TO PROTECT INVESTMENT PORTFOLIOS FROM INFLATION, WE NEED TO KNOW ITS ROOTS

SUMMARY

I discussed the reasons for high inflation that developed in various countries around the world in 2020-2022 in this report, *"To Protect Investment Portfolios from Inflation, We Need to Know Its Roots."* To understand how inflation will impact investments in the future, one needs to understand its likely longevity. Without understanding the reasons that caused inflation, investors would not be able to forecast how long it lasts and how intense it is going to get. A number of investment publications – often based on the political views of their authors - focus on one or two reasons for inflation. In the US, for example, conservative publications often focus only on domestic factors that caused inflation, and liberal publications focus primarily on international factors. I believe it is essential to cover inflation's reasons – both domestic and international. Anything else could be counterproductive as investors have to focus on all reasons for this damaging economic phenomenon that destroys the purchasing power of money and makes everyone poorer. In my opinion, we should not shy away from difficult topics. For example, in the report, I discussed the profound inflationary impact of the 'soft-on-crime' policies in the United States. I have not seen any other publications focusing on these policies as a source of inflation.

We need to investigate the reasons for inflation with the same intellectual honesty and hard-nosed dedication as was demonstrated by a team of police officers in one of my favorite movies, *"The Untouchables."* They were tasked with halting bootlegging operations of the gang led by Al Capone, an infamous Chicago-based gangster during the Prohibition in the 1930s. The team's first attempt was thwarted by corrupt policemen who alerted Al Capone about a police operation against him. The gang's activities continued. If we leave some of the reasons for inflation untouched because of political expediency or because we like the people who create them, we will not understand why inflation continues to rage while supposedly all the reasons for its development were eradicated.

Importantly, there is a difference between Al Capone and his gangsters and most people responsible for creating the factors that led to inflation development. The gangsters often care about their own interests and maybe those of their loved ones. In the overwhelming majority of cases, they do not care about the interests of society in general. Many people, who created some reasons for inflation, care about society. They proposed changes that, in their minds, would solve important societal problems. But they did not think about, could not forecast, or simply ignored the adverse side effects of their often single-minded pursuit of positive goals. This phenomenon can be described by an old, true saying, **"***The road to hell is paved with good intentions."* For example, making the US move away from fossil fuels and generating all or even the majority of electricity from renewable, non-polluting sources is a goal that most of the population would support. However, starting the transition while key technologies are missing has already led to higher energy prices and inflation that hurt everyone. The most vulnerable low-income people with no saving cushions are hurt the most.

The 'soft-on-crime' policies were another example of good intentions going awry. They led to the increased crime and suffering of the communities they were supposed to protect. They also resulted in

many business closures in US cities. According to my calculations based on the public information described in this report, just annual retail losses in revenues, salaries, income taxes, and sales taxes due to crime range from $640 billion to $1,140 ($1.14 trillion). The retail losses due to crime represent 2.8% to 5.0% of the US GDP. The estimates of retail losses do not include losses from crime in other sectors such as transportation, hotels, entertainment, and arts. These losses are not just inflationary. They are stagflationary. Stagflation is inflation's evil cousin – an economic condition characterized by persistently high inflation, high unemployment, weak demand, and slow growth

The current report is a continuation of my work on inflation that I started in the report, *"Potential Change from US and Growth Stocks to International and Value Stocks in 2021-2023,"* which I published on September 28, 2021 *(see the link to the report in the footnote below).* [1] I respectfully disagreed with US Fed Chair Jay Powell about US inflation's "transitional" nature in the September report. Some of the trends that caused inflation were much more long-term in nature. For example, when listening to the Fed Chair, I could not understand how adding close to 40% to the US money supply in two years, from August 2019 to August 2021, would not cause long-term inflation. [2] I also could not understand how the global supply chain rebuilding – a herculean task – would be completed in just several months.

In the current report, I focused on some of the factors that caused inflation that I discussed in the September 2021 report and some new factors. For example, I put the US money supply increase – now 40.6% from February 2020 to February 2022 – into the international context and demonstrated how much the money supplies of the other 49 countries in the BBIS universe increased. [3] This global analysis was an example of new work done on the factor presented in the September report. Among the entirely new factors, I looked at the impact of the potential signing of the Iran Nuclear Deal and the Russia-Ukraine war, as well as the above-mentioned US crime surge on the inflationary increases in prices of commodities and consumer products, respectively. Due to the current report's length constraints, while I could not give examples of such common-across-countries problems as the shortage of drivers, increasing wages, or disrupted supply chains, the readers would probably easily recognize these trends in their countries.

The second half of this report is dedicated to analyzing the biggest winners and losers among 50 country stock indices during the first quarter of 2022. During the period, non-European commodity-exporting countries took the top nine places *(see Column 3 in the Performance Tables section at the end of the report)*. It is not surprising. Commodities often do well during inflationary periods. It was not an exception during the current inflationary surge. Also, while not intentionally, the stock markets of these countries benefitted from the war between Russia and Ukraine as commodities produced by these countries either did not reach the global markets, or there was uncertainty about them getting to the markets. The stock markets of non-European commodity-exporting countries may continue to do so for as long as the war continues. The stock markets of European countries, which either lost or may lose access to inexpensive

[1] Vitaly Veksler, Beyond Borders Investment Strategies, "Potential Change from US and Growth Stocks to International and Value Stocks in 2021-2023," September 28, 2021. Below is a link to the report: http://bbistrategies.com/our-publications--events/report-potential-change-of-leadership-from-us-and-growth-stocks-to-international-and-value-stocks-in-2021-2023
[2] The "M2" money supply growth from August 2019 to August 2021. Downloaded via Refinitiv.
[3] The "M2" money supply growth from February 2020 to February 2022. Downloaded via Refinitiv.

Russian energy due to sanctions, did not do well. European countries and their companies may face a double hit to their profits, increasing their expenses and lowering their revenues. First, higher costs of energy are likely to result in lower profits. Second, higher energy costs serve as a tax cooling demand for products and services, which may reduce the European companies' revenues. Except for the stock market of Turkey, which for country-specific reasons did well and took tenth place, stock markets of the European countries did not get into the Top 10. *See my comments on Turkey in Part 2 of the report.*

PART 1: GLOBAL ROOTS OF INFLATION

Below is the list of inflation causes identified by BBIS and divided into groups:

GROUP 1: EXPANSIONARY MONETARY AND FISCAL POLICIES

1. US money supply grew faster than the economy's ability to produce goods.
2. Quantitative Easing (QE) monetary policies were inflationary.
3. Fiscal stimulus packages added inflation by increasing wages and prices of goods and services.
4. Minimum wage increases across the United States added to inflationary pressures.

GROUP 2: GLOBAL SUPPLY CHAIN DISRUPTIONS

5. Prices of commodities – primarily metals and oil – have been pushed up by global companies rebuilding their supply chains.
6. China's Zero-COVID policy, which resulted in the disruption of global supply chains, may persist.
7. COVID-19 may wreak havoc in other important manufacturing countries (i.e., Vietnam).
8. High shipping costs are likely to contribute to inflation until at least 2023.
9. New climate regulations that will likely be imposed on the shipping industry in 2023 would add to container shortages and lead to higher transportation costs.
10. Negotiations between the Ports of Los Angeles and Long Beach with their trade unions in July 2022 may result in higher inflationary pressures in the US.
11. New demurrage fees imposed by the Ports of Los Angeles and Long Beach to solve the container shortage and a new environmental rule contribute to inflation.
12. The shortage of truck drivers may continue to exert inflationary pressures in the US for years.

GROUP 3: 'SOFT-ON-CRIME' POLICIES ARE STAGFLATIONARY

13. The current crime wave that rages in the US cities not only increases the costs of doing business and the prices of goods and services but also destroys jobs and slows economic growth in the whole country.

GROUP 4: GLOBAL ENERGY PRESSURES

14. The Iran Nuclear Deal signing would most likely exert severe upward pressure on oil prices.
15. Making the US move away from fossil fuels before this transition is possible has already led to higher energy prices and inflation.

GROUP 5: RUSSIA-UKRAINE WAR STRAINED GLOBAL COMMODITY SUPPLY

16. The Russia-Ukraine war has resulted in higher commodity prices that increased global inflation.

GROUP 1: EXPANSIONARY MONETARY AND FISCAL POLICIES

1. **US Money Supply Grew Faster than the Economy's Ability to Produce Goods:** The US money supply (M2) grew by 40.6% during the two years from February 2020 (right before the last round of massive money creation triggered by the COVID-19 pandemic arrival in the US started) to February 2022. [4] During the two years, the Federal Reserve Bank created $6.3 trillion out of $21.6 trillion of the total money supply in circulation. [5] I used the "M2" as the broadest version of the money supply that central banks report worldwide. According to the Federal Reserve Bank of St. Louis, "*M2 is a measure of the U.S. money stock that includes M1 (currency and coins held by the non-bank public, checkable deposits, and travelers' checks) plus savings deposits (including money market deposit accounts), small-time deposits under $100,000, and shares in retail money market mutual funds."* [6] The Fed stopped reporting the "M3" version of money supply that, in addition to the "M2" components, included *"large time deposits, institutional money market funds, short-term repurchase agreements (repo), and larger liquid assets"* in 2006. [7]

   Federal Reserve Bank of St. Louis stated, *"If the money supply grows at a faster rate than the economy's ability to produce goods and services, then inflation will result."* [8] The US economy's ability to produce goods and services (approximated by the GDP growth) is not anywhere close to the 40.6% money supply growth from February 2020 to February 2022. [9] The US GDP measured in constant (inflation-adjusted) dollars grew just by 4.5% over this period. It means that the money supply outgrew the US GDP growth more than nine times! Creating so much new money is, in my opinion, the most significant contributor to US inflation.

   The US money supply (M2) growth was high in the absolute sense and relative to other countries' money supply growth numbers. The US money supply growth was the seventh-highest globally *(see Chart 1 below)*. By dramatically increasing the money supply, the US contributed to global inflation more than any other large country/bloc, responsible for over 5% of the global GDP. During the period, China's money supply increased by 20.2%, Euro Zone's – by 18.9%, and Japan's – by 13.5%. All of these large countries/bloc created or printed less than 50% of the new currency units compared to the US.

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[4] Federal Reserve Bank. Downloaded via Refinitiv.
[5] Ibid.
[6] Federal Reserve Bank of St. Louis, "M2 Monetary Aggregate." Downloaded on April 4, 2022.
[7] James Chen and Robert C. Kelly, Investopedia, "M3," December 28, 2020.
[8] Federal Reserve Bank of St. Louis, "Money and Inflation - The Feducation Video Series." Downloaded on April 4, 2022.
[9] US Energy Information Administration, "US Real GDP," February 2020 – February 2022. Downloaded on April 4, 2022.

Chart 1. Money Supply (M2) Growth by Country, February 28, 2020 – February 28, 2022.

Money Supply (M2) Growth
Feb 28, 2020 - Feb 28, 2022

1	Argentina	160.1%	26	Philippines	20.9%
2	Turkey	113.6%	27	Mexico	20.8%
3	Nigeria	50.5%	28	China	20.2%
4	New Zealand [1]	48.0%	29	Netherlands [2,3]	19.6%
5	Israel	47.7%	30	Finland [3]	19.0%
6	Egypt	42.1%	31	Euro Zone	18.9%
7	United States	40.6%	32	South Africa	18.8%
8	Brazil	39.0%	33	Taiwan	17.5%
9	India	32.3%	34	Spain [3]	16.8%
10	Sweden	32.1%	35	Germany [3]	15.9%
11	Pakistan	31.3%	36	Italy [3]	15.4%
12	Ireland [3]	30.8%	37	United Kingdom	14.9%
13	Russia	29.9%	38	Saudi Arabia	14.6%
14	Canada	28.9%	39	Singapore	14.1%
15	Colombia	26.8%	40	Chile	14.0%
16	Poland [3]	25.9%	41	Japan	13.5%
17	Indonesia	25.7%	42	Austria [3]	13.5%
18	Peru	25.4%	43	Thailand [1]	12.6%
19	Vietnam [2]	24.6%	44	Malaysia	12.4%
20	France [3]	24.5%	45	Belgium [3]	12.4%
21	Portugal [3]	23.8%	46	Hong Kong	11.4%
22	Greece [3]	23.6%	47	Denmark	10.2%
23	Norway	23.4%	48	UAE	10.1%
24	South Korea	22.8%	49	Switzerland	7.7%
25	Australia [1]	21.7%	50	Qatar	6.3%

[1] **Mar 30, 2020 - Mar 30, 2022**
[2] **Dec 31, 2019 - Dec 31, 2022**
[3] **Contribution to Euro Zone Money Supply M2**

Source: Central Banks, Oxford Economics. Downloaded via Refinitiv on April 4, 2022.

