

Eurasia Group CEO Maziar Minovi Sees a Partitioned Ukraine, Trump Winning, and The Market Ignoring Risks



CEO Maziar Minovi

global investors should price in growing risks which we don't believe will fade away.

What's the most significant geopolitical risk markets are misjudging?

A second Trump Administration, especially its likely trade policies. I get a lot of push back on this call. But we believe these risks will affect a wide range of investments.

Do you believe Trump is likely to win this fall?

We believe Trump has a 60% chance of winning, mindful that we're still a half year from November. We recently believed Biden enjoyed a slight edge. But we changed that call after the Supreme Court agreed to hear the case about presidential

immunity. This has pushed off the most important cases against the former President until after the election.

What would be some of the likely results of a Trump second term?

Bureaucratically, we would see an erosion of institutional norms and mechanisms in the way the Federal government is run as Trump seeks to increase presidential power. DoJ would stop all federal investigations against Trump and start investigations of real and perceived enemies. He would likely turn a large swath of senior Federal jobs into political appointees.

We expect the market's initial reaction to be neutral, but would likely change in 2025 as the US becomes more protectionist. China may likely lose its Most Favored Nations Status, pushing up its import tariffs from 20% to possibly 60%. Certain domestic sectors and industries will likely benefit from more protectionist policies and from deregulation, especially the energy and financial sectors.

But we believe such policies will negatively impact US growth and inflation, estimates suggest possibly nicking GDP growth by 1% annually over the next 5 years. We would expect an extension of the 2017 tax cuts under Trump, and this would increase the national debt by \$3.5 trillion over the next 10 years.

You were born in Iran and are an emerging market specialist. Does it surprise you that more than 10% of this year's Top 50 funds focus on that space with 5 being credit?

Yes, but mindful you're citing the most consistently performing managers. With interest rates being where they are, these managers' high single-digit returns and low volatility suggests they are effectively hedging their risks and sticking to higher grade investments.

They are indeed hedging and employing relative value trades. But affirming your belief in managers containing risks, we've also seen unexpected calm across the Middle East and Eastern Europe markets in spite of war. How do you think the Israeli-Gaza and Russia-Ukrainian wars will proceed for the rest of the year?

In the Middle East, we're seeing an escalation that will likely continue for much of the year. We're worried the conflict could directly involve Iran and retaliations on both sides could easily be expected to go beyond the recent tit for tat. The conflict then has the potential of affecting oil supplies.

When Israel finds Hamas has not been wiped out, even after its Rafah offensive, we'll see nodes of escalation. The West Bank will continue to be a hot spot, and Hezbollah may ratchet up attacks on Israel from the north. It doesn't help that Netanyahu's future as Prime Minister is linked to the continuation of the conflict.

Won't a broken and dysfunctional Gaza pose as great a risk as Hamas?

The on-the-ground reality in Israel echoes what we saw in the US after 9/11. There is a lot of anger and broad support for continued escalation, especially considering Gaza sits on Israel's border. But our analysts and policymakers agree the Israeli offensive may have created short-term calm in Israel at the expense of an even worse set of longer-term regional risks.

Do you think the aggressive way Israel has conducted the war in Gaza could set back 30 years of movement towards peace with the Arab World?

That's a plausible narrative. But there's reason for hope. The Saudis are clearly interested in having a strategic deal with the Americans, which could provide them a security umbrella against Iran and its proxies along with access to civilian nuclear power. The price for the Saudis is normalization of relations with Israel, which would be contingent on a 2-state solution for Israel and the Palestinians. That cannot be achieved with Netanyahu in power. The war may have undone progress made over the past several decades. But odds of a broader peace have also risen.

Could there be an angry populist response across the Arab region that could make this unlikely?

Having been born in Iran and having escaped after the revolution, there is no simple answer to that question. I would say, Yes, but ...

Turning to Ukraine, what do you think will be the effect of the US' 6-month delay in providing aid to Ukraine?

That delay has enabled Russia to regain an edge on the battlefield. And the risk of escalation is material. But we still anticipate a stalemate with limited market effects stemming from the war.

Are you concerned that Western support of Ukraine at best only ensures a stalemate and not a Ukrainian victory?

We never thought a Ukrainian victory was possible because the West doesn't have the political will to provide sufficient aid necessary to push the Russians back to its borders. We believe this year there will be a de facto partition of Ukraine recognized

by all. And in 2025, regardless of who occupies the Oval Office, we expect US support will erode. We may see European support also fracturing and the possibility of countries like Poland and the Baltics eventually getting more directly involved in the war.

Wall Street suffers when there's a breakdown in the rule of law. Many companies wrote down their entire investments in Russia once sanctions were in place. Do you feel there's a place for the financial community to publicly address core geopolitical issues that directly affect them, with at least one purpose being to persuade governments to stabilize and de-risk the globe?

We actively advise corporate clients on this complicated matter. While silence may sidestep criticism, it can also alienate stakeholders. We believe it's not something companies can avoid in an increasingly polarized world. What we are recommending is a sector-sensitive nuanced response, in sync with fiduciary responsibilities, values, aligned with business decisions, recruiting needs, and corporate mission.

Siding with Ukraine may cost a company future business in Russia, but it may also enhance a company's global stature. When H&M and Adidas sided with ethnic Uyghurs in China, in concert with EU regulations, it resulted in Beijing counter-sanctioning European individuals and organizations. Chinese celebrities suspended their endorsements, and products were dropped from major e-commerce platforms such as Alibaba.

Wall Street is eager for the Fed to reduce rates. Should it? Is there something helpful having attractive risk-free rates in keeping markets from frothing?

I agree there's a lot to like about staying at these levels in maintaining a healthier financial system. Higher rates make US Treasuries more attractive globally, which helps the country meet its debt demands while restraining inflation. But it may likely be holding back growth and push up debt service costs. It also puts pressure on emerging markets, making them less

desirable investments.

What's your outlook on US inflation and Fed policy for the rest of the year?

With inflation remaining sticky, we believe the Fed will continue the higher for longer policy. But an escalated trade war with China could worsen current inflation and growth prospects, putting the Fed in a bind.

What about European interest rate prospects?

Europe's definitely in a bind. Continental growth continues to lag the US so there's a desire for the ECB to cut faster. But that has all sorts of implications on currency and a greater chance of importing inflation. Meanwhile, the Ukrainian War is likely to continue to fuel expansionary fiscal policies beyond Maastricht levels. This could further push Germany, Europe's largest economy, to increasingly embrace debt.

Are you concerned about expansive US debt negatively impacting the global economy?

Yes. But the risk is hard to handicap. Even if protectionist trade policies are adopted, slowing growth while tax cuts are extended, we're not sure that gets us closer to a tipping point. Where else are you going to park your money?

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Maziar Minovi is the CEO of Eurasia Group, the world's leading geopolitical risk advisory firm. He oversees all areas of the global business including the firm's vision, strategy, finances, and day-to-day operations. Maziar has 25 years of experience investing in international and emerging markets. He was a senior member of the Investment Strategy Group at Goldman Sachs responsible for emerging markets and macro investments. Maziar was also head of the Emerging Markets Group at MassMutual/Babson Capital Management and has worked at the IMF, LTCM, Putnam Investment Management, and the World Bank.