



Market Commentary: Global Tremors: Optimism and Concerns February 2024

On a recent international trip, I watched *Golda* and *All the President's Men*¹, two movies based on historical events that took place in and around 1973. *Golda* focuses on the surprise attack on Israel by Egypt from the south and Syria from the North on the holiest holiday for Jews, Yom Kippur. The ensuing war was aptly named the Yom Kippur War. *All the President's Men* focuses on the Watergate break-in which eventually resulted in the resignation of President Nixon.

These movies impressed on us how much history “rhymes” given the current conflict in Israel and the impending presidential election. History, though, is not “repeating itself” given the vastly different state of the Middle East now as compared to 1973, as well as the state of our institutions and political players here in the US now as compared to the point of resignation by President Nixon.

In this commentary, we explore:

- Why the US cares so much about what is going on in the Middle East
- Why the US *should* (and primarily does) care about Ukraine
- How elections contribute to risks affecting the highlighted conflicts
- Implications for the economy and global markets

What Is Going on in the Middle East?

It's worth appreciating the massive change in the state of the Middle East from 1973 to today.

- **Iran / Islamic Republic of Iran “IRI”:** In 1973, Iran was still ~6 years away from a revolution. The US and Iran had relatively good relations² and the country was becoming more modern and secular, similar to the transition of Turkey in the same period. The Islamic Revolution that took place in 1978-79 abruptly changed the course of the country as well as its global standing and relationships.
- **Saudi Arabia:** Saudi Arabia has a bit more complicated past, especially, and most importantly, in the aftermath of 9/11. Saudi Arabia had led the OPEC Oil Embargo of the US and others in retribution for supporting Israel in the later stages of the Yom Kippur War, though it eventually became a stronger ally of the US, especially after the Islamic Revolution in Iran.

Of significant importance to the current Middle East was the transition that took place in Saudi Arabia in the early 2000s. 15 of the 19 hijackers who participated in the September 11 attacks on the United States in 2001 were Saudi citizens, with Al Qaeda further materially supported by citizens of Saudi Arabia. However, starting in May 2003, Al Qaeda began conducting

¹ With the disclosure of me not being a movie critic, *All the President's Men* was fantastic. *Golda* is incorrectly titled since the movie was purely focused on the Yom Kippur War and Golda's imprint on Israel and the world is so much larger than that singular event. The movie itself was informative/interesting.

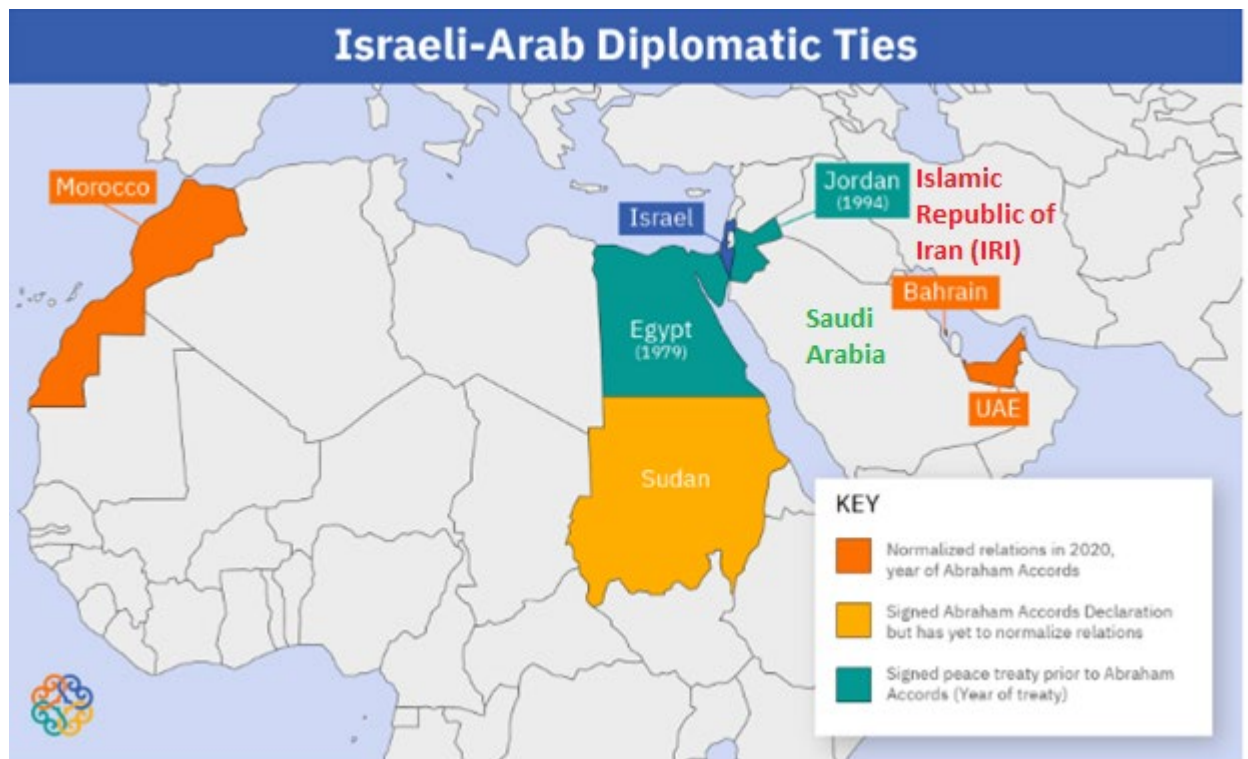
² Part of a US “Twin pillars” policy in the region in maintaining influence and oil.