2. **Quantitative Easing Monetary Policies Were Inflationary:** Quantitative Easing (QE) policies aimed at stimulating the economy during the pandemic were inflationary. These policies, also known as 'Printing Money' by Central Banks, increased their balance sheets. For example, in the US, the Fed increased its balance sheet (debt) by close to $4.8 trillion (or by 114%) from February 24, 2020, right before it started QE policies aimed at limiting the COVID-19 pandemic's negative

impact on the economy, to February 28, 2022. [10] At the end of February, the Fed's balance sheet was $8.9 trillion. [11] Most of the new money, $6.3 trillion described in the Money Supply section, was created as debt via the US Fed's balance sheet increase.

In March 2022, the Fed started to fight inflation by raising rates and applying Quantitative Tightening (QT) policies. Still, after the inflationary genie is out of the bottle, it is tough to fight it. The Fed may be able to lower inflation to acceptable levels (i.e., its goal of long-term inflation of 2%) but at the cost of plunging the country into recession. [12]

On March 16, the Fed approved a 0.25% interest rate hike, the first increase since December 2018. [13] The Fed also indicated an aggressive path ahead, with rate increases coming at each of the remaining six meetings in 2022. [14] The minutes of the Fed's March 15-16 meeting showed that *"the top Fed officials "generally agreed" on monthly [selling] caps of about $60 billion for Treasury securities and $35 billion for agency mortgage-backed securities."* [15] *"That would be a faster pace than the Fed's last attempt at shrinking the balance sheet. At the peak of the Fed's efforts (from 2017 to 2019) to shrink its holdings, it topped out its monthly wind down at a pace of $30 billion monthly pace for Treasuries and $20 billion monthly pace for agency mortgage-backed securities."* [16]

3. **Fiscal Stimulus Packages Added Inflation by Increasing Wages and Prices of Goods and Services:** During the pandemic, fiscal stimulus packages, such as the generous Pandemic Unemployment Assistance (PUA) package in the United States, infused money into the economy. According to McKinsey Global Institute, spending restrictions and stimulus payments increased savings during the pandemic in 2020 to $ 3 trillion, more than doubling US household savings in 2019. [17] The savings and pent-up demand increased prices on cars, durable goods (i.e., TVs, refrigerators, washers, dryers, etc.), and commodities they are made of (i.e., steel, copper, etc.) In the short-to-medium term, as long as the global supply chain crisis is not resolved, prices of cars and durable goods are likely to stay higher. They exert inflationary pressures on the economy.

   An unintended negative consequence of the PUA package was that businesses, which had to compete for workers with the government's unemployment packages, were forced to increase

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[10] Board of Governors of the Federal Reserve System, "Credit and Liquidity Programs and the Balance Sheet, Recent Balance Sheet Trends." Downloaded on April 2, 2022.
[11] Ibid.
[12] Board of Governors of the Federal Reserve System, "Frequently Asked Questions, Why Does the Federal Reserve Aim for Inflation of 2 Percent over the Longer Run?" Downloaded on April 2, 2022.
[13] Jeff Cox, CNBC, "Federal Reserve Approves First Interest Rate Hike in More Than Three Years, Sees Six More Ahead," March 16, 2022.
[14] Ibid.
[15] Brian Cheung, Yahoo Finance, "Federal Reserve Plans on a 'Predictable' Wind Down of its $9T in Asset Holdings," April 6, 2022.
[16] Ibid.
[17] Kevin Sneader and Shubham Singhal, McKinsey & Co., "Trends That Will Define 2021 and Beyond: Six Months On," July 21, 2021.

wages across the board as private businesses competed for workers. While most stimulus packages are history now, they left an impact that will last in the future – higher wages.

Another fiscal package contributed to higher inflation. In 2021, the US Congress passed the $1.2 trillion Infrastructure Investment and Jobs Act, or simply the Infrastructure Bill, on a bipartisan basis. [18] Most of the money in the bill will go to rehabilitate infrastructure rather than build a new one. Most of the enormous existing infrastructure base in the US is quite old. Much of it was built between 50 and 90 years ago. [19] In my opinion, bringing it up to a state of good repair will require more than $1.2 trillion in the bill.

I knew about the need for repairing the infrastructure from a personal experience that became a joke in my family. My car's axle broke after I drove into a huge pothole entirely covered by rain on the evening of December 31, 2002. I remember the exact date because I was going from Boston, MA, to Hartford, CT, to make a marriage proposal to my future wife during the New Year's celebration. After the accident, I took a taxi to Boston's bus station and the last bus to Hartford. Unfortunately, the bus arrived right before New Year's, and by the time I got to my wife's home, it was too late to propose. I proposed several days later. But we still joke that it was delayed by a year because of the bad infrastructure.

While, once again, I totally support the bill's intent, new infrastructure spending has been inflationary.

The government fiscal spending could have been even more inflationary if the US Senate had confirmed President Joe Biden's signature Build Back Better (BBB). In a sense, we have to be grateful that the Senate has not approved the huge bill because it would have made inflation stronger or even much stronger. In my opinion, the bill was too big both in terms of its content and price. It included provisions that addressed utterly different goals that, in my strong opinion, had to be analyzed, debated, and passed (or not) independently. The BBB bill included the whole bills, such as the Protecting the Right to Organize Act labor bill. It also addressed such important legislative topics as setting a clean electricity standard called the Clean Energy Performance program, the state and local tax deduction (SALT) tax deduction limits, free universal childcare for all three and four-year-olds, and immigration reform, among many other bills and provisions. [20] Congress could not pass the immigration reform for many decades when it was an independent item, but it was just one of many bills within the massive BBB bill. While some individual pieces of the BBB bill could have been adopted – hopefully, even on a bipartisan basis – the bill as a whole was not palatable for all 50 Republican senators plus Senator Joe Manchin, a centrist (moderate) Democrat from West Virginia *(see some of his quotes below).*

[18] Jonathan English, Bloomberg, "How U.S. Infrastructure Plans Shrank in Ambition," January 11, 2022.
[19] Ibid.
[20] Wikipedia, "Build Back Better Act." Downloaded on April 4, 2022.

The bill was supposed to be partially financed by increased taxes on affluent Americans and corporations. The authors hoped to generate $1.5 trillion this way. [21] To reach this goal, the bill's supporters proposed to use and used questionable tools. For example, the bill had a provision that was just over a page in length. Still, it could have made the US banking sector significantly less attractive for 99% of Americans and foreign investors and could have shaken the US Dollar's dominance as the reserve currency. The provision would have allowed the Internal Revenue Service (IRS) to get information on "*gross inflows and outflows with a breakdown for physical cash, transactions with a foreign account, and transfers to and from another account with the same owner"* for all US bank accounts with $600 in annual transactions or total assets. [22] The IRS would have collected information on almost all accounts in the US banking system. The intentionally unfinished provision, which was only one page and six lines long, would have allowed the Treasury Secretary to include some additional anti-business tweaks after the BBB bill's passage. The provision included the following text, *"The [Treasury] Secretary would be given broad authority to issue regulations necessary to implement this proposal."* [23]

The other tools used by the authors of the BBB and the provision in question included unjustifiably harsh attacks on the wealthy (Top 1%) Americans. Senior Treasury Department officials accused them of being tax cheats. These officials planned to rapidly increase the number of IRS employees – including potentially reviving the "wealth squads" that would audit people only because they are wealthy. [24]

The provision could have contributed to the capital flight from the US that started after the 2020 presidential elections. After the elections, business legends like Ray Dalio, the founder of the famed Bridgewater Associates macro hedge fund, and Sergey Brin, co-founder of Google, opened family offices to manage their multi-billion fortunes ($15 billion and $91.7 billion, respectively) from Singapore. [25] *"Ironically, Mr. Brin named his office Bayshore Global Management after the North Bayshore area of Mountain View, a city where Google is based and that Mr. Brin obviously loves."* [26] *"Eric Schmidt, a former CEO of Google, invested a small portion ($2.5 million) of his $15 billion fortune in getting a passport of Cyprus, a sunlit island in the Mediterranean Sea, which is also a member of the European Union."* [27]

I firmly believe that these and other wealthy people moving money out of the country or receiving second passports would not have done it if the business climate in the country was friendlier to businesses and financially-successful people. The capital flight would have been unthinkable just several decades ago when the US was one of the world's business-friendliest countries and was the major capital magnet. I analyzed the infamous provision and, thankfully, only its potential

[21] Ibid.
[22] US Department of the Treasury, Revenue Proposals, "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals," Pages 88-89, May 2021.
[23] Ibid.
[24] Vitaly Veksler, Beyond Borders Investment Strategies, "Potential Change of Leadership from US and Growth Stocks to International and Value Stocks in 2021-2023," Pages 28-41, September 28, 2022.
[25] Ibid.
[26] Ibid.
[27] Ibid.

impact on the US business environment on pages 28-41 of the report "*Potential Change of Leadership from US and Growth Stocks to International and Value Stocks in 2021-2023".*

Below is a link to the report:

http://bbistrategies.com/our-publications--events/report-potential-change-of-leadership-from-us-and-growth-stocks-to-international-and-value-stocks-in-2021-2023

Also, a significant disagreement about the BBB bill's cost was one reason for its demise. While the headline number that the Democrats used was $3.5 trillion, the Committee for a Responsible Federal Budget (CRFB), *"a non-profit organization committed to educating the public on issues with significant fiscal policy impact,"* accused them of using a trick to show that the package would cost less than it would in reality. [28] According to CFRB, the bill's authors calculated its cost as if some expensive provisions would have expired before the decade's end in 2030, while most likely they would have stayed permanent. [29] With the permanent provisions, the cost of the bill would be $5.5 trillion. [30]

The bill would have been highly inflationary. Due to massive tax increases on citizens and corporations, the bill could have led to dreaded stagflation: persistent high inflation, high unemployment, weak demand, and slow growth. But in the face of the united opposition by the Senate Republicans and the Democratic Senator Joe Manchin joining them, the bill has not passed. [31] As Senator Manchin said, *"I have always said, 'If I can't go back home and explain it, I can't vote for it.' Despite my best efforts, I cannot explain the sweeping Build Back Better Act in West Virginia and I cannot vote to move forward on this mammoth piece of legislation."* [32] Senator Manchin specifically mentioned inflation as one of the secondary reasons for not voting for the bill. *"My concerns have only increased as the pandemic surges on, inflation rises and geopolitical uncertainty increases around the world."* [33] *"My Democratic colleagues in Washington are determined to dramatically reshape our society in a way that leaves our country even more vulnerable to the threats we face. I cannot take that risk with a staggering debt of more than $29 trillion and inflation taxes that are real and harmful to every hard-working American at the gasoline pumps, grocery stores and utility bills with no end in sight."* [34]

4. **Minimum Wage Increases Across the United States Added to Inflationary Pressures:** In addition to the wage increases that happened as a reaction to the upward pressure created by the PUA and other federal fiscal packages described above, individual states also increased wages. They started with increasing minimum wages that rose in 24 US states in 2021, leading

[28] Committee for a Responsible Federal Budget, "True Cost of Budget Plan Could Exceed $5 Trillion," July 19, 2021.
[29] Ibid.
[30] Ibid.
[31] Joe Manchin, Joe Manchin Senate Website, "Manchin Statement on Build Back Better Act," December 19, 2021.
[32] Ibid.
[33] Ibid.
[34] Ibid.

to higher inflation in 2021 and beyond. [35] These increases put upward pressure on the minimum wages in the other twenty-six states and above-minimum-wage salaries across all 50 US states. As a result of the initial wave of wage increases, a new wave of increases impacted the minimum wages in 26 US states on January 1, 2022. [36]

Increasing wages without increasing productivity has been predictably inflationary and contributed to the upward pressure on wages from the lowest to the highest levels. The wages of people with high in-demand skills had to be increased in response to the minimum-wage increases. For example, higher-skilled chefs had to have higher salaries than lower-skilled dishwashers, who often receive minimum wages. The proportion of the salaries of the chefs and dishwashers before and after increases usually stays roughly constant. If a restaurant increased dishwasher wages by 10%, it would likely have to increase chefs' salaries by approximately the same percentage. As a result, the wages of all employees working for the restaurant would have to be increased. Businesses have passed and will continue to pass labor cost increases to customers in the form of higher product and service prices, thus, contributing to inflation.

