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# The Ukraine/Russia War One Year Later



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**As the Russian invasion of Ukraine approaches the one-year mark, the outcome is still to be determined. The Ukrainian military has outperformed expectations in a significant way and the Russian military has proven to be far less effective than previously thought. This has led to a reminder of the global order, with the United States as the world's most dominant superpower.**

To meet Ukraine's battlefield, humanitarian, and infrastructure needs, the United States and allies have sent more than \$140 billion in support. Of this amount, the United States has committed more than \$90 billion since January, 2021.

The following points, and any ensuing investment implications, are meant to provide topics for discussion between you and your financial advisor.

AMERICA HAS  
**BENEFITED**  
FROM THE WAR.  
HERE'S WHY ➡

# DEFENSE

**The weapons provided to Ukraine fall under the Ukraine Democracy Defense Lend-Lease Act of 2022 – meaning there is an agreement for “the return of and reimbursement and repayment for defense articles loaned or leased to foreign governments.” Although there is no assumption of repayment, should Ukrainian authorities not comply with U.S. government directives, such expectations could be implemented.**

Of the military hardware utilized, the US has not provided any prized weapons. There have been no provisions for planes, helicopters, or ships. In fact, the most effective weapon used so far appears to be the M142 HIMARS system - a light multiple rocket launcher developed in the late 1990s.

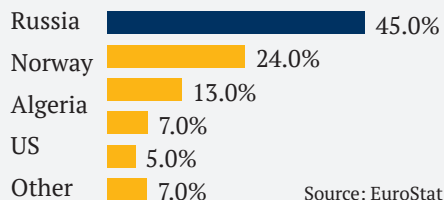
The underperformance of the Russian military industrial complex has proven their defense hardware is not competitive with that of the US. This should be beneficial for US defense contractors, as the world will look to buy American going forward. Major buyers of

Russian equipment, such as India, must now evaluate if they should change their equipment sourcing, which will also influence their foreign policies over time. Europe and NATO have recognized that previous decades of military underinvestment have left them vulnerable and have acknowledged the needs for larger budget allocations directed toward defense spending. While they strongly prefer domestically sourced equipment, the breadth and quality of offerings from American defense contractors will inevitably attract buyers.



# ENERGY

According to EuroStat, prior to the invasion, Russia was the largest supplier of gas to the European Union, accounting for roughly 45% of all flows.



The weaponization of energy has left Europe vulnerable and cold. It has become painfully obvious that allowing themselves to be held hostage to Russian energy sources was a major strategic mistake. Vowing to never be in such a position again, the EU is desperately looking for alternative solutions. The sabotage of the Nord Stream pipeline was a confirmation of this vulnerability.

The United States is currently one of the world's top natural gas producers and can send more liquefied natural gas (LNG) to Europe. The speed at which the US was able to ramp up LNG deliveries has surpassed European expectations. Going forward, the only countries that are capable of

significant incremental production are the US and Qatar. Europe will be buying more from both, with some marginal incremental amounts coming from other countries.

None of this will happen without massive investment. There is no US pipeline stretching from the Gulf Coast to Europe, nor can one be constructed. Instead, we ship natural gas overseas on massive tanker ships, with the process including turning gas to liquid in a US liquefaction facility and back into gas in an EU land-based terminal. The expansion of infrastructure facilities on both sides of the ocean will require billions of dollars of capital and both efforts are underway.

Visual Capitalist: <https://www.visualcapitalist.com/which-countries-produce-the-most-natural-gas/>



## THE LARGEST PRODUCERS OF NATURAL GAS

Russia's invasion of Ukraine has exacerbated the tightening supply of natural gas underway since mid-2021, further pushing up prices. Besides having the largest natural gas reserves, Russia is the second biggest producer, only behind the United States.

Production in billion cubic meters\* (2021)

*i* Natural gas is a naturally occurring hydrocarbon gas and non-renewable fossil fuel that forms below the Earth's surface. Liquefied natural gas (LNG) is a natural gas that has been cooled to -162°C, a process that is commonly done for gas export purposes as it reduces the volume of the transported gas.