terrorist attacks in Saudi Arabia³, resulting in hundreds killed and many injured. Saudi rulers, recognizing the risks to the kingdom as well as to their own leadership, aggressively cracked down on Al Qaeda within Saudi Arabia as well as more radicalized clerics. They even have the world's only "Jihad Rehab" center⁴, in an attempt to deradicalize terrorists.

- **Egypt:** During the Yom Kippur War, Egypt was supported by Russia. However, President Sadat had been making overtures to America as early as 1970⁵. After large early gains, based on impressive initial tactical planning, the Egyptian army made some fatal mistakes resulting in one of its larger divisions being fully sieged by Israel. The world demanded a cease-fire, but Israel did not relent until President Sadat ultimately agreed to meet with Prime Minister Meir. A few years later (1979), Egypt became the first Arab state to make peace with Israel while shifting its strategic alliance from Russia to the US.



³ This is a great place to point out to “Westerners” that those participating in Jihad due to, or supported by, extremist religious views are interested in killing *all* infidels (inclusive of Muslims not quite up to muster religiously) and develop a global caliphate. Why attack the hand that was feeding you? This is not directly about land or capital.

⁴ [Jihad Rehab - Wikipedia](#) - I really enjoyed this documentary! Find the GoFundMe page if interested in following and potentially seeing this film.

⁵ First approaching the Americans during Nasser's funeral: [The-Russians-Are-Going.pdf \(cuny.edu\)](#)

⁶ [The Slowing Down of Israel-Arab Relations Under the Netanyahu Government | Middle East Institute \(mei.edu\)](#) with additions to the chart included in this piece made by FAM.





In 1973, Israel had no peace agreements throughout the Arab world. Currently though, according to many pundits, it is on the precipice of making peace with Saudi Arabia, the most powerful of the conservative Sunni nations. Their interest in peace is based on a desire for shared military and spy capability for blunting the IRI's aggressions (Inclusive of Houthi activity abutting its Southeastern border), as well as economic reasons as Saudi Arabia actively seeks to further diversify their GDP away from energy.

Why Does America Care?

America is interested in aligning Saudi Arabia with the West (as opposed to China) while also further isolating the IRI. America would secure a relationship with the historical swing producer of oil in the region, bring further peace, and have better access to the wealthy group of conservative Sunni countries that is unofficially led by Saudi Arabia. Russia still looms large in the region and once boasted strong relations with most of the Arab world. Now it is limited to its activities in Syria, a broken country, and its relationship with the IRI.

America has always been interested in aligning with Israel, which is the only democracy in the Middle East, a reliable military partner (e.g., the Iron Dome, among other Israeli inventions and innovations), and perhaps the second-largest technology center in the world behind Silicon Valley.