[35] Andrew Soergel and Sara Clark, USA Today, "24 U.S. States Will See a Minimum Wage Increase in 2021," August 2, 2021.
[36] Addy Bink, Nextar Media Wire, "26 States Will Increase Their Minimum Wage in 2022," December 31, 2021.

GROUP 2: GLOBAL SUPPLY CHAIN DISRUPTIONS

Disruptions in the supply chains of various products caused increases in product prices. Prices of some products went up because their manufacturing or supply chains were disrupted. Prices of other products increased simply because prices of other goods – both substitutes and not – went up. The supply chain disruptions can easily last until 2023 and beyond. In this section, we will look at the inflationary factors that impact the global supply chains from the manufacturing centers of Asia to the maritime shipping to the US ports to the truckers that transport the goods from the ports across the US. I chose to focus on the trade with Asia and the US West Coast ports handling it because most of the manufacturing has been done in Asia, and the manufacturing food chains are undergoing significant changes.

5. **Prices of Commodities, Metals, and Oil Primarily, Have Been Pushed Up by Global Companies Rebuilding Their Supply Chains:** Many corporations have started moving their manufacturing facilities located in China in response to such factors as lack of intellectual protection, increasing labor costs; and deficits of various goods in home countries or home regions during the pandemic (i.e., masks, ventilators, computer chips).

   Corporations have started responding by diversifying their supply chains and using one of the following strategies of choosing geographic locations of their manufacturing facilities:

   a. **Low-Cost Asian Countries by Employing "China Plus One" Strategy:** The "China Plus One" strategy of spreading production between China and a Southeast Asian country such as Vietnam, Indonesia, and Thailand is a popular first step of diversifying production away from China because the costs of products produced in these countries are low, often lower than in China. [37] But, the strategy is not bulletproof. There are two significant problems with it. First, this strategy is susceptible to regional crises (i.e., the SARS epidemic in 2002-2003 impacted a number of Asian countries, including China, Vietnam, and Thailand). Second, international shipping rates increased dramatically due to the high catch-up demand during the pandemic.
   b. **Home Country Strategy**: Companies began moving production to their home countries to reduce transportation costs, receive political support, and increase sales in home markets. [38] But the problem with this strategy is that the production costs could be high depending on the country.
   c. **Low-Cost Countries in Home Regions:** Companies started moving low-tech production to countries with low labor costs within their regions. [39]
      - North American companies move tasks from China to Mexico and Central America.
      - Western European corporations move production to eastern EU countries, Turkey, and some former Soviet republics.
      - Chinese companies move production to Egypt, Ethiopia, Kenya, Myanmar, and Sri Lanka.

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[37] Willy C. Shih, Harvard Business Review, "Global Supply Chains in the Post-Pandemic World," September – October 2020.
[38] Ibid.
[39] Ibid.

6. **China's Zero-COVID Policy Resulted in the Disruption of Global Supply Chains That May Persist in the Future:** China's Zero-COVID policy may continue to cause unpredictable bottlenecks in the global trade system. The current, complete lockdown of Shanghai, the country's most populous city of 25 million people and its business heart, creates problems not only for the Chinese population but also for the global economy. [40] Any goods usually produced in this globally-oriented metropolis would not be shipped to the rest of the world now. Shanghai residents cannot even leave their apartments to buy food and other essentials, which are delivered to them, often with delays. [41] The Shanghai lockdown follows lockdowns that impacted 30 million people in Shenzhen, a tech and finance hub adjacent to Hong Kong in the south, and Changchun, an auto center in the country's northeast. [42] These lockdowns severely disrupted the supply chains for consumer electronics products, such as mobile phones, computers, TVs, and automotive industries. [43]

7. **COVID-19 May Wreak Havoc in Other Important Manufacturing Countries:** From July to September 2021, Vietnam shut down factories in and around Ho Chi Minh City, the center of the country's footwear and fashion industries. [44] Vietnam has become the second-biggest apparel and footwear supplier to the U.S. after China in recent years. [45] Many companies with global brands manufacture clothing and footwear in the country. For example, more than half of Nike's footwear manufacturing and a third of its apparel is sourced from Vietnam. [46] Gap and Lululemon source roughly a third of their products from the country. [47]

   In 2021, the city of Ho Chi Minh became a host to a significant COVID-19 outbreak. Production in factories of these companies, as well as Nike and Adidas, were negatively impacted by the lockdowns. The lockdowns led to a shortage of inventory and higher prices for clothing and shoes. While Vietnam has not shut down its factories producing products from shoes to smartphones despite record COVID-19 infections in February 2022, the risk of shutdowns is not zero. This risk exerts upward pressure on goods produced in the country and competing products. [48]

8. **High Shipping Costs Are Likely to Contribute to Inflation Until at Least 2023:** Due to disruptions, interruptions, and higher energy costs, maritime freight rates dramatically increased in 2021 and stayed elevated in 2022. The freight rate to ship one container from Shanghai to Los

[40] Stephen McDonell, BBC News, "Shanghai COVID Lockdown Extended to Entire City," April 5, 2022.
[41] Ibid.
[42] CBS News, "China Locks Down More Than 30 Million People as COVID-19 Flares, Threatening Global Supply Chains," March 15, 2022.
[43] Ibid.
[44] Tom Ryan, RetailWire, "Vietnam's Factory Closures Will Hit Apparel and Footwear Supplies in 2022," April 5, 2022.
[45] Ibid.
[46] Ibid.
[47] Ibid.
[48] Khanh Vu and Phuong Nguyen, Reuters, "In Relief for Retailers, Vietnam Won't Close Factories Amid COVID Surge," February 14, 2022.

Angeles increased 20 times from $1,500 pre-pandemic to $30,000 in September 2021. [49] On March 18, 2022, the freight rate dropped to around $9,500, or just 'modest' 6.3 times higher than the pre-pandemic level. [50] According to Nicholas Sly, an economist at the Kansas City Fed, it usually takes 12 to 18 months for those higher costs to make their way to the prices Americans pay. [51] That means that elevated shipping could keep inflation at *"worryingly high levels"* well into 2023, even if container prices start to fall. [52]

9. **New Climate Regulations That Will Likely to Be Imposed on the Shipping Industry in 2023 Would Add to Container Shortage and Lead to Higher Transportation Costs:** The International Maritime Organization (IMO), the United Nations body that regulates shipping, has mandated an annual decrease in the carbon intensity of 2% between 2023 and 2026 compared to a 2019 baseline. [53] The new environmental efficiency target will likely translate into slower speeds in much of the global fleet. Slower ship speeds could limit the industry's de facto capacity by 3-5%, thus leading to higher shipping rates and inflation. [54] As part of the '2018 Initial IMO Greenhouse Gas (GHG) Strategy', the IMO set the industry targets of a 50% reduction in greenhouse gases by 2050 compared with 2008 levels and a 40% reduction in carbon intensity by 2030. [55] Achieving these goals will likely exert upward pressure on shipping prices for decades.

   While the capacity reduction of 3-5% may seem insignificant to some, applying these percentages to the total amount of the international maritime trade in 2019 – $14 trillion – may be very significant. [56] I used the data for 2019 because it was the last 'normal' year before the pandemic caused a severe reduction in trade, hopefully to the extent that would not be repeated. The 3-5% reduction in the capacity translates to $420-700 billion. This reduction in the industry's capacity will likely contribute to the inflationary pressure in a non-trivial manner.

10. **Negotiations Between the Ports of Los Angeles and Long Beach With Their Trade Unions in July 2022 May Result in Higher Inflationary Pressures in the US:** These ports, the largest and second-largest container ports in the United States, serve as commercial gates for trade with countries in the Asia-Pacific region. The ports handled $406 billion of the US international maritime trade of $1,762 billion ($1.76 trillion), or 23% of the maritime trade. [57] They handled 9.6% of the US international (not just maritime) trade of $4,207 billion ($4.21 trillion). [58] Potential slowdowns in loading cargo due to disagreements during the upcoming July 2022 negotiations

[49] Daniel Yergin and Peter Tirschwell, CNBC, "Op-ed: Supply Chain Delays Won't Be Easily Fixed and Trouble Will Continue into Next Year," September 1, 2021.
[50] Ben Winck, Insider, "Sky-High Shipping Costs Could Keep Prices Surging Until Mid-2023," March 21, 2022.
[51] Ibid.
[52] Ibid.
[53] Tom Washington, George Papageorgiou, Pradeep Rajan, and Paul Hickin, S&P Global Commodity Insights, "Shipping Efficiency Targets Could Prompt Slower Speeds and Reduced Capacity: Market Sources," January 13, 2022.
[54] Ibid.
[55] Ibid.
[56] International Chamber of Shipping, "Shipping and World Trade: Driving Prosperity." Downloaded on April 6, 2022.
[57] US International Trade Data Administration, "Maritime Services Trade Data," 2018.
[58] Ibid.

between the International Longshore and Warehouse Union, a labor union primarily representing dockworkers on the US West Coast, with the Pacific Maritime Association operating 29 ports on the West Coast, may contribute to higher inflation. The slowdowns happened during bitter negotiations between these parties in 2014-2015. [59]

11. **New Demurrage Fees Imposed by the Ports of Los Angeles and Long Beach to Solve the Container Shortage and a New Environmental Rule Contribute to Inflation:** On November 15, 2022, the Ports of Los Angeles and Long Beach imposed a daily fee on containers that dwell at ports for nine days or more if they leave by truck, or three days or more if they leave by train. [60] The fee will be charged to the ocean carriers. Still, it is expected that the carriers will pass these along to shippers – companies shipping goods such as Amazon, IKEA, and others – meaning shippers will, in effect, end up paying a port demurrage surcharge over and above hefty demurrage charges already in place and already causing enough havoc in the industry. The problem is that containers are stuck in the ports, not because of negligence or outright laziness of ocean carriers or shippers. The shippers cannot find truck drivers *(see discussion of this topic below)* and chassis needed for loading containers on trucks/trains due to loaders' unavailability, especially outside the regular working hours. [61] Labor costs are likely to increase significantly during extended conventional workdays and weekends.

    Recently, 12 US importers and 12 exporters and representatives from the ocean transportation intermediary side formed the National Shippers Advisory Council (NSAC). The goal of the NSAC is to advise the Federal Maritime Commission. The NSAC's members include large shippers such as Amazon, Walmart, Target, Office Depot, and IKEA. [62] During the inaugural meeting of the NSAC, the members characterized the actions taken by the ports of Los Angeles and Long Beach as *"catastrophic," "the last thing we need,"* and that government action was needed *"to put the brakes on the actions taken by the ports."* [63] Most likely, the shippers would not be left holding the bag for the prices increased by the ports and would pass them to the consumers in the form of higher products at their stores.

    A new environmental rule would also contribute to higher prices and inflation. The Ports of Los Angeles and Long Beach adopted the Clean Truck Fund Rate program on April 1, 2022. [64] Under the program, "cargo that is not being transported on zero-emission vehicles is subject to the tariff, which is $10 per 20-foot-equivalent unit – the standard measurement for shipped cargo – and $20 for every container that is larger than that."

[59] NFI Industries, Insights, "What the Approaching ILWU-PMA Contract Renewal Means for Shippers," July 1, 2021.
[60] Isabella Peek, JD Supra, "New LA-LB Port Fees Counterintuitive," November 8, 2021.
[61] Ibid.
[62] Ibid.
[63] Ibid.
[64] Christian May-Suzuki, Long Beach Business Journal, "Long Beach, Los Angeles Ports Officially Implement Clean Truck Fee," April 1, 2022.

The fee will be charged to the companies that own the shipments and is expected to generate $90 million in the first 12 months. [65] The companies will likely pass the fees to customers by increasing prices.