# CHINA

Going forward, Russian containment will not be as pressing of an issue. The military and economic damages suffered by Russia will last decades. This will allow the US to focus primarily on China as a global competitor and threat. This could play out in a few different ways:

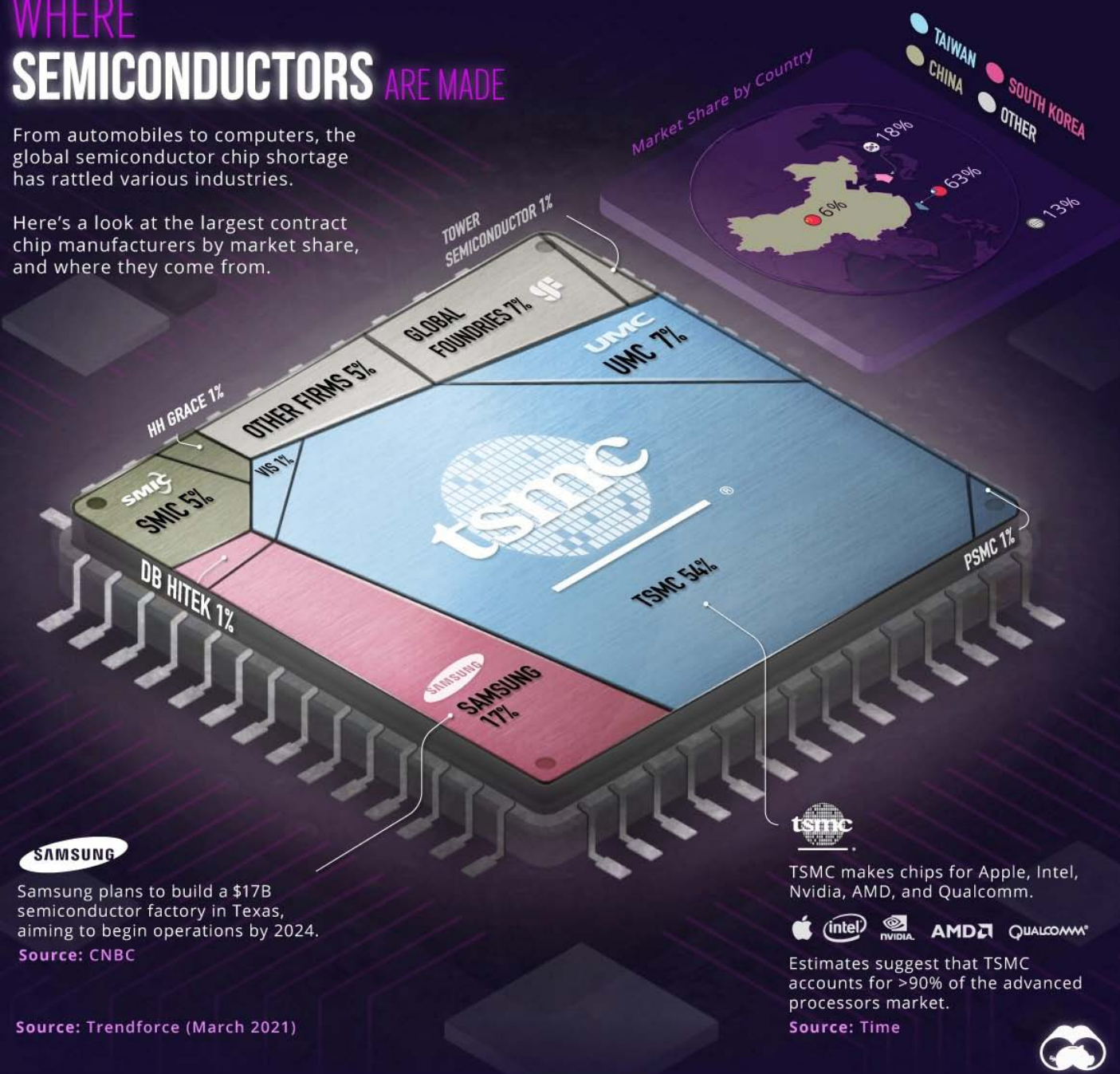
## China needs to think long and hard about invading Taiwan.

The unified global response to Russia's invasion of Ukraine has provided a road map for what China could expect. Crippling economic sanctions, military conflict, and significant loss of life are the most obvious and immediate likely consequences to an attack on Taiwan. Ukraine was economically insignificant and yet the response has been enormous. Taiwan is a production hub for the global semiconductor industry. Any attempted invasion would be met with immeasurable consequences.

