

Ep94: Former U.S. Ambassador John Emerson Dissects the Russian Invasion on Ukraine

March 24, 2022

PATTI BRENNAN: Hi, everybody. Welcome to “The Patti Brennan Show.” Whether you have \$20 or \$20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Folks, I have to tell you that I need to pinch myself right now because I can’t believe that I am going to be talking one-on-one with John Emerson. I will introduce John in a moment, but it’s actually not even one-on-one John, because there’s probably going to be thousands of people watching us and listening to us right now.

This is how busy John Emerson is. He can’t take a phone call. He can’t do a podcast without somebody trying to reach him.

To give you guys a feel for why I feel so privileged to be able to bring John to all of you, John is vice-chair of Capital Group International. He’s got 21 years of industry experience. He knows so much about so many things.

We had a prep call and I was taking notes like a crazy lady. It was unbelievable. By the way, to give you an idea what got us to that point, I was invited to a special conference with Barron’s, and John was one of the keynote speakers. Everyone in the audience was basically saying, “Keep talking, John. Keep talking.”

We were all spellbound, and his insights were so far-reaching. Whether it had to do with the international conflict that we are watching and experiencing or Biden’s plans and his tax law, etc. He’s just amazing.

I’m really honored and proud to welcome you to the Key Financial podcast, The Patti Brennan Podcast. Which by the way, I fought against the name, because I don’t want these things to be about me.

John, if you don’t mind, let me give everybody a little bit of background in terms of what you have done in your short life.



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

John was the Ambassador to Germany from 2013 to 2017. For those of you who just listened to the podcast that I did with Kristopher Thompson, you will have learned the history of this Russian aggression, starting in the 17th century and what has led them to this point.

John happened to be the Ambassador to Germany when Russia invaded Crimea. He's got incredible insight into what was going on then and maybe what Putin is thinking now. In addition, while he was serving as the Ambassador in 2017, he was awarded the CIA Medal and the US Navy's Distinguished Public Service Award.

He was deputy assistant to President Clinton, where he coordinated economic conferences and served as the President's liaison to the nation's governors, etc. I could go on and on.

John, you are an inspiration to me. Anybody that is listening today is going to understand why many of us feel the way we do about the service that you have done for our country, for our industry, for Capital Group. We are all better people because you're in it.

Thank you so much for joining us today.

JOHN EMERSON: Well, thank you so much, Patti, for that lovely introduction. I wish my mom were around so that she could have heard it.

PATTI: Well, you know me. Actually, you may not know me that well, John. I mean every word of it. It's really a privilege to have you on the show today.

JOHN: It's an honor to be here.

PATTI: As I was thinking about what part of that brain of yours I wanted to tap today, I was thinking about the quarterly letter that I had sent out to our clients. I started it out with several things that many people might be worried about right now.

I'll list them for you. Number one is Russia's invasion of Ukraine. Inflation is at its highest levels. The Fed is tightening its monetary policy. Growth stocks and stocks, in general, are plummeting. Interest rates are going up. The housing market has been on a tear, and a lot of people don't know what's going to happen from here.

By the way, we've had a pandemic for the last two years, and along with that, supply chain issues, labor market issues.

I think the real thing is no matter where we look, I will say, as an advisor, I want to keep my clients safe. I want to protect their money. Yet, what do you do today? If we put it in the bank, FDIC insured, etc., but then we have a 7.9 percent inflation rate, one year later, the value of that money – let's say, it's a \$10,000 – it's going down by about 7 percent.



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

That's a permanent loss. It's not volatility, because inflation is very sticky. We're not going to talk about all those issues at least in this first podcast. I may hit you on some of these other ones in the second one, so everybody, stay tuned.

I'd really like to learn from you, your perspective on the Russia-Ukrainian situation. What do you think Putin's thinking?

JOHN: First of all, Patti, again, thanks so much for having me. I do want to address your opening there.

If you're an investor and you sit out there and you're like, "We got this issue and this issue and this issue and this issue. My goodness, there's so much uncertainty out there in the world. What should I do? How should I deal with it?" tonight, I just want to remind people that if you have spent time with your advisor, and developed a good long-term plan for your investments, this is the time to stick with that plan.