12. **The Shortage of Truck Drivers May Continue to Exert Inflationary Pressures in the US for Years:** Young people are not interested in becoming truck drivers. According to a recent study, nearly 57% of all truck drivers are older than 45 years, and 23% are in the above-55-year-old age bracket. [66]

    Reasons for not joining the industry include:

    a. The deficit of younger workers overall compared to the abundance of baby boomers.
    b. People do not perceive driving in inclement weather or areas of civil unrest as safe.
    c. As crime levels are high in US cities, potential drivers do not want to risk their lives (un)loading trucks in dangerous areas *(see discussion of this topic below)*.
    d. The legalization of marijuana increased the number of people who did not pass the drug test (approximately 40,000 people). It is estimated that hundreds of thousands more, who do not think they would pass the drug test, do not even try to enter the profession. [67]

    All of these problems may persist for years, thus leading to higher prices of goods during the period.

[65] Ibid.
[66] Emily Newton, Global Trade, “Why Do We Have a Trucking Shortage?” September 5, 2021.
[67] Ibid.

GROUP 3: 'SOFT-ON-CRIME' POLICIES ARE STAGFLATIONARY

13. **The Current Crime Wave That Rages in the US Cities Not Only Increases the Costs of Doing Business and the Prices of Goods and Services but also Destroys Jobs and Slows Economic Growth in the Whole Country:** Crime and criminals may lead not just to high inflation but to its evil cousin – stagflation. Stagflation is characterized by persistently high inflation, high unemployment, weak demand, and slow growth. Crime and criminals often destroy businesses and jobs, leading to higher prices of goods and services as their supply dwindles. Weak demand – fewer businesses in existence and unemployed people usually have less money than employed ones – results in slow economic growth.

    I have hated crime and criminals since my youth when I saw criminals take advantage of the enormous economic and political crisis in the post-Soviet space. The criminals not only traumatized many ordinary local people by killing, robbing, and scaring them. They also scared away both domestic and foreign investors. Lower investment inflows led to fewer jobs created and lower general well-being of society. One of the reasons I work on ending crises worldwide is an image of an old lady selling her last valuables with tears in her eyes. She was forced to do it to buy the humblest of foods, not to die from hunger. Tragically, in the background, thick-necked criminals – the racketeers – were rudely collecting money from desperate people selling their last valuables. I felt that it would have been more appropriate for them to leave not in their imported luxury SUVs and cars but in the police cars, in their back sections with barred windows. But the police were 'defunded' by hyperinflation – the police officers did not want to risk their lives for salaries that the hyperinflation made almost meaningless. While the crisis was destroying the economy, criminals were safe from any prosecution and were destroying the lives of people around them.

    The current crime wave in the United States started in the summer of 2020 when the peaceful – during the day – demonstrations against George Floyd's killing by a police officer quickly turned into a wave of lootings, car thefts, arsons, murders, and other crimes at night. Most Americans supported an investigation into the death of George Floyd, firing of the officers involved in it, and charging the policeman who knelt on George Floyd's neck, with murder. *"A Yahoo News/YouGov survey, for instance, found that 84 percent of Americans strongly or somewhat approved of the firing of the officers involved in Floyd's death, and 68 percent said they approved of charging former Minneapolis police officer Derek Chauvin, who knelt on Floyd's neck for nearly 9 minutes, with murder."* [68] However, most Americans clearly and understandably did not support the crime wave that hit the country during the summer of 2020. "*The Reuters/Ipsos survey found that most Americans (72 percent) didn't think violent protests were an appropriate response to Floyd's killing, and that property damage caused by protesters undermined their goals (79 percent)."* [69] However, despite the wishes of most Americans, the crime wave was born.

[68] Geoffrey Skelley, "How Americans Feel about George Floyd's Death and the Protests," June 5, 2020.
[69] Ibid.

The 'soft-on-crime' policies contributed to the rising crime levels. The most egregious of these policies included defunding police, lowering cash bails for persons who committed serious crimes to very low amounts – even those often paid not by alleged criminals or their families but by some non-government organizations (NGOs) – thus completely separating crimes from punishment, and raising limits of retail theft to be counted as felonies rather than misdemeanors with penalties much more severe for the former category.

As I said at the beginning of the report, I believe that the founders and supporters of these policies had the best intentions. However, they did not foresee the harmful side effects of these policies. For example, Vice President Kamala Harris promoted and billionaires George Soros and Pierre Omidyar supported the Minnesota Freedom Fund (MFF) financially, directly or via foundations. [70] [71] The MFF that collected millions in donations to pay bails for people 'protesting' – a euphemism for damaging property and looting during the summer of 2020 – was also found to pay bails for violent criminals. [72] For example, a man was arrested for a violent attack on a person who refused to give him money on a bus in Minneapolis on July 11, 2020. [73] He broke the victim's nose during the attack. [74] The MFF bailed him out for that attack on August 3. Still, the man attacked a bar manager in the late morning of August 14, 2020, just eleven days after being released from jail despite his long and 'accomplished' history of violent crimes. [75] The man, or a well-known criminal really, caused *"traumatic brain injury, a fractured skull and a brain bleed"* in the second victim. [76] The second crime was totally avoidable and would not have happened if the tried-and-true policies – under which violent criminals were going to prison for committing crimes, especially violent ones – were in place. Under the new rules, the victims bear the brunt of the lack of justice. Until one or several of them do not go to a hospital or morgue with horrific injuries, the perpetrators are bailed out and often commit more crimes. Only then are the criminals jailed with no bails.

Unfortunately, the criminal bailed in Minneapolis was not an exception. Many other ordinary people were attacked; unfortunately, some were killed by criminals bailed out by non-government organizations (NGOs). A young man was gunned down in Indianapolis, Indiana, by a criminal bailed out by The Bail Project, a national non-profit that *"pays bail for criminal defendants too poor to pay for it themselves."* [77] By the end of March 2022, less than three years after the cashless bailouts became law in April 2019 in New York, one of the epicenters of US crime, nearly two-thirds of voters — 64 percent — think the no-cash bail law has resulted in an increase in crime,

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70 Law Enforcement Today, "Far-Left "Dark Money" Organization Donated Millions to Bail Funds Putting Violent Criminals Back on the Streets Last Year," December 10, 2021.
71 Jim Patrick, Daily Caller, "Democratic Dark Money Giant Tides Poured Millions Into Bail Funds In 2020 That Helped Alleged Violent Criminals Back Onto The Streets," December 9, 2021.
72 Ibid.
73 Crime Watch MN, Alpha News, "Suspect Bailed out by Minnesota Freedom Fund Leaves Bar Manager with Traumatic Brain Injury in Violent Assault," August 21, 2020.
74 Ibid.
75 Ibid.
76 Ibid.
77 Vic Ryckaert, WRTV Indianapolis, "Mom Wants The Bail Project Reined in After Her Son Was Gunned Down in Indianapolis, December 17, 2021.

compared to 24 percent who said it has not. [78] [79] *"A staggering 82 percent of voters said judges should be given more authority to post bail for more defendants, compared to 11 percent who were opposed."* [80]

In California, 'smash-and-grab' and other thefts grew due to Prop 47, like hurricanes that strengthen over warm ocean waters. California raised the theft limit to be counted as a felony from $400 to $950 in 2014, creating a perfect environment for crime to develop that would be exploited by criminals en masse during the George Floyd protests in 2020 and later. [81] Alex Bastian, special advisor to Los Angeles District Attorney George Gascón, a Democrat, who co-authored Prop 47 provision that increased the limit for theft to be counted as a felony, explained the provision using economic and business terms. He did it as a business owner who would be defining their pricing strategy of selling <u>useful</u> goods and services – rather than ranking crimes in terms of their negative impact on society – using business concepts such as "adjusting for inflation and cost of living." *""What Prop 47 did is increase the dollar amount by which theft can be prosecuted as a felony from $400 to $950 to adjust for inflation and cost of living," Bastian said."* [82]

It is unclear how the authors of the Prop 47 provision came up with such a significant theft increase and tried to explain it with the rise in inflation and cost of living. The aggregate US Consumer Price Index (CPI) inflation increased during the first 14 years of the 21st century, 2000-2013, by less than 40%. It was 39.9%, to be specific. [83] The Prop 47 provision raised the theft limit by 137.5%, from $400 to $950. To institute such a dramatic theft increase, the Prop 47 provision's authors should have gone back 30 years and matched their theft increase to an aggregate CPI inflation increase of 133.9% from 1984 to 2013. [84] Interestingly, employees of 'normal' businesses usually get a pay raise of 2-3% per year. The criminals were given a raise (of what they can steal and resell) close to 140% per store 'visit' in 2014, and they can have a few of these 'visits' every day. Not a bad year in the office!

An explosive investigation by Fox 11 TV station in Los Angeles that went public in February 2020 – before the pandemic – found that Prop 47 fueled meth addiction. [85] In large part due to Prop 47 and similar laws across the nation, lootings and 'smash-and-grab' attacks during the George Floyd protests in 2020 (and later) became a money-making strategy for gangs of criminals. The crime wave became so powerful that the media sources had to publish articles titled "*Proposition*

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[78] New York City Comptroller Brad Lander, "NYC Bail Trends Since 2019," March 22, 2022.
[79] Carl Campanile, The New York Post, "No-Cash Bail Law a Bust, NY Voters Demand Changes: Poll," March 28, 2022.
[80] Ibid.
[81] Wikipedia, "2014 California Proposition 47." Downloaded on April 4, 2022.
[82] Ibid.
[83] For CPI inflation - Bureau of Labor Statistics, U.S. Department of Labor. Downloaded via Refinitiv.
[84] Ibid.
[85] Bill Melugin, Fox 11, "Prop 47 Co-author George Gascón Responds to Criticism of Controversial Law after FOX 11 Investigation," February 6, 2020.

47 Did Not End Prosecution of Thefts under $950 in California" to tell would-be criminals that they still may face some kind of punishment for thefts under $950. [86]

Prop 47 became a stimulus for criminals to unite into gangs for attacks on large stores. They are seeking safety in numbers as it is unlikely that there would be enough police officers to arrest 80-100 people rather than 3-4 criminals. Below is an example of an especially infamous 'smash-and-grab' attack. On November 20, 2021, around eighty criminals in about 25 vehicles blocked access to Nordstrom, an upscale merchandise store, in Walnut Creek, about 25 miles from San Francisco, California. [87] They ransacked the store for several minutes. The thieves/looters got greedy and made off with up $200,000 in merchandise, according to police. [88] They crossed the $950 limit by stealing up to $2500 per criminal: in theory, they would have been prosecuted as felons.

However, theory and practice are often different. Since the mall was not a police station, there were relatively few police officers around when the attack happened. They managed to stop only one vehicle with three looters in it. [89] On December 14, just two weeks after the attack, none of the three suspects were in custody, even though two of them should have been. [90] One suspect was on parole for another crime and had her gun with her during the 'smash-and-grab' attack. [91] Another one was allowed to leave without even posting the bail. [92] Seventy-seven or so other criminals just disappeared into thin air of Northern California with most of the $200,000 loot. While Nordstrom would be able to recover from such a massive loss, many smaller retailers would close their doors, even after receiving insurance payments for some lost merchandise. *Below in this section, we will cover the insurance rate increases due to fewer insurance companies writing policies for small businesses.*

Frequent attacks on police officers and apologism for crime in the media led to police officers' reluctance to investigate any but the most serious crimes and the general sense of lawlessness in US cities. The infamous video of Tony Dokoupil, the *CBS This Morning Show*'s host, excusing a man stealing a bag full of shampoo bottles from the Walgreens Pharmacy in San Francisco encapsulated the media's tolerance and even support of crimes against businesses. [93] It is especially troubling that Mr. Dokoupil made his comments after the video showed that Walgreens had to close 17 stores in San Francisco. [94] Most of the employees of these stores lost their

[86] Terrence Fraser, AP News, "Proposition 47 Did Not End Prosecution of Thefts under $950 in California," July 23, 2021.
[87] Emma Colton, Fox News, "Warrant Issued for California Nordstrom Smash-and-Grab Suspect Previously Released on Bail," December 15, 2021.
[88] Ibid.
[89] Ibid.
[90] Melanie Woodrow, ABC Channel 7 San Francisco, "All 3 Suspects in Walnut Creek Nordstrom Theft Out of Custody; DA Says 2 of Them Shouldn't Be," December 14, 2021.
[91] Ibid.
[92] Ibid.
[93] Scott Whitlock, MRC News Busters, "CBS's Shocking Spin for Shoplifting Crime Wave: 'Act of Desperation,' 'Not Getting Rich,'" June 16, 2021.
[94] Ibid.

salaries. None of these salaries was even close to Mr. Dokoupil's but were essential for keeping their families afloat and bringing up their children to understand the difference between right and wrong, and between lawful democracy and lawless anarchy.