## WHERE SEMICONDUCTORS ARE MADE

From automobiles to computers, the global semiconductor chip shortage has rattled various industries.

Here's a look at the largest contract chip manufacturers by market share, and where they come from.

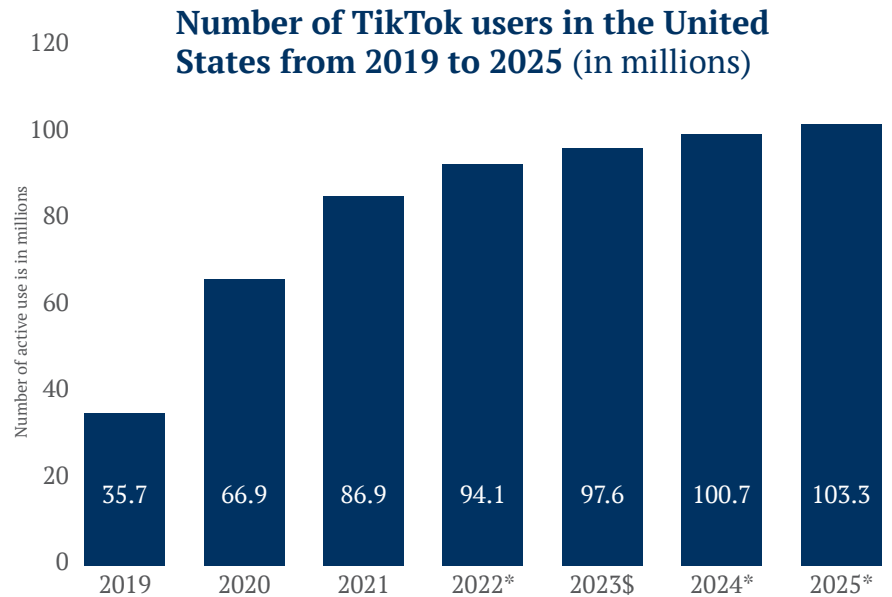


Visual Capitalist: <https://www.visualcapitalist.com/top-10-semiconductor-companies-by-market-share/>

# CHINA

## The Chinese tech industry is on notice as the EU will comply with US sanctions.

Washington's crackdown on technology companies threatens the influence, capabilities and existence of companies like Huawei and TikTok. The US has already stopped shipments of leading-edge technology products and other key nations, such as the Netherlands, have joined in prohibiting sales of production equipment.



\* Forecast

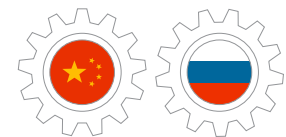
Source: <https://www.statista.com/statistics/1100836/number-of-us-tiktok-users/>

**Japan, which has a very high-quality but small military, has announced plans to double defense outlays.**

**Australia is also strengthening its defense forces.**

## Throughout the Ukraine/Russia war, China has chosen to side with Russia and to refrain from cooperating with the West.

This choice should cement reliable partnership between the US and EU and reinforced the view of China as an adversary and/or competitor. Offshore production has already started to migrate away from China back home, or closer to home.



# THE REBUILD

**In June 2022, the European Commission recommended that the European Council grant Ukraine candidate status for accession to the EU. Full approval is expected in 2023. Therefore, it is likely the EU will contribute significantly to rebuild Ukraine. Think of this as an updated version of a Marshall Plan.**

As part of any resolution of the conflict, Russia will most likely contribute to the costs of rebuilding Ukraine, whether it wishes to do so, or not. Overseas assets owned by Russia that are currently frozen or have been seized are likely to be redirected to help defray the costs of rebuilding Ukraine. Rebuilding the infrastructure of an entire country will provide massive public and private investment opportunities,

ranging from roads and bridges to transportation facilities including rail and airports, utility infrastructure including power, water, and heating plants, and housing construction. The rebuilding program will take years and the economic opportunities will be very large, especially for those countries that came to Ukraine's aid in the conflict.



**At a cost of \$90+ billion, Russian global influence has suffered a cataclysmic shift, US defense and energy industries have the potential to benefit incredibly, and China overall has been put on notice.**

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