When I was in the Clinton White House, Bob Rubin always used to say when the markets go up, markets go down. The key thing is to have a strategic plan that's going to help you meet your needs 5 years, 10 years, 15 years from now.

Now, if all of a sudden there's been a change, you have a life change going on whether it's an illness or a death in the family or a divorce or something like that, and you need to change, or all of a sudden, money you thought was going to be there to send your kids to college, you don't have that, then maybe you do need to make some short-term shifts.

I think that particularly during these periods of volatility, stick with the plan that you've developed with your advisor.

That's what we tell everyone at Capital Group. If you think about it, we've been through a global financial crisis. We've been through the COVID pandemic. We've been through the dot-com bust. We've been through the recession in the early-'90s, a recession in the early-'80s, the terrible bear market at '73, '74.

At the end of the day, things always tend to improve once we go through those. At the end of the day in every circumstance like that, there are investment opportunities that we can take advantage of. As a message of reassurance to your clients who are listening, I just wanted to say that.

PATTI: John, I didn't mean to interrupt you, but that means a lot coming from you and Capital Group because what a lot of people may not realize is Capital Group has been doing this since 1934 with the launch of their first mutual fund. My goodness, you guys have seen it all. Boy, there's a lot to be said for experience.



KEY FINANCIAL, INC.
Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

To your point, we talk about a financial plan. Everybody has a financial plan. It is not to say that your advisor is doing nothing, and I mean this generally speaking. It's not a noun. It's a verb.

We're always doing something, even if that means doing nothing because sometimes that's the best thing to do. We do want to keep that in mind that there's a strategy that we are going to stay with no matter what's happening in the world around us, and that strategy will change if your life changes. Thank you for that.

JOHN: Your managers are also making changes within the portfolio there. Maybe they're harvesting losses that will help from a tax standpoint. There are always good companies that get whacked during times like this, which creates other opportunities. Enough about that.

PATTI: Fantastic. Thank you so much.

JOHN: Let's get on to the issue at hand, which is, of course, the tragedy that's unfolding in Ukraine. It sounds like you had a great podcast previously, learning a lot about the history of Ukraine and, more importantly, the history of Russia's perspective on Ukraine. Unfortunately, with Vladimir Putin, we have a couple of things going on.

One is there's a little bit of a Mars-Venus situation. We see NATO as a defensive, collaborative alliance, an alliance that actually was hoping that Russia might be a part of it in the early and mid-90s after the dissolution of the Soviet Union. He sees it as an offensive force.

We see Ukraine as a potentially thriving democracy, market economy, potentially a member of the European Union over time. He sees it as a threat to his survival as the leader of Russia. It's always important in these things to try to put yourself in the other guy's shoes. There are three issues here, as it pertains to the way Vladimir Putin looks at the world and looks at this conflict.

Number one, he honestly believes that, and he said this on multiple occasions, the greatest tragedy of the 20th century was the dissolution of the USSR. Not two World Wars, not the Holocaust, not the dropping of the atomic bomb, on and on and on. What he saw as the greatest tragedy was the Soviet Union falling apart.

He wants to, as his legacy, effectively make Russia great again. He wants to restore the greatness of Russia, which he saw as exemplified in the strength of the Soviet Union. That's point number one.

Point number two, he believes that Ukraine has always been part of Russia, is a made-up country. There's some historical accuracy to the fact that big parts of Ukraine originally



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

began in the area around Kyiv and all that. He sees that as a huge mistake that was made by even Lenin. It's unusual to hear a Russian President criticizing Lenin, but he does, in creating this separate entity, Ukraine.

Of course, Ukraine does have its own culture. It does have its own language. It does have its own political and economic structure. In any event, it's like, "We owned it, we should have it, we can take it back if we want to, and you, the West, should not interfere in that." The same way China looks at Taiwan, by the way, which I'm sure we'll get to a little bit later.

The third thing is that Vladimir Putin sees a thriving democracy that's Westward-leaning on his border as a threat. It's not so much a threat because he thinks, "Oh, we're going to invade Russia." It's a threat because of what that represents to the Russian people. His economy's a one-trick pony. John McCain used to call it a gas station, which is a little cryptic.