Below is a link to the video:

CBS's Shocking Spin for Shoplifting Crime Wave: 'Act of Desperation,' 'Not Getting Rich' | Newsbusters [95]

The rapidly rising crime in the United States makes doing business not only more dangerous for companies, but also more expensive. Looting, 'smash-and-grab' robberies, retail theft, cart theft, carjackings, and not even talking about violent crimes against individuals led to multiple businesses closing their doors in primarily urban areas around the country. 'Smash-and-grab' robberies perpetrated by organized criminal groups became a scourge for retail businesses, many of which barely recovered from the COVID-19 pandemic. According to Kwame Raoul, the Illinois attorney general, and Rob Karr, President and CEO of the Illinois Retail Merchants Association, *"It is estimated that organized retail crime and illicit trade have cost federal and state governments nearly $15 billion in personal and business tax revenues, not including sales tax losses."* [96]

According to the National Retail Federation, these brazen crimes often involve 20-80 people, costing retailers on average $7,594.48 in 2020 vs. $828.94 in 2019. [97] This increase in damages of more than 900% per accident can be devastating for small business owners with limited inventory and minimal insurance coverage. While business owners might recover some of their losses through insurance payments, they may lose their businesses altogether due to lower profitability driven by the crime surge. The businesses' expenses have been increasing in such areas as the cost of inventory because, for example, truckers require more money to deliver goods into dangerous places. The trucking and shipping companies added the cost increases to the cost of the goods. Labor costs increased because fewer people chose to work in urban areas, mainly because of surging crime. The shortage of employees in urban areas led to higher wages. Businesses had to invest in beefing up their security. They hired guards, installed electronic surveillance systems, and even bought and stored the wood sheets to cover windows during potential riots, as they did during the summer of 2020. Also, businesses' insurance expenses skyrocketed because fewer insurance companies chose to write insurance policies for businesses working in urban areas. As business expenses have been increasing, the revenues of many urban companies have been dropping. Many potential customers may no longer risk their safety by shopping in retail stores in urban areas as they did before the pandemic and the crime surge. [98]

[95] Ibid.
[96] Kwame Raoul and Rob Karr, Chicago Sun Times, "Pass Proposed Bill to Crack Down on Brazen, Organized Retail Theft," March 28, 2022.
[97] Michaela Guta, Small Business Trends, "New Report Highlights Real Cost of Smash-and-Grab Theft to Retailers," November 8, 2021.
[98] Ibid.

I ran a back-of-the-envelope calculation based on the $15 billion loss in personal and business tax revenues mentioned by the Illinois Retail Merchants Association's leaders. I estimated that due to crime, losses of retail industry businesses in revenues and salaries, as well as losses of state and federal income and sales taxes, range from $641.7 billion to $1,143.5 billion ($1.14 trillion) per year. The retail losses due to crime represent from 2.8% to 5.0% of the US GDP of 22,996 billion in 2021. [99] These losses are significant! In addition to instilling fear in people who live in the cities, crime and criminals also cost a lot to the country. Notably, the estimates of retail losses do not include losses from crime in other sectors such as transportation, hotels, and entertainment and arts.

See Chart 2 for calculation of the current economic losses to the US. I briefly explained how the numbers were derived in the footnote. [100]

[99] Bureau of Economic Analysis, U.S. Department of Commerce. Downloaded via Refinitiv on April 4, 2022.

[100] First, I divided income losses of $15 billion into losses from business and personal tax revenues. In Option 1, $10.0 billion was lost from business taxes and $5.0 billion was lost from personal income taxes. In Option 2, business and personal income tax losses were equal to $7.5 billion. In Option 3, business income losses constituted $5.0 billion, while personal income losses were $10.0 billion. Second, I found Net Sales, Receipts, and Operation Revenues (Revenues) lost due to crime. According to the US Census Bureau, Income Taxes represent 0.97% of the Revenues. In Option 1, these Income Taxes are $10.0 billion. It means that lost revenue were more than 100 times higher. The lost revenues were $1,034.2 billion ($1.0342 trillion). Three, average Sales Taxes were 5.09% of the Revenues. So, they were $52.6 billion in Option 1. Fourth, median retail employee salary in 2021 was $29,120. People in this tax bracket paid 12% of their salary in federal income taxes. However, according to eTax.com (How Much Is Tax on $30,000 Salary? - eTax.com®), people receiving a salary of $30,000, paid $2,500 in federal taxes or just 8.33%. The difference is due to deductions and tax shields that are not easy to estimate precisely: nobody accused the US tax code of being simple. For the benefit of expediency let's ignore individual deductions, and instead assume that the 12% number includes both federal and state taxes. It would mean that the state taxes would be higher than deductions by around 3.67%. In reality, state taxes range from 0% in Florida and Texas to 13.3% (on large incomes) in California (State Income Tax Rates: What They Are, How They Work - NerdWallet). The employee salary income lost due to crime was $5.0 billion and it represented 12% of total salaries lost due to the crime. These salaries were $41.6 billion. Fifth, I summed just losses in Revenues and Salaries, or losses to the "real" economy. They were $1,075.8 billion in Option 1. Finally, I added Income and Sales taxes to the losses to state and federal government losses due to crime. Overall losses in business revenues, employee salaries, income and sales taxes constituted $1,143.5 billion in Option 1, $892.6 billion in Option 2, and $641.7 billion in Option 3.

Chart 2. US Retail Losses Due to Crime.

	Inputs		Percentages		Option 1	Option 2	Option 3
The US Census							
Losses Related to Business Revenues, Income & Sales Taxes							
Net Sales, Receipts, & Operating Revenues	1,018,762	2			1,034,171,150,137	775,628,362,603	517,085,575,069
…	…						
Income or Loss Before Income Taxes	70,503	2					
Income Taxes	9,851	2	0.97%		10,000,000,000	7,500,000,000	5,000,000,000
Net Income	60,652	2					
Average Sales Tax Lost			5.09%	3	52,639,311,542	39,479,483,656	26,319,655,771
Losses Related to Salaries and Income Taxes							
Bureau of Labor Statistics							
Median Retail Employee Salary	29,120	4			41,666,666,667	62,500,000,000	83,333,333,333
Income Taxes Lost	3,494		12.00%	5	5,000,000,000	7,500,000,000	10,000,000,000
Total Losses in Revenues and Salaries					1,075,837,816,804	838,128,362,603	600,418,908,402
Total Lossess in Revenues, Salaries, Income Taxes, and Sales Taxes					1,143,477,128,346	892,607,846,259	641,738,564,173

1 Kwame Raoul and Rob Karr, Chicago Sun Times, "Pass Proposed Bill to Crack Down on Brazen, Organized Retail Theft," March 28, 2022.
2 The US Census Bureau, "Quarterly Financial Report: Large US Retail Trade Corporations, Fourth Quarter 2021," Table 1, March 21, 2022. The report provides data only for businesses with assets of $50 million and more.
3 World Population Review, State by State Rankings, Sales Tax by State 2022. Downloaded on April 4, 2022.
4 US Bureau of Labor Statistics, "Occuptational Employment and Wages, 41-2031 Retail Salepersons," May 2021.
5 Sarah Foster, Bankrate, "2021-2022 Tax Brackets and Federal Income Tax Rates," April 7, 2022.

Crime seriously reduces the supply of goods and services in urban centers and leads to product price increases. However, the inflationary impact of urban crime is not limited only to the cities. High crime in urban areas has also led to price increases in the most peaceful suburbs and rural areas one can imagine. The CVS Pharmacy, Walgreens, and other retail chain stores doing business in the high-crime areas increase prices for goods sold at all their stores, not just in those areas. The companies increase prices on goods sold in their stores everywhere – including the peaceful suburbs and the rural regions – contributing to high inflation nationwide. Suburban and rural businesses with no stores in the cities – but the ones that compete with CVS, Walgreens, and other stores working in urban, suburban, and rural areas – also see price increases in the competing stores and raise their prices, further strengthening inflation.

Urban businesses that persevered and have not closed their doors have to pay higher insurance rates. For example, a Seattle-based food distributor with a fleet of 30 trucks that serve restaurants mainly across Western Washington State experienced a 40% increase in insurance rates in 2020 and another 18% increase in 2021. [101] The company's insurance expenses increased by a staggering 65% in just two years. The number of insurance companies interested in covering the business dropped from six to two. When the Chief Financial Officer of the business asked his broker why this was happening, he received a simple reply: insurers were concerned about a *"general sense of lawlessness."* [102] Most likely, the company, and millions of others in this situation, increased transportation rates for its clients – the restaurants – that passed these fees to consumers and tourists.

[101] The Seattle Times Editorial Board, The Seattle Times, "City Must Investigate Whether Crime is Impacting Small Business Insurance Rates," February 22, 2022.
[102] Ibid.

Insurance companies have to increase their rates because of the rapid increase in crime. According to the testimony on carjackings of David J. Glawe, President and CEO of the National Insurance Crime Bureau, before the US Senate's Judiciary Committee, the frequency of this crime increased from 2019 to 2021 by 286% in New York, by 238% in Philadelphia, by 207% in Chicago, by 200% in Washington, DC, by 159% in New Orleans, and by 89% in Denver, Colorado. [103] The car thefts, more numerous than carjackings, also increased dramatically. In Colorado, there were 79% more car thefts in 2021 than in 2019, in Wyoming – 74%, Vermont – 64%, New York State – 59%, Washington, DC – 52%, Wyoming, South Dakota, Washington state, Maine, and Minnesota – 34%. [104]

According to the hearing materials, these crimes, in large part, were caused by criminal justice reforms that put the interests of the crime perpetrators higher than the interests of their victims. [105] Cash bail reforms that dramatically reduced the amount of cash alleged criminals had to give to stay free allowed violent criminals to go free and often commit new crimes hours after they committed initial crimes. [106]

The current almost-complete lack of punishment for all but the most severe crimes led to invincibility among criminals, convincing them that they could graduate from more minor offenses to more severe crimes with no adverse consequences. I would remind the readers of a finding that most liberal people supported before the extreme left-wing activists started attacking the link between crime and punishment over the last several years. Below is a quote *from "Deterrence in Criminal Justice: Evaluating Certainty vs. Severity of Punishment"* by The Sentencing Project, an organization that has been lobbying for less harsh sentences, *"Research to date generally indicates that increases in the certainty of punishment, as opposed to the severity of punishment, are more likely to produce deterrent benefits."* [107] While society does not need to have the harshest sentences, I think making sure that a crime leads to a certain punishment (i.e., spending months working for free for each theft or destroyed property) is likely to convince many would-be criminals to find other ways of making a living.

Until the 'soft-on-crime' policies are not replaced by policies aimed at protecting the overwhelming majority of people rather than a small group of criminals, crime will continue to be an inflationary force.

[103] David J. Glawe, President and CEO, National Insurance Crime Bureau, "For a Hearing on: "Federal Support for Preventing and Responding to Carjackings" Before the Senate Judiciary Committee," March 1, 2022.
[104] Ibid.
[105] Ibid.
[106] Ibid.
[107] Valerie Wright, The Sentencing Project, "Deterrence in Criminal Justice: Evaluating Certainty vs. Severity of Punishment," November 19, 2010.

GROUP 4: GLOBAL ENERGY PRESSURES

14. **The Iran Nuclear Deal Signing Would Most Likely Exert Severe Upward Pressure on Oil Prices:** I believe President Biden is pursuing two goals by trying to sign the new Iran Nuclear Deal. First, he wants to stop Iran from developing a nuclear bomb. Second, he wants to lift sanctions and bring Iranian crude oil to the global markets where all countries can buy it. In theory, the latter development would lower the global oil price. However, there is a significant difference between having and implementing the goals.