Ultimately, peace in the Middle East is a huge win for the Western world given access to shipping lanes, energy, technology and military innovation, and wealth. While it will not happen overnight, continuing to align countries under American influence or at least partnership will isolate IRI and its allies while keeping Russia and China less influential in the region. Let's all hope for true peace in the Middle East⁷.

Why Russia - Ukraine Is Important to the US

Since the "new order," beginning with the end of World War II, the general global rule has been that stronger countries do not attack neighboring weaker countries simply because they could. A case in point was the quick reaction of the major world powers when Iraq invaded Kuwait.

If Russia is able to achieve its objective and take control of Ukraine, what stops it from entering other weaker countries that were once part of the Union of Soviet Socialist Republics? Would anyone outside of Romania care or, more importantly, do anything about it, if Russia then moved into Moldova?

What does it signify to other aggressors on the world stage? China? Venezuela?

⁷ It also makes tourism a bit more fun given the Middle East is the cradle of the major world religions and full of historical artifacts from the Babylonians, Persians, Greeks, Mamluks, Jewish Kingdoms, Egypt - Pharaohs, etc.





And Why Should Americans Care?

As we have highlighted in the past, America is in an enviable position due to its geographic location, abundance of natural resources, and wealth. However, an increasingly hostile world will result in a need to materially increase its military budget and pose a danger in the short term of inflationary pressures on imported goods.

Historically, governments spend on average **50%** of their budget on the military. Recently though, and for the first time in history, governments have been spending more on health care than on the military, with military spending coming in closer to 5%⁸ and healthcare 7%. If small countries must start spending on their military due to fear of invasion from stronger countries, then those stronger countries will most likely up their spending as well, resulting in an arms race. Military spending will increase dramatically at the cost of social services that allow for healthier, longer, and more fulfilling lives for all.

Beyond an increase in necessary allocation to the US military, one may be noticing the less-than-stellar campaign of protecting the waterways of the Red Sea from what I will term a third-world, rag-tag military supported by the IRI. America did not even attempt to police the Black Sea (reasonably so) when there was a siege on wheat emanating from Ukraine. That siege resulted in serious inflation in places like Egypt and parts of Europe. This directly negatively affects the ability to import goods from portions of the global economy due to restricted access and increased pricing, directly affecting the US pocketbook, not to mention the fact that the World becomes a less safe place which inevitably lands at some point on our shores⁹.

Deep Thought and Conversation Starter: AI

This past Sunday, I had the opportunity to attend an event featuring Yuval Noah Harari in Conversation with Ian Bremmer on “Why the World Isn’t Fair” at 92nd Street Y. Mr. Harari’s chief concern was the power of AI. For the first time in history, powerful technology can make decisions for itself.

“AI is different from every previous technology in human history because it’s the first technology that can make decisions by itself, that can create new ideas by itself and that can learn and develop by itself. Almost by definition, it’s extremely difficult for humans, even those who created the technology, to foresee all the potential dangers and problems.” – Mr. Harari¹⁰.

- Autonomous weapon systems making independent decisions?
- Bots conducting conversations with individuals, collecting all necessary data, and figuring out the perfect argument to convince humans of anything?
- AI-provided guidance to do something by any means necessary?
- Add your own science fiction – soon to be reality – scary scenario...

⁸ Yuval Harari provided via Yuval Noah Harari in Conversation with Ian Bremmer on “Why the World Isn’t Fair” at the 92nd Street Y in NYC.

⁹ E.g., Pearl harbor, 9/11

¹⁰ [AI could cause ‘catastrophic’ financial crisis, says Yuval Noah Harari | Artificial intelligence \(AI\) | The Guardian](#)



The relevance to this particular commentary is (1) the increased use of AI within advanced militaries, and (2) the increased use of AI within social media, which may result in material misinformation leading into an important US election cycle.

If the entire world does not agree on AI regulation (similar to nuclear proliferation), then none of the world can work to limit the potential risks involved.

On our podcast, Investment Wars, we ask, “Will Robots Take over the World?” It seems like Yuval Harari is more concerned with AI taking over the world.

Elections

Eurasia Group highlights its top global risks annually¹¹. This year, the top risk is the upcoming US election.