In any event, it's a one-trick pony. It's oil and gas. Something like 80, 85 percent of the Russian economy is driven by that. The lives of Russians, they've been getting better, actually, over the last few years as they've become more in tune with the West.

Historically, you can never underestimate the capacity of the Russian people to endure suffering. Tragically, they've endured a lot of it over the years. It's not a great situation.

For the Russian citizens to see a thriving democracy with free speech, with the kinds of opportunities that we in the West have, right on the border, particularly in a country like Ukraine where there has historically been such a connection to Russia.

There are a lot of intermarriages. There are a lot of Russian families that have friends and relatives in Ukraine. There are a lot of Russians who live in Ukraine and write home about it. That is a threat to him.

Anytime he sees a popular uprising against an authoritarian regime, which is what happened in Ukraine during the time I was ambassador to Germany that you mentioned back in 2014 with those protests on the Maidan against the kleptocratic ruler of Ukraine, Yanukovich, who then fled, that's the time when Putin stepped in, grabbed Crimea, moved into the Donbass to set Ukraine back on its heels.

What was the issue that prompted the uprising against Yanukovich? He was actually flirting with the West and talking with the EU about how Ukraine could become an EU member. Putin leaned on him and said, "Don't you dare do that?"

Yanukovich changed his mind and said, "Oh, well, we're not going to join the EU. We're going to join the EEC," Eastern European Commission, or whatever, that Russia



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

established, made up out of whole cloth as a way to counter the EU. That's when the public came out to the streets and rose up against him, and also rising up against corruption. Vladimir Putin...

PATTI: Wasn't he impeached? Wasn't Yanukovich actually impeached?

JOHN: He was and then he fled the country and fled to Moscow. That's where Putin was terrified that there would be a more democratic setup in Ukraine. He does not like to see, what they call, color revolutions – the Orange Revolution, the Green Revolution, the Yellow Revolution. He does not like to see these on his borders.

Don't forget, Vladimir Putin was the KGB guy who was in Dresden during the protests that ultimately led to the fall of the Berlin Wall. He sees what can happen. He sees that as being a disaster and a disastrous situation. You have those three dynamics.

When Zelenskyy came in, they thought, "Oh, we can manage this guy. I mean, come on. He's an actor. He played a president on TV." Who knew that Zelenskyy was going to turn into Winston Churchill? Zelenskyy started much more affirmatively, creating a free press environment, rooting out corruption, creating an economic environment where maybe they could become a member of the EU.

Putin says, "Well, I don't want them be members of NATO." He knew darn well, from Biden, from all Olaf Scholz of Germany, from Emmanuel Macron of France, he knew darn well there was not a chance on God's green earth that Ukraine was going to become a member of NATO. Why?

PATTI: Why is that?

JOHN: Because NATO has Article 5, which says, "An attack on one of us is an attack on all of us." Putin already was attacking Ukraine in the Donbass, even though everybody says, "Oh, this war has started." The war actually started in 2014. It got pretty quiet for a while, but it's still been ongoing.

Immediately, if Ukraine were to come into NATO, NATO would basically be buying a military conflict with Russia. This sounds a little snarky, I suppose, but think of NATO like fire insurance. You can buy it before the fire starts, but you're not going to be able to buy it once the fire starts. The fire started in Ukraine back in 2014.

PATTI: Got it.

JOHN: Also, NATO's a political alliance. The level of corruption that still existed in NATO, even after Yanukovich fled, was quite high. It would have taken a while for Ukraine to even get to that point.



KEY FINANCIAL, INC.
Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

The final question is why is he doing this now? He wants to restore Russia. He wants Ukraine to be part of the greatness of Russia. He wants Ukraine to be back. He wants to shut down Zelenskyy because he's not being cooperative. He's very nervous about the direction that Ukraine is taking as a Western-leaning democracy.

Why now. If I'm Vladimir Putin, I'm looking at a brand new government in Germany. Angela Merkel, who could speak my language with nuance and pretty much could call him on his stuff, she's out.

Olaf Scholz, who's a member of the Social Democratic Party, which historically in Germany has been a much friendlier party to Russia than Merkel's CDU, as the party of Politic. It's the party where the previous chancellor, Gerhard Schroder, actually sits on the board of Gazprom....