    To re-sign the Iran Nuclear Deal would not be easy; instead of reducing inflation, the Deal may increase it. The majority of the US public never supported the initial Deal. It was abhorred by the US traditional oil providers in the Middle East – Saudi Arabia and the United Arab Emirates (UAE). While Joe Biden may get the Iranian oil to the global markets, Saudi Arabia, the UAE, and their allies in OPEC may continue to produce oil at a level significantly below their maximum capacity. This low production may continue to decrease crude oil supply to the global markets and push the oil price up instead of reducing it as the Biden administration wants. Importantly, even if the Deal is not signed after all the negotiations, the very possibility of the Deal being signed is likely to continue to impact the oil price by pushing it higher due to Saudi Arabia and the UAE's unwillingness to produce more oil. It looks like the negotiations to sign the Deal will be neither easy nor short.

    a. **To Sign the Nuclear Deal with One Enemy, the Biden Administration Would Have to Rely on Help from Another Without Support of the US Public or US Middle Eastern Allies:** In 2018, President Trump withdrew the US from the JCPOA (The Joint Comprehensive Plan of Action, the title of the initial Deal signed by the Obama administration in 2015). The Trump administration did it because the Deal did not address *"the threat of Iran's missile program and did not include a strong enough mechanism for inspections and verification"* of its nuclear program. [108] Also, after signing the Deal, Iran continued to actively support US adversaries in Syria, Iraq, Yemen, Lebanon, and other countries in the Middle East. [109] After the US withdrawal from the Deal, Iran's Supreme Leader Ayatollah Ali Khamenei said that Iran would not negotiate with the United States because *"America would only use talks for propaganda purposes."* [110]

       President Joe Biden had five options for dealing with Iran in terms of their forcefulness in the declining order:

       1) Abandon the idea of re-signing the Deal and use other options (i.e., military) to destroy the Iranian nuclear program.

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[108] The White House, "President Donald J. Trump is Ending United States Participation in an Unacceptable Iran Deal, Fact Sheet," May 8, 2018.https://trumpwhitehouse.archives.gov/briefings-statements/president-donald-j-trump-ending-united-states-participation-unacceptable-iran-deal/

[109] Ibid.

[110] ABC News / Associated Press, "Supreme Leader Says Iran Won't Negotiate with US, July 31, 2020.

2) Persuade Iranians to come to the negotiating table by telling them that the US has other options *(see Option 1)* for taking care of their nuclear program.
3) Ignore Iran for a while to make it want to come to the negotiating table.
4) Negotiate with the Iranians indirectly – as Iran demands – through <u>friendly</u> intermediaries that may come from other signatory countries of the Iran Nuclear Deal (i.e., United Kingdom, France, Germany, European Union) or members of the international community (i.e., United Nations).
5) Negotiate with the Iranians indirectly – as Iran demands – through <u>unfriendly</u> intermediaries who may come from the other signatory countries (i.e., China and Russia).

Since President Biden has been keen to re-sign the Deal, which President Barack Obama was eager to sign initially, President Biden has forgone the top three forceful options in his arsenal. These options included destroying Iran's nuclear program militarily, persuading Iran to come to the negotiation table for direct negotiations with the United States, or ignoring Iran for a while. The last option could have been used to show the Iranians that they were not the ones driving the negotiations. Suppose they were unwilling to sit across the table from the US negotiators. In that case, the US could have shown that Iran may continue enjoying economic sanctions destroying the country's economy and not having a clue about the next steps of the US administration in regards to Iran. The current economic pressure and the fear that the US could use the military option could have forced Iranians to negotiate with the US directly.

Direct negotiations are a much better option in most cases because the intermediaries may have their own interests that would convince them to focus on negotiating the best agreement from their standpoint rather than the US standpoint. For example, suppose a country's top goal is to allow its companies to do business in Iran, and the country is not a top target for Iran's potential nuclear attack. In that case, the country's negotiators may concentrate on the commercial issues (i.e., removing economic sanctions, bringing crude oil to the global markets, and negotiating favorable terms for its companies' trade with and investments in Iran.) However, the negotiators may not pay much attention to negotiating the best provisions for inspecting and verifying the Iran nuclear program and ensuring that it is not military.

It is difficult to understand how the US, the country with the world's largest arsenal (including the bunker-busting bombs that can destroy Iran's underground nuclear facilities many times over), allied with NATO countries that have powerful high-tech arsenals of their own, signed the original Deal with an inadequate inspection and verification mechanism. It is unclear why the New Deal version seems to have the same problem. Maybe the problem was caused by President Obama and President Biden's eagerness to sign the Deal. Perhaps the problem arose because both Presidents received most of their negotiating experience in a country where people are looking for a compromise at the negotiating table; they did not realize that in many places around the world, people respect force and think that compromising on critical topics (i.e., inspections and verifications of Iran's nuclear program) is a sign of weakness.

Extensive experience of negotiating legislation in Congress and Senate with the Republicans, US politicians who pursue the goal of making the US a better place using different strategies than the Democrats, does not qualify negotiators for negotiations with the avowed US enemies chanting "Death to America" more than a school battle with sticks prepares people for a battle with real swords. This domestic experience may be even detrimental because it may give negotiators a false sense of security. Both administrations succeeded in getting some of their legislation adopted domestically but were far from convincing in dealing with international rivals and enemies. Let me just name the countries where their performance was underwhelming (i.e., Lybia, Syria, Ukraine, Iraq, Iran, Afghanistan).

To re-sign the Deal, President Biden is willing to use the two least forceful negotiation options that comply with Iran's demands. Option 4 involves negotiating with Iran only indirectly through the European signatories of the original Deal. But what is more puzzling is that the US is willing to use Option 5 - negotiating with Iran indirectly through Iran's close ally – Russia. [111]

Despite Russia bringing more and more of its troops to the Ukrainian borders, the Biden administration continued to rely on help from Russian President Vladimir Putin. [112] On January 19, 2022, President Biden infamously greenlighted a *'minor incursion'* of Russia's forces into Ukraine. *"It's one thing if it's a minor incursion and we end up having to fight about what to do and not do," Biden told reporters at an East Room news conference. "But if they actually do what they're capable of doing with the forces amassed on the border, it is going to be a disaster for Russia if they further invade Ukraine."* [113] On the same day, January 19, 2022, Russian President Vladimir Putin met with Iranian President Ebrahim Raisi to discuss the interim nuclear Deal during their meeting in Moscow on January 19, 2022. [114] According to the NBC News report titled *"Russia Proposed Interim Nuclear Deal to Iran, with U.S. Knowledge, Sources Say," "If an understanding were to be reached on an interim Russian proposal, the U.S. and other governments likely would portray it as a first step toward a full return to the 2015 accord, and not as a new or separate agreement, the sources said."* [115] Significantly, any new agreement separate from the JCPOA could trigger a review by Congress. [116] *We will return to this topic shortly in this section.*

It is unclear how Russia's aggression in Ukraine would impact the Iran Nuclear Deal negotiations. The Biden administration may be forced to choose another intermediary. However, a Reuters article titled *"U.S. Still Engaging with Russia on Iran Deal despite Ukraine*

[111] France24, "EU Sees Iran Nuclear Deal in 'Days' as Envoy due in Tehran," March 26, 2022.
[112] Carol E. Lee, Courtney Kube and Dan De Luce, NBC News, "Russia Proposed Interim Nuclear Deal to Iran, with U.S. Knowledge, Sources Say," January 21, 2022.
[113] Kevin Liptak, CNN, "Biden Predicts Russia 'Will Move in' to Ukraine, but Says 'Minor Incursion' May Prompt Discussion over Consequences," January 19, 2022.
[114] Carol E. Lee, Courtney Kube and Dan De Luce, NBC News, "Russia Proposed Interim Nuclear Deal to Iran, with U.S. Knowledge, Sources Say," January 21, 2022.
[115] Ibid.
[116] Ibid.

- U.S. Official" as of March 15, 2022 – almost three weeks after Russia's attack on Ukraine started – raises doubt about the negotiation strategy change happening. [117]

I understand that there are circumstances when a leader of one country has to negotiate with the country's enemy to reach a common goal. As a youth, I remember following the summits between US President Ronald Reagan and Soviet President Mikhail Gorbachev in the press and on TV closely. Each president met the leader of the leading enemy country during the Cold War. They managed to negotiate the end of the Cold War. Both leaders became my intellectual heroes, and I developed a dream of studying at the school of diplomacy. I managed to implement this dream by being accepted, studying, and earning a master's degree at the Fletcher School of Law and Diplomacy at Tufts University, the oldest US school dedicated solely to graduate studies in international affairs. [118]

However, I see two significant problems with using an enemy who is a close friend of the enemy you are ultimately negotiating with as the intermediary in the negotiations. First, the intermediary can add its own demands to the draft of a negotiated agreement. The Russians, seeing that President Biden was so interested in re-signing the Iran Nuclear Deal, exploited this eagerness in early March 2022. *"The Russian Foreign Minister Sergei Lavrov dropped a diplomatic bomb on the multilateral Iran nuclear talks in a transparent gambit to undermine sanctions that the U.S. recently imposed on Russia for its invasion of Ukraine. Mr. Lavrov insisted on Saturday* [March 5, 2022], *"We need guarantees these sanctions will in no way affect the trading, economic, and investment relations contained in the [deal] for the Iranian nuclear program."* [119] On March 15, Mr. Lavrov said that Russia's demands were satisfied, *"We have received written guarantees – they are included in the very text of the agreement on reviving the JCPOA, and in these texts there is a reliable defense of all the projects provided for by the JCPOA and those activities – including the linking up of our companies and specialists."* [120]

The second problem is that if your country negotiates through an intermediary with another country, the intermediary and the other country may use exaggerations, omissions, and outright lies to achieve their goals. Your country has no clarity on when either of them is telling lies. For example, the Russians can say that the Iranians would not budge on a particular point. In reality, the Iranians may not care about the issue and could have easily compromised. The US negotiators may have to distinguish between two sets of lies. To use an analogy, the Iranians and Russians managed to convince the US to negotiate in a maze with mirror walls whose architecture the former two countries know while the latter does not. For the US negotiators, it would be difficult to negotiate a good deal while they would have to deal with two sets of exaggerations, omissions, and lies.

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[117] Reuters, "U.S. Still Engaging with Russia on Iran Deal despite Ukraine - U.S. Official," March 15, 2022.
[118] The Fletcher School, "The History of Excellence." Downloaded on April 4, 2022.
[119] James Phillips, The Heritage Foundation, "Russia Links Ukraine Sanctions to Iran Nuclear Talks to Shake Down Biden Administration, March 9, 2022.
[120] Parisa Hafezi, Humeyra Pamuk, and Simon Lewis, Reuters, "Russia Says it Has Written Guarantees on Iran Nuclear Deal," March 15, 2022.

I believe the Biden administration wants to avoid the Deal's review by Congress because it may not survive the review. Iranians, not Americans, celebrated the Deal's signing in the streets in 2015. [121] Iranian President Hassan Rouhani said shortly after the Deal was signed, *"The deal is a legal, technical and political victory for Iran."* [122] The majority of the US public did not support the Deal. According to a poll by Pew Research, for example, support for the Deal was just 33%, while 45% were against it right after the Deal was signed in July 2015. [123] Within less than two months after the Deal was signed, its support dropped from slightly less than one-third of the population to slightly more than one-fifth (21%), while the opposition to the Deal increased to 49%. [124]

The lack of trust in Iran leaders was the main reason. *"Just 2% have a great deal of confidence that Iran's leaders will abide by the agreement, while another 18% say they have a fair amount of confidence. About seven-in-ten (70%) say they are not too confident (28%) or not confident at all (42%) in Iran's leaders."* [125] The July 2015 statements by Ayatollah Ali Khamenei, the Supreme leader of Iran, were probably among the major causes of the Deal support decreasing. Ayatollah Ali Khamenei *"voiced support on Saturday [July 18, 2015] for his country's nuclear deal with world powers while emphasizing that it did not signal an end to Iran's hostility toward the United States and its allies, especially Israel."* [126] His *"worshipers began chanting and pumping their fists when he said the slogans "Death to Israel" and "Death to America" would continue to be heard in the streets of Iran."* [127]

Except for Iran, no other country in the Middle East wants this Deal to be signed because nobody wants Iran to have nuclear bombs. With the economic sanctions lifted due to the Deal, Iran would receive investment inflows for supposedly not pursuing nuclear weapons. However, most significant restrictions on uranium enrichment – the key process used in making a weapon – will begin to *"sunset,"* or expire, after 2025 and permit Tehran to expand enrichment to an industrial scale after 2030. [128] So, by 2026, Iran would *"have a proverbial cake and eat it too"* – it would have cash from investments and oil sales, and the path to develop the nuclear bomb.

