolitics

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