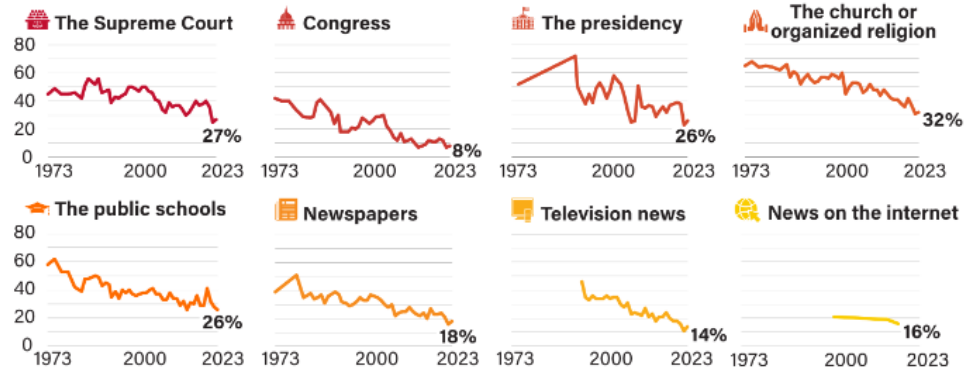
Once upon a time, the left and right of the political spectrum was a bit closer on foreign policy which allowed for more consistent policy among our global partners. The current candidates, though, have distinctly different foreign policy approaches. For instance, a win by President Biden will most likely mean the continuation of support of NATO and Ukraine, while a Donald Trump win may end that support.

Whoever wins, the hyper-partisanship and hostile rhetoric of the election may further degrade the very important political and social institutions in our country, which are being attacked by both our enemies and our politicians, media, and social media constructs.

Institutions enjoyed a bit of a jump after the Nixon resignation as the institutions worked. This was illustrated in *All the President's Men* where journalists stuck with a story resulting in one branch of government (Legislative) being able to exert enough pressure to keep a second branch (Executive) honest. Given further stresses, will they work this time around? And how much of an effect will AI have on our voting patterns?

Americans' confidence in political and social institutions continues to decline

Please tell me how much confidence you, yourself, have in each one—a great deal/quite a lot (%)



TOP RISKS 2024



Source: Gallup

¹¹ [Eurasia Group | The United States vs. itself: Eurasia Group's #1 Top Risk of 2024](#)



In Summary: Optimism, Concern, and US Positioning

The Middle East has long been and continues to be a conflict hotspot, as shown by the many dots in the Middle East vicinity on the Global Conflict Tracker map below. Yet it is also an important region of the world given its oil production, increasing economic heft, and the continual desire for progressive advancements of all humans. In 1973, outside of Israel and a changing Iran, the USSR had way more influence in the Middle East. Now America and the West have more influence, and there are increasing signs of peace among countries lined up against a belligerent IRI. Despite the current war in (and around) Israel, there is cause for optimism through increased peace treaties and further isolation of the IRI.

Global Conflict Tracker produced by the Council on Foreign Relations¹²



We highlighted trends of reshoring on our podcast titled “How Strong Is the Trend Towards Reshoring of Manufacturing?”¹³ featuring Chris Semenuk from Tema ETFs. I highly recommend a listen. Between the CHIPS and Science Act and the government initiative on manufacturing, reshoring is underway. Chris pointed out that the total cost of the product was already going toward an equilibrium where it was beginning to make sense to produce in America, even with rosy relations with the East. The point is that the positives of

¹² [Global Conflict Tracker | Council on Foreign Relations \(cfr.org\)](https://www.cfr.org/)

¹³ [Investment Wars: 14. How Strong Is the Trend Towards Reshoring of Manufacturing? on Apple Podcasts](#) – Will Robots Take over the World advances the theme of onshoring given increased and efficient capabilities locally.



onshoring should make our country even stronger and less reliant on the international community while keeping a lid on inflation. That said, it is worth noting that this transition will be measured in decades, not years.

Concerns remain, though, about the eroding confidence in our institutions, our potentially isolationist biases, and our presentation of a conflicting and confusing narrative to our global partners due to the vastly different philosophies and approaches of our political leadership.

These thought pieces inform our model positioning in terms of what exposures may make sense in the US vs the rest of the world and some of the levers used within fixed income as ballast for a portfolio. They are also hopeful for our constituents in further fleshing out global events that may have a material impact on their personal lives.

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