PATTI: Wow.

JOHN: ...and was chairman of the board of the entity that built Nord Stream 2, that gas pipeline coming from Russia that became so controversial. He's sitting there, going, "Hey, maybe I've got friendlies in this chancellor in Germany. At a minimum, I have a less experienced person.

Then he has Emmanuel Macron. He looks at him, he goes this guy is up for reelection in April. He's going to be busy. Then he looks at Boris Johnson, who's hanging on by his fingernails because he was partying a little too much at Number 10 during COVID.

JOHN: He looks at Joe Biden, who's down in the polls, dealing with inflation, dealing with many of those issues you talked about. Had a pretty disastrous pullout from Afghanistan. He knows darn well that the appetite in the United States for another military foreign invasion is quite low, to say the least.

Finally, he looks at Europe, which depends for almost half of its oil, gas, and coal on Russia -- and Germany in particular, 53 percent of its gas from Russia -- and he goes, "There's no way these guys are going to all come together and push back against me if I go in, in Ukraine."

By the way, didn't get a whole lot of response when he went into Georgia. The Chechen situation didn't get a whole lot of response from the West. There are some sanctions.

Even the initial incursion into Ukraine resulted in sanctions, but mostly on a personal level. Nothing that seriously impacted or hurt the Russian economy, if you sit back and look at it.

He's sitting there, banking on a very limited Western response. His geopolitical objective



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

has always been to divide the United States from Europe and to divide and conquer in and among EU member states.

That's part of the election interference strategy, all those things. The cyberattacks, all those things that he's been doing over the years. He figured this is a good time to go. Two fundamental miscalculations. Number one, the West came together.

I was part of the Munich Security Conference three weeks ago. Jens Stoltenburg, the head of NATO said that the NATO member states are together in a way we have not seen since the immediate aftermath of 9/11. The West came together, notwithstanding that Europe will be hurt by having less Russian oil and gas. If Putin decides to weaponize energy and cut them off, they will be severely hurt.

They've come together with these unprecedented sanctions, every one of which Joe Biden, Emmanuel Macron, and Olaf Scholz laid out to Putin before the invasion commenced. He said, "This is what's going to happen if you do that."

His miscalculation was that the West wouldn't deliver on that. In fact, they did. They have held together. In fact, they are tighter together, particularly in Europe, than any time in recent memory, particularly even dating back to before Brexit.

The second miscalculation was on Ukraine. When he came in, in 2014 to the Donbass and to Crimea, those were areas that had a substantial Russian population. It wasn't exactly that the little green men that he sent in there were met with flowers, bouquets, and candy.

It was a much easier situation. They did have a lot of support on the ground. In fact, there were a number of generals in the Ukrainian Military who had grown up during the Soviet times and during the period of Yanukovych who are Russia friendly.

It was actually quite easy for him to come in and immediately establish those strongholds and seize Crimea.

The second miscalculation was that there was going to be more of that in Ukraine. What Vladimir Putin has managed to do is take a country that was largely pro-Russia, and turn it into a country that hates Russia and hates Vladimir Putin as a consequence of the way he's been conducting this war.

No, he did not have that kind of response. In fact, he had both from the standpoint of the military – which was much better trained than it was back in 2014, and much better equipped than it was back in 2014 – from the military and from the people of Ukraine a much bigger response, and a much more robust response.



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

He had, as I mentioned earlier, Zelenskyy turning into Winston Churchill, and becoming the iconic figure that, certainly, everybody in the West wants to help. Then, the third thing, a part of this second miscalculation about how easy the war would be is the Russian troops have turned out not to be quite what we thought the vaunted Russian military was going to be.

Part of that is you have most of these troops are conscripts. That basically means there's a draft. From what we've heard, they all thought they were going in on a training mission. "We're going to keep Ukraine in line," or, "You're going on a training mission in the western part of Russia, in the border of Eastern Ukraine."

They had no idea they were going to be coming in and basically bombing civilians, and in this war. What was interesting is their supply chains and the logistical challenges have been disastrous. They've had vehicles running out of gas. They've had soldiers not having food.