It is unclear whether Iran would adhere to the nuclear deal agreement even before 2026. According to a *Reuters* article, "*the IAEA [International Atomic Energy Agency] has found particles of processed uranium at three apparently old sites that Iran never declared. The agency has been seeking answers from Iran but has repeatedly said Tehran has not provided*

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[121] Nasser Karimi, AP News, "Tehran is Erupting in Celebration over the Iran Nuclear Deal," July 14, 2015
[122] Al Jazeera, "Rouhani Says Nuclear Deal 'Political Victory' for Iran," July 15, 2015.
[123] Pew Research Center, "Support for Iran Nuclear Agreement Falls," September 8, 2015.
[124] Ibid.
[125] Ibid.
[126] Thomas Erdbrink, The New York Times, "Ayatollah Khamenei, Backing Iran Negotiators, Endorses Nuclear Deal," July 18, 2015.
[127] Ibid.
[128] Peter Brookes and James Phillips, The Heritage Foundation, "4 Reasons Why Returning to Iran Nuclear Deal Is Bad Idea," February 22, 2022.

satisfactory answers. Iran wants the IAEA investigation ended as part of an agreement but Western powers have argued that issue is beyond the scope of the 2015 deal, to which the IAEA is not a party." [129] So, potentially, Iran wants the IAEA and its inspectors to focus on several facilities, such as the ones in Arak, Bushehr, Fordow, Isfahan, Natanz, and Tehran, while quietly building the bomb elsewhere. [130]

The last Deal signed by the US team headed by John Kerry had a fatal flaw. It allowed Iran to delay inspections by 24 days after the request from the international observers was received. [131] This one provision makes the whole Deal as effective and believable as sightings of a flying elephant. [132]It takes hours, or several days if you are not working too hard, to move potential bomb-making equipment, components, and materials out of a facility. To make matters worse, in the original agreement, the 24-day clock would not start right after the request. Iran could extend the time from the request to the inspection to three months or more. [133] As I wrote above, Iran already cannot explain the presence of enriched uranium in the supposedly old facilities. It could be proof that Iran has been moving its bomb-making operations around the country.

Dennis Ross, a long-term US diplomat, negotiator, and Middle East envoy with deep knowledge of the region, directly accused Iran of trying to acquire nuclear weapons. [134] *"Nor is Iran's insistence that it doesn't intend to develop nuclear weapons credible. If that were true, the regime could have pursued far less costly alternatives to building its own extensive enrichment capability. Establishing a civil nuclear industry to generate electricity, using fuel furnished from outside the country, was always an option — one that Iran consistently rejected. Evidence of its work on designing nuclear warheads, revealed in the nuclear archive Israel ferreted out of Tehran, only confirms its interest in a weapons program."* [135] Mr. Ross' accusations are especially damning because he cannot be described as a political partisan trying to destroy President Obama's legacy and prevent President Biden from getting international glory of his own. Dennis Ross is a Democrat who served in both Democratic and Republican administrations led by Jimmy Carter, George H.W. Bush, Bill Clinton, George W. Bush, and Barack Obama. [136]

Under the Deal, there is a high chance that Iran would continue its non-transparent, some would say deceptive behavior, and will be playing the high-stakes cat-and-mouth game with the international observers claiming a lack of knowledge about enriched uranium traces left in

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[129] Francois Murphy, Reuters, "Iran Nearing Nuclear Bomb Yardstick as Enriched Uranium Stock Grows," March 3, 2022.
[130] For the names of Iran's nuclear program facilities - Kali Robinson, Council on Foreign Relations, "What is the Iran Nuclear Deal?" August 18, 2021.
[131] BBC News, "Iran Deal: What It All Means?" November 23, 2021.
[132] Ibid.
[133] Hillel Fradkin and Lewis Libby, The Wall Street Journal, "Iran Inspections in 24 Days? Not Even Close," July 21, 2015.
[134] Wikipedia, "Dennis Ross." Downloaded on April 6, 2022.
[135] Dennis Ross, The Day, "To Deter Iran, Give Israel Bunker-Busting Big Bomb," August 1, 2021.
[136] Wikipedia, "Dennis Ross." Downloaded on April 6, 2022.

various facilities, the reasons for building extensive uranium enrichment capabilities and designing nuclear warheads. Until one day, they would announce that they had a nuclear bomb.

b. **The Re-Signed Deal May Lead to Higher Rather Than Lower Oil Prices and Inflation:** Iran does not even need a nuclear bomb to wreak havoc in the Middle East. Iran, flush with $1.7 billion in cash, sent in three cargo airplanes from the US after President Barack Obama signed the initial Deal with Iran and used some money to send advanced weapons and military advisors to the Houthi rebels in Yemen. [137] According to a 2015 *Newsweek* report, the Houthis are fighting "*for things that all Yemenis crave: government accountability, the end to corruption, regular utilities, fair fuel prices, job opportunities for ordinary Yemenis and the end of Western influence."* In reality, their rallying cry is "*Death to America, death to Israel, damn the Jews, victory to Islam." [138]* And since it is too far for them to engage America or Israel, the 'peace-loving' Houthis have already shot rockets at Saudi Arabia and the UAE. Before these attacks, these countries sided with the elected government forces in Yemen that fought against the Houthis in a civil war. [139] The civil war started after the Houthis overthrew the Yemeni government in 2014. [140] The shooting by the Houthis explains why Saudi Arabia and the UAE vehemently oppose the Deal.

While President Biden may get his wish and get Iranian oil on the market, more oil could continue to be withdrawn from the market by the traditional allies of the United States, such as Saudi Arabia and the UAE. For example, despite President Biden's frequent calls to Saudi Arabia to pump more oil, especially when tensions and later war between Russia and Ukraine pushed oil prices to above $100 per barrel *(see Chart 12 for the oil price dramatic increases)*, Saudi Arabia continued to produce significantly less oil than its potential *(see the extent of the underproduction below in this section).* This underproduction has already led to higher oil prices even before the Deal is re-signed. This inflationary pressure may increase if the new Iran Nuclear Deal is signed.

Before the initial Iran Nuclear Deal was signed in 2015, Saudi Arabia provided the US and other countries with oil, while the US provided Saudi Arabia's security. However, things changed dramatically under the Obama and Biden administrations. As Riad Kahwija, a security advisor from the UAE, put it about countries in the region, *"Each country is trying to adopt policies that will secure their own interests. They are no longer tying their ship to the U.S. rope, because this ship seems to be floating without direction in its dealings with Iran."* [141]

[137] Jay Solomon and Carol E. Lee, The Wall Street Journal, "U.S. Transferred $1.3 Billion More in Cash to Iran after Initial Payment," September 6, 2016.
[138] Newsweek, "Rise of Houthis," February 9, 2015.
[139] Wikipedia, "Houthi Insurgency in Yemen." Downloaded on April 5, 2022.
[140] Ibid.
[141] Karen DeYoung and Liz Sly, The Washington Post, "Gulf Arab States That Opposed the Iran Nuclear Deal Are Now Courting Tehran," December 11, 2021.

In a sign of things to come, which was inconceivable just 15 years ago (before the first Iran Nuclear Deal was signed), Saudi Crown Prince Mohammad Bin Salman said he did not care whether U.S. President Joe Biden misunderstood things about him.[142] He added that Biden should be focusing on America's interests. "We don't have the right to lecture you in America," he added. "The same goes the other way." [143]

Mr. Biden has repeatedly called on Gulf countries, with Saudi Arabia being the largest of them and the de-facto leader of OPEC, to pump more oil to reduce gasoline prices, with calls frequency increasing as oil prices threatened to go higher amid a Russian troop buildup along the Ukrainian border. [144] However, "*The kingdom [of Saudi Arabia] is not on the same page with the US currently,"* said an OPEC delegate. "*We all know they are not ready to cooperate with the US to calm the market."* [145]

Saudi Arabia and the UAE are the only two major oil producers that can pump extra millions of barrels of oil. [146] Saudi Arabia, for example, can potentially push global petroleum prices lower because it only pumps out around 10 million barrels of oil daily, about 17% below its total capacity of 12 million barrels per day. [147] If used, this capacity could help calm the crude market at a time when gasoline prices are high worldwide. However, they have not done it so far. As a matter of fact, Saudi Crown Prince Mohammed bin Salman and the UAE's Sheikh Mohammed bin Zayed al Nahyan declined U.S. requests to speak to Mr. Biden in February and March 2022. [148] At an energy forum in Riyadh on February 16, 2022, Saudi Energy Minister Prince Abdulaziz bin Salman rejected calls to pump more oil and said renegotiating quotas among OPEC members risked stoking more volatility in oil markets. [149] Of course, in my opinion, he left out the main reason for his decision not to increase oil production. From the Saudi Arabian perspective, the principle that guided the US-Saudi Arabia for decades was "Security for Oil," or "Oil for Security." Without security, there will be no extra oil from Saudi Arabia and its allies.

If somebody asked me what I would do regarding Iran, I would say that I would sign an Iran Nuclear Deal, but only if the terms are advantageous for the US and its allies. I would not sign it on Iranian terms. The Deal would have a provision for an instant inspection of any or all of Iran's nuclear facilities that the international nuclear inspectors could perform as they are about to enter the Iranian airspace or territory. If Iran has nothing to hide, this provision will not be a problem for the country. I would remind the Iranian negotiators of two precedents of other countries' nuclear programs wiped out by force. Israel, a country with less than ten

[142] Maher Chmaytelli, Reuters, "Saudi Crown Prince Says He Does Not Care if Biden Misunderstands Him - The Atlantic," March 3, 2022.
[143] Ibid.
[144] Middle East Eye, "Saudi Arabia Rejects US Request to Increase Oil Production," February 17, 2022.
[145] Ibid.
[146] Dion Nissenbaum, Stephen Kalin, and David S. Cloud, The Wall Street Journal, "Saudi, Emirati Leaders Decline Calls With Biden During Ukraine Crisis," March 8, 2022.
[147] Ibid.
[148] Ibid.
[149] Middle East Eye, "Saudi Arabia Rejects US Request to Increase Oil Production," February 17, 2022.

million people and limited resources, bombed Iraq and Syria's nuclear programs out of existence in 1981 and 2007, respectively. [150] [151] I would remind the Iranian negotiators that Israel has been lobbying the US administration for years to provide it with the bunker-busting bombs that could spell the end for Iran's underground nuclear program. [152] The Israelis understand what country would be bombed first if Iran developed a nuclear bomb and desperately want to prevent this from happening.

But the US would not have to outsource the deed to Israel if the push comes to shove. In April 2017, the US dropped the largest non-nuclear bomb – the Mother of All Bombs (MOAB) – on the ISIS mountain complex with multiple tunnels in eastern Afghanistan's Achin district of Nangarhar province. [153] The bomb rendered the complex unusable, killed 94 ISIS fighters, and did not kill a single civilian in collateral damage. [154] [155]

In April 2018, the US, France, and Britain launched 105 missiles in retaliation for a suspected poison gas attack in Syria, targeting what the Pentagon said were three chemical weapons facilities, including a research and development center in Damascus and two installations near Homs. [156] *"Syrian state media called them a "flagrant violation of international law," while Iranian Supreme Leader Ayatollah Ali Khamenei called it a crime and the Western leaders criminals."* [157] Nevertheless, a dangerous chemical weapon program was wiped off the face of the Earth.

I would be very firm in negotiating with Iran because we all can see what happens when even one of the world's poorest and least developed countries, North Korea, gets a nuclear bomb. The country creates crises on its own schedule by shooting its nuclear missiles toward South Korea, Japan, or into the Pacific Ocean in the direction of the United States. Saudi Arabia has already announced that if Iran gets a nuclear bomb, Saudi Arabia will do everything in its power to get a bomb of its own. [158] Does the world need a nuclear arms race in the Middle East, one of the world's most volatile regions, even without nuclear weapons?