What we're seeing is that they take over civilian areas. They're actually robbing houses of food, which is creating, by the way, a major food crisis in Ukraine as well in these areas that they've taken in, taken over, and they're literally losing. I've seen all sorts of numbers on this, but losing as many as a thousand troops a day in terms of killed or wounded.

Estimates are that the Russians have suffered somewhere between 5 and 10 thousand fatalities in the three weeks this war began. To put that in context, that is well more than all the fatalities that the United States suffered in both 20 years of both the Afghan War and the Iraq War. It's just they've been whacked from that standpoint.

There's a line in the military that before the war, it's all about planning. After the war begins, it's all about logistics. By the way, you've seen Putin reacting against his military, and having some very emotional outbursts against the leadership in the military as well.

It's not necessarily a good thing where we are today, but that's a very long-winded answer to your question about what do we think Putin is thinking. I guess I would say the final thing about what he is thinking is this very chilling speech that he gave a couple of days ago about cleansing Russian society.

PATTI: Oh, yeah.

JOHN: It seems like Putin has turned into Stalin, cleansing Russian society of traitors. What that tells me, that's not about the 500 people in a number of different communities who come out and protest. Very courageously, by the way, because they're going to end up in jail for a long time for doing that. They usually get rounded up.



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

That tells me that he's getting pressure from within the government. Whether it's the military establishment, the economy, these – what do you call them? – the rich guys, oligarchs, whatever, he's starting to get pressure. He's basically saying, "You are dead to me, and you'll be dead if you..."

PATTI: Right.

JOHN: Very, very dangerous, but I don't think you give a speech like that three weeks into a war. When you would normally expect a rally-around-the-flag effect from your populace and your team, I don't think you give a speech like that unless you're very nervous about what's happening internally as well.

PATTI: Kris and I were talking the prior podcast. Kris was an Army Ranger, and he worked a lot in logistics and planning, and that sort. We were talking about the fact that Putin is crazy like a fox.

Your observations in terms of the timing of this, and strategically looking all around the world, and all those countries are, from his perspective, vulnerable. When you talked about the apathy with prior invasions, and that sort, and hoping that that will happen again.

Kris mentioned the 40-mile convoy and said, "You know, 40 miles is a lot of equipment. It's a lot of tanks. There is no general in the world that would allow that convoy to run out of gas. That just is crazy."

Again, hate to say it, but is he crazy like a fox? Is it a decoy? Is it something that he's just pausing, hoping that everybody will think that that's over and then really attack? It's just so interesting to think about the strategy and, to your point, the logistics, and what was thought about and what wasn't thought about.

The fact that now he's having to get more firepower with his own Air Force and going in and really destroying a lot of important buildings and killing civilians. I just think he is crazy like a fox. Is he losing it? If that's the case, how do you approach somebody like that? What do we do?

JOHN: This is a concern because you talk to every expert, and they go, "Putin's getting backed into a corner." We actually don't want him to be backed into a corner. We want some sensible diplomatic solutions. By the way, the answer to the question on whether this is a faint or a real thing about running out of gas is, did they really run out of gas?

If they really did run out of gas, maybe that explains why three of the generals have already been killed and another one has just got fired in Moscow. Three killed in field, in a theater. The other one that got fired was the principal guy in Moscow. If they didn't run out of gas, and they're just waiting, then you really do wonder.



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

Of course, the interesting thing about this is NATO absolutely does not want to, and the United States, engage Russia militarily. That would unquestionably lead to a much wider war and could potentially lead to World War III or maybe even a nuclear conflict.

NATO is not going to do that. You know that the NATO forces if they decided to engage in this, that convoy would be destroyed within 24 hours. They'd just be strafing that thing. You almost wonder, is he begging for that? I would think it actually was just a fundamental screw-up on the logistics if, in fact, they really did run out of gas.

In terms of how you deal with somebody like that, I don't think you necessarily capitulate, but you try to develop some sort of an off-ramp that will allow him to save some face. Honestly, I'm not sure what that would be. There are these negotiations going on between the Zelenskyy government and Russia.

Every time there appears to be a ceasefire, Russia violates it by bombing civilians. The ceasefire is for humanitarian evacuation, starts bombing the evacuation routes. Clearly, this is the strategy of just trying to break the soul and heart of Ukraine by killing so many civilians. That's the strategy he's engaged in.

There seem to be three elements to these negotiations. Honestly, I don't know if this is something that Vladimir Putin actually believes or if he just wants to look good to the world. We're willing to, in effect, sue for peace here. I'd say there were three. Actually, there'd be four elements to a negotiation.

The first element is this whole idea of neutrality and Ukraine not engaging in NATO. That's an easy one. That's a gimme. Zelenskyy has pretty much already said that. The second, though, is this comes from the Zelenskyy side, is he's willing to do that if he gets some assurance of security from the West, and I suppose from Russia, although that I'm not sure it's worth the paper it's printed on.

The assurance of security from the West is a little odd because, of course, you would have that if you were a member of NATO. The West, clearly, is not inclined to go in. From Russia's standpoint, obviously, the stronger the assurance of security, then they...because they want to see a demilitarization of Ukraine.

You have a military that can deal with local uprisings and that kind of thing but is not going to, at all, be anything that could be a threat to the Russian military. That's the second point that has to be resolved.

The third point, which is a lot tougher, is territorial peace. Putin's saying, "You got to acknowledge that Crimea is part of Russia, and you've got to recognize the independence of the two states in the Donbass region." That's like Zelenskyy agreeing to give up a third of his country.



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

Of course, the reality, if you want to be realistic about it, is he ain't getting those back anyway. There's no conceivable scenario that Ukraine expels Russia from its territory. That's just not going to happen. The more likely scenario is a long stalemate that results in some a partition and a frozen conflict in Ukraine.

That, to me, is the most likely scenario. There's no scenario that they expel. They're not going to get Crimea back. They're not going to get the Donbass back. It's really more of a political challenge for Zelenskyy.

The other piece is if Russia wants to negotiate that, they're making strides in terms of taking over Mariupol, which has not yet surrendered but, obviously, is being bombarded. People are being starved out. Ironically, it's what the Nazis did to Leningrad back in the Second World War. They're taking that approach.

Number one, he wants to land a bridge to Crimea through the Ukraine and also, of course, would love to control the seaport, which is the seaport including to the Black Sea, so Ukraine doesn't have any ports. Clearly, if Russia controls a certain area, it's a little hard to see them giving it back during this context. It's not an easy negotiation at all.

The dance that's going on, of course, the concern everybody has is nuclear. Putin put his forces on nuclear alert at the beginning of this thing. By the way, this has happened before it happened several times during the Cold War. With the exception of the Cuban Missile Crisis, we did not respond in kind and we did not respond in kind here.

We have not put our forces on nuclear alert. NATO has not put its forces on nuclear alert. It's sort of, "Let's not exacerbate the situation."

The dance that NATO and the United States is doing, how much can we do in terms of providing Ukraine with the weaponry that it needs and the defense and capabilities that it needs without further inciting Russia to get to a point where Putin does decide to either use chemical weapons or thermobaric bombs, which are those vacuum bombs that basically suck the oxygen out of an area?

They basically kill people indiscriminately, or, God forbid, a tactical nuclear weapon. That's very, very tricky in terms of the way things are going here. I do think the most likely scenario is we're in this for a long time.

I also would say from an investment standpoint...By the way, the fourth piece of a settlement negotiation is you know Putin's going to want a relief from the sanctions that have been imposed. I was going to say from an investment standpoint, our assumption needs to be, "These sanctions are going to be in place for a very long time."

Even if Putin does pull back somewhat, they agree to some sort of partition, and the



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

conflict is reduced for a while, even if that happens, war crimes have been committed here. They're horrific. They have used cluster bombs. Cluster munitions, that's another indiscriminate...

Think about it as a mortar shred that sends shrapnel but it's huge, shrapnel everywhere. It kills anybody – children, in particular – very indiscriminately. There have been war crimes that have been committed here, and that's been subject to investigations and sanctions, and so on and so forth.

It's going to be very tough to have a reduction of sanctions. We need to be making assumptions that we're going to be in this place vis-a-vis Russia for quite some time. Unless and until there's a replacement of the Putin government with a government that's more responsive to the West, and honestly, it could be worse. You just don't know.

PATTI: Don't know.

JOHN: I'll only put that at about five percent possibility at this point because Putin still has such control over the successor to the KGB, the internal intelligence services, all that. People who are mounting efforts against him, they're not going to get very far at this point in time. It would only be if the FSB, the successor to the KGB, their independent leadership decides this guy's got to go, I suppose, but anyway.

PATTI: It's a...

JOHN: Not a happy story.

PATTI: Not a happy story at all, and I think about the sanctions. You and I were talking about the sanctions, and how initially, the sanctions are to deter. The deterrence didn't occur. Now, it's to isolate and to make them really suffer. Unfortunately, the Russian people are also going to suffer along with that.

Somebody was talking about this and said, "It's like because they have been cut off from the rest of the world, visa cards don't work, and AmEx doesn't work." None of those things for the Russian people. They don't have access to the capital. They're not allowed to exchange the ruble with other currency.

What's happened is their currency has fallen in value, and it's like monopoly money. It's only good in that country. You need a lot more of it to buy the things you bought a month or two ago. The impact of that is going to take longer probably for that to get to the masses.

There was a great article that...I think it was Christina Wilkie who wrote in, and it was on CNBC's website. It's titled, "Putin's invasion of Ukraine will knock 30 years of progress of



KEY FINANCIAL, INC.

Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

the Russian economy.”

I feel bad because, in one sense, the quality of life did improve. We talked about that in the prior podcast. Now, they’re going to go backwards. I found it interesting how you cited, you acknowledged how much the Russian people have suffered. It’s going to continue, and even more so, probably.

I also think that it’s fascinating to hear you speak about NATO, and how it’s galvanized NATO. They are more together now than they have been in years. That was an interesting observation that you made with Germany’s new leader. The fact that he was Russian-leaning, but now, he’s all about, “We’ve got to stop this.”

JOHN: What’s funny about that is in 72 hours, Vladimir Putin accomplished what we’ve been trying to do in two decades. Getting Germany to step up more in terms of not just NATO spending, but building up their military capabilities, and not to be so restrictive about providing weapons to friendly nations, and things like that.

They reversed all of those things, and then, of course, Nord Stream 2. I always believe that if Putin invaded, Nord Stream 2 would be set aside. A lot of people didn’t. They were surprised to hear that. I wasn’t surprised to hear that, but that’s still a big deal.

PATTI: It’s a big deal.

JOHN: It was pretty remarkable to see that, “Bam,” change happen so quickly.

PATTI: John, can you explain for our listeners and our people watching us today, what was the big deal about Nord Stream 2? Why was that such an important decision for Germany to make?

JOHN: As I mentioned earlier, Germany gets 53 percent of its gas from Russia, I mean, natural gas.

When Angela Merkel, after the Fukushima disaster in Japan, decided, “We’re going to move away from nuclear,” they called it the energy event, or the energy change -- or evolution, I guess, you could describe it as -- and move towards renewables, and so on and so forth, and they started decommissioning nuclear power plants around Germany.

That immediately put Germany in a position where they needed more gas as a transitional source. Now, they were getting gas. They were getting lots of gas from Russia. They got it through a pipeline that went through Ukraine. That pipeline that went through Ukraine gave Ukraine \$2, \$3, \$4 billion a year in transit fees. That was a good deal for Ukraine.

Our concern when I was an ambassador with Nord Stream 2 is, “Hey, here’s another



KEY FINANCIAL, INC.
Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.

pipeline that will get gasoline directly to Germany from Russia. Out near Saint Petersburg coming across the Baltic Sea into Northern Germany is the route. That we can get you more gas, and it'll be cheaper and quicker, and blah, blah, blah."

Our concern was, geopolitically, this would basically give Russia another their-hands-around-Ukrainians throat in terms of threatening to cut off the supplies. They could still make their sales to Europe, get their gas to Europe through Nord Stream 2, and we could bypass this pipeline in Ukraine. It wasn't even so much.

Also, we were always saying, "Germany, you guys are pretty dependent thereon Russia for your oil and gas needs." That was the issue, but I would say it wasn't about we want to sell you our gas. It was more we're worried geopolitically in terms of the way that is working.

By shutting down Nord Stream 2, which Russia had a big financial investment in, obviously, or by not even shutting it down, not opening, because it hadn't been opened up yet, but by saying, "We're not going to open that," Germany's taking a big risk.

Of course, Russia, at some point, decides to weaponize its gas and not supply them anything, then they would not do that until they were confident they had other places to sell that oil and gas because they need the money. By the way, they're loving the price of oil these days.

The obvious person/entity would be China in buying that but, of course, China's no dummy that Xi Jinping is going to, "Sure, I'll take your oil and gas, but for fire-sale prices. I'm not paying \$130 a barrel of oil, or whatever it is."

PATTI: That's a really good point.

JOHN: Yeah.

PATTI: Wow.

JOHN: It's interesting. In terms of your ruble thing, I know, at the outset, you've mentioned something about people being concerned about how's Russia from an investment standpoint.

How's Russia going to pay its debt, its dividends on the bonds, or interest on bonds, or whatever with these sanctions? Actually, they just made a payment. What the West did was relieve sanctions to the extent that they could access their money to make these payments.

PATTI: Interesting.



KEY FINANCIAL, INC.
Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

JOHN: Access to dollars, or euros, or whatever, and make these payments. Now, Russia could still decide not to do that in the future, but obviously, that is something that the Western nations, the sanctioning nations are also somewhat concerned about.

PATTI: Here, let me play devil's advocate on that part. Why would Russia be concerned about their debt outside? At this point, they're so isolated. Why should they care?

JOHN: To take your point even further, you can argue the best thing that would happen to them would be to have a default. Everything gets marked to zero. Then they get to, in effect, buy back these assets for nothing. Then they still own the assets, and then they would go and sell them elsewhere. It's an indication that they don't want to be completely cut off from global investments in the global...

PATTI: Economy...

JOHN: The financial system. Yeah, economy. Right. Clearly, they're isolated for the West and so on and so forth. There's always tomorrow's view. There have to be people in Russia who just recognize what a disaster that would be to default in terms of accessing capital markets in the future. They're hoping, obviously, there will be some kind of a future.

If Putin decides to completely go nuclear and a non-nuclear, if not technically, nuclear sense, that would be one way to do it and plus weaponizing the energy shutting off the oil and gas exports to Europe to sanctioning nations, that kind of thing.

PATTI: They would need access to capital, to rebuild what they've ruined in Ukraine. Right?

JOHN: Right, if they care about that. They may not care about that. Our assumption is you break it, you bought it. It will be like, "OK, tough. We've got our part of Ukraine. We're going to keep that. The West, you guys go in and spend all the money to rebuild the rest. Particularly if you end up with a partition situation or a frozen conflict there, you could well have that.

PATTI: Interesting. I was going to ask you a question about China and Russia and this newfound love affair that they seem to be having, although it's not really.

What do you say you and I reconvene in another podcast and the next podcast and let's boil this down to the impact on Americans, impact on markets, that China-Russian collaboration, what that could mean, is it something we should be worried about? How does that sound to you, John?

JOHN: Sounds great. Love to be back.

PATTI: Terrific. Thank you so much. Thank you for joining me today.



KEY FINANCIAL, INC.
Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

By the way, for those of you who are listening, because it's such a fast-moving topic, today is March 21st, if you're listening to this on March 25th, it could be a whole different ballgame. I've got newspapers from the weekend, and things have moved and changed strategically over there.

John, thank you so much for joining me today. Thanks to all of you who are listening in and who are watching. Again, it's such a privilege to have someone like John Emerson from Capital Group, who has just incredible international experience to give us his perspective. Thank you so much for joining us today.

For those of you who might have any questions go onto our website at keyfinancialinc.com. Let us know what you think about this podcast if there's anything else that you'd like us to discuss. In the meantime, stay safe, stay healthy, and have a great day



KEY FINANCIAL, INC.
Wealth Management With Wisdom & Care

KEY FINANCIAL, INC. • (610) 429-9050 • Patti@KeyFinancialInc.com • www.KeyFinancialInc.com

Securities and Advisory Services offered through Royal Alliance Associates, Inc., Member FINRA/SIPC. Insurance services offered through Patricia Brennan are independent of Royal Alliance Associates, Inc. Advisory services offered through Key Financial, Inc., a Registered Investment Advisor, are not affiliated with Royal Alliance Associates, Inc.