I believe that to avoid the review of the new Iran Nuclear Deal by the US Congress, the Biden administration will sign an agreement with the same major problem that the original Deal had – an inadequate inspection and verification mechanism (24 days after the inspection is

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[150] Wikipedia, "Operation Opera." Downloaded on April 4, 2022.
[151] Wikipedia, "Operation Outside the Box." Downloaded on April 4, 2022.
[152] Jacob Magid and Judah Ari Gross, The Times of Israel, "Bipartisan House Bill Will Encourage US to Sell Bunker Buster Bombs to Israel," October 27, 2020.
[153] Bill Chappell, National Public Radio, "Afghan Official Says 94 ISIS Fighters Killed In 'Mother Of All Bombs' Attack," April 14, 2017.
[154] Hollie McKay, Fox News, "Afghan Official Says 94 ISIS Fighters Killed In 'Mother Of All Bombs' Attack," May 17, 2018.
[155] Bill Chappell, National Public Radio, "Afghan Official Says 94 ISIS Fighters Killed In 'Mother Of All Bombs' Attack," April 14, 2017.
[156] Phil Stewart and Tom Perry, Reuters, "U.S. Says Air Strikes Cripple Syria Chemical Weapons Program," April 12, 2018.
[157] Ibid.
[158] Kingston Reif, Arms Control Association, "Saudi Arabia Threatens to Seek Nuclear Weapons," June 2018.

requested). I think the administration will try to 'sell' the Deal domestically because it would be easier to do than persuade Iran to compromise on the inspection and verification mechanism. If this is the case, Saudi Arabia and the UAE will not increase their oil production, trying to maximize their revenues from selling oil at high prices. Unless the US increases domestic oil production, the oil price may stay elevated through the rest of Mr. Biden's term in office. The high oil prices would continue to be inflationary.

15. **Making the US Move Away From Fossil Fuels Before This Transition Is Possible Has Already Led to Higher Energy Prices and Inflation:** At this time, significant technological and economic challenges to transition exist. For example, no solar energy is generated at night or during fog. No wind energy is produced when there is no wind or wind is blowing too strongly. Due to the lack of necessary technologies today, there is no adequate grid-scale battery storage to store electricity generated during sunlight hours by solar-energy installations or during optimal wind conditions by wind turbines for use at night or during suboptimal wind conditions. There are no grid-scale technologies to save enough power even for hours; forget about a month, several days, or even a day later. [159] According to a report *"Storage Futures Study Economic Potential of Diurnal Storage in the U.S. Power Sector"* by the US National Renewable Energy Laboratory (NREL) of the US Department of Energy, the US may have enough storage capacity for up to 80% transition to the renewable sources (and maybe significantly less as the forecast numbers in the report vary greatly) in 2050 or 28 years from now. **[160]** The NREL's report authors predict that there will be at least 3,000 times more battery capacity in 2050 than today. [161]

    Electric cars are still expensive, their driving range is relatively short, and it takes half an hour to charge a car using a 'fast' charging cable. [162] It can take up to 12 hours if that cable is not available. [163] As a result of these technological and financial challenges, alternative energy adoption ranges from low to very low. Through the third quarter of 2021, around 20% of the US electricity was generated from renewable sources. [164] As of 2022, less than one percent of the 250 million cars, Sports Utility Vehicles (SUVs), and light trucks on US roads are electric. [165]

    President Biden cornered himself in the oil markets. He made producing oil difficult in the United States before the country developed the capacity to generate 100%, or even 25% of its energy, from alternative sources. During his first week in office, Mr. Biden suspended oil and gas leasing

[159] A. Will Frazier, Wesley Cole, Paul Denholm, Scott Machen, Nathaniel Gates, and Nate Blair, The National Renewable Energy Laboratory, "Storage Futures Study: Economic Potential of Diurnal Storage in the U.S. Power Sector," Executive Summary, June 1, 2021.
[160] Ibid.
[161] Ibid.
[162] Pod Point, "How Long Does It Take to Charge an Electric Car," November 11, 2021.
[163] Ibid.
[164] Feilding Cage and Samuel Granados, Reuters Infographic, "The Long Road to Electric Cars," February 7, 2022.
[164] Reuters, "Saudi Crown Prince Says Will Develop Nuclear Bomb if Iran Does: CBS TV," March 15, 2018.
[164] Kenneth Bossong, Power Engineering, "Renewables Account for 20% of U.S. Electricity Generation through Q3 2021," November 30, 2021.
[165] Feilding Cage and Samuel Granados, Reuters Infographic, "The Long Road to Electric Cars," February 7, 2022.

on public lands and waters. [166] He also raised the 'social cost of carbon' to $51 to match Obama's from $1-7 under Trump. [167] This colossal increase – up to 50 times – became a massive disincentive for exploring and producing oil in the US. On his first day in the office, Joe Biden killed the Keystone XL pipeline that "would have shipped 500,000 barrels a day from western Canada into the U.S. refining system." [168]

There are three options for getting oil in terms of their attractiveness. Under all three options, the US would have to work around the clock on developing technological solutions for producing alternative energy that is cheap, reliable, and available 24 hours a day, 365 days a year.

a. Option 1: Achieve Energy Independence by Producing Oil and Gas Domestically

This is the most attractive option. The US would not depend on anybody and their willingness to pump more to calm crude markets. The country also does not have to pay high transportation costs to deliver oil to the US. From the environmental perspective, it is also the most attractive option. The oil tankers, which transport oil across the oceans to the US, often use cheap fuel oils, such as bunker oil, that are very polluting. [169] Not all countries have the same stringent environmental standards as the US. The environmental impact on the global climate of a barrel of oil produced in the US is lower than that in countries with lower environmental regulations.

b. Option 2: Import from Traditional International Partners (i.e., Saudi Arabia, UAE)

This option is not as good because a country has to pay for transporting oil to the US shores. The oil tankers emit a lot of greenhouse gases. There is a risk of a tanker accident and spillage. Also, sometimes these allies' interests are not aligned with those of the US *(see the section on the Iran Nuclear Deal)*, and these countries would need to be convinced to pump more oil. However, on the positive side, the exporting countries' governments do not use the money for anti-American activities or activities against the US allies in the geopolitical or military spheres.

c. Option 3: Import from the Pariah States (i.e., Iran, Venezuela)

This option is the worst out of the three. The US has to pay more in transportation costs for tanker delivery, which is not very environmentally friendly. Once again, there are risks of significant spills from oil tankers. Environmental issues in these countries are elevated. For example, Tehran, the capital of Iran, is rated as one of the world's most polluted cities. [170] On the World Health Organization's list of the world's 500 most polluted cities by particulate matter concentration, Iran has 43 cities, second only to China which dominates the list with 283 cities.

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[166] Emma Newburger, CNBC, "Biden Suspends Oil and Gas Leasing in Slew of Executive Actions on Climate Change," January 27, 2021.
[167] Rachel Koning Beals, MarketWatch, "Biden Matches Obama's 'Social Cost of Carbon' for Now — It's a Figure Roughly 50 Times Greater than Trump's," February 27, 2021.
[168] Chris Woodward, The Boston Herald, "Woodward: Biden's Keystone Blunder Still Being Felt a Year Later," January 20, 2022.
[169] Wikipedia, "Oil Tanker." Downloaded on April 5, 2022.
[170] Wikipedia, "List of Most-Polluted Cities by Particulate Matter Concentration." Downloaded on April 5, 2022.

[171] While the information on the oil extraction standards in Iran is not readily available, these standards are not likely to be high in a country that tolerates its capital and other cities to be so polluted. Venezuela had nine major oil spills that caused grave damage to nature just in 2020 and 2021. [172] Finally, these countries are known to use the money for anti-American activities, activities against the US allies in the geopolitical or military spheres, and absolute brutality against their own populations.

The US, which was energy independent under the Trump administration, now may rely on the pariah states such as Iran and Venezuela for its oil imports, which is not a good situation on the strategic, economic, and environmental levels.

President Biden's moves against the US oil and gas industry and antagonizing the traditional Middle Eastern oil suppliers (i.e., Saudi Arabia, UAE) by threatening to sign another 'toothless' Iran Nuclear Deal reminded me of the Roman conquest of England under Julius Caesar around 2000 years ago. Caesar famously ordered to burn the boats AFTER all his soldiers landed in England, realized that the Celts had significantly more soldiers, and were ready to get in the boats and go away. [173] By burning the boats, Julius Caesar persuaded his men to fight to the death. That was their only way to survive. And fight they did…

In this context, President Biden's decision to impose serious anti-fossil fuel measures while the US economy relies on these fuels – with just 20% of electricity generated from alternative sources and less than 1% of vehicles being electric – is akin to burning the ships BEFORE the majority of soldiers were transported to the other side of the energy sea and relying on pirates and enemies to transport soldiers to the other side. Of course, there is a slight chance that these pirates and enemies would try to help the soldiers. But they are more likely to try to hurt the soldiers.

As most people in the United States do not use whale oil, kerosene lamps, or other technologies of the past, I think the overwhelming majority of the US population – including me – would welcome the transition to alternative energy. I have not been just a passive supporter. I tried my best to make the transition happen. Below are just some of my actions since 2005. I volunteered to cover solar energy – a very new industry in the mid-2000s – at Fidelity Management & Research. I wrote dozens of investment reports about this industry and companies within it for Fidelity's managers responsible for investing billions of dollars. When I had just three to four hours a night for sleep during my MIT Sloan School of Management studies, I still spent hours volunteering at the MIT Energy Club. I researched options for solar energy firms to participate in the MIT Sloan Energy conference. Sometimes, investors and companies met and started their cooperation at the conference. During the MIT Sloan Entrepreneurship students' trek to Silicon Valley, I organized a visit to a prominent solar energy manufacturer. I recruited a team to analyze

[171] Ibid.
[172] Deisy Buitrago, Reuters, "Venezuela Oil Spills Caused Grave Environmental Damage Over Two Years –Report," February 16, 2022.
[173] The Daily Coach, "Burn the Boat," August 12, 2019.

the role of silicon crystalline technologies within the solar energy landscape for the Disruptive Technologies class.

My MIT $100K Competition team focused on inventing and implementing processes that would allow manufacturers to produce thin-film photovoltaic solar energy panels inexpensively and with high quality. This technology would enable solar energy to match the cost of electricity produced from other sources (i.e., natural gas and nuclear). The team reached the semifinal of the famed competition. Even in my personal life, I dedicated time to alternative energy research. When my wife and I went to Canada after graduating from MIT Sloan, we drove all the way to the northern tip of Prince Edward Island to visit the Wind Energy Institute of Canada. To my vast and positive surprise, a friend of a friend whom I had not met before, but I heard that he had worked in the wind industry in New Zealand, was working in Canada during our visit. He gave us a wonderful tour of the facility and helped us compare various wind turbines.

I genuinely support the transition to less-polluting energy sources. But to have a successful transition, it has to be possible. It cannot be based on the wishful thinking of adolescent activists who did not even finish high school and focus singularly on global warming without thinking about the links of energy with other aspects of human lives. I would ask the activists several questions about the side effects of focusing on just global warming and ignoring the world's need for energy. I am not sure that they thought them through them.

- What happens if not enough power is generated from renewable sources and there is not enough power in the grid? Sick and vulnerable people dependent on medical equipment would die. Everybody else would panic and try to find anything that could be used as fuel. People would fight for furniture, pieces of wood, plastic products, etc.
- Should people burn wood, where available, or furniture in cities to keep themselves warm during winter? Do you think the greenhouse emissions from burning wood are lower than from burning natural gas? According to the World Resource Institute, *"Smokestack* CO_2 *emissions from combusting wood for heat can be 2.5 times higher than those of natural gas and 30 percent higher than those of coal per unit of generated energy. In terms of electricity generation, smokestack emissions from combusting wood can be more than three times higher than those of natural gas, and 1.5 times those of coal per MWh."* [174]
- What would happen to power price if its demand is severely diminished due to the use of only or primarily renewable energy sources? The electricity price would skyrocket, devastating the budgets of poor people first.
- What happens to crime if street lights, less essential for human survival than home heaters, do not work after dark due to the lack of power? The crime level will skyrocket as well. I have seen criminals throwing stones to break street lamp bulbs to achieve the effect that the lack of electricity would achieve for them.

[174] Craig Hanson and Janet Ranganathan, World Resources Institute, "Insider: Why Burning Trees for Energy Harms the Climate," December 6, 2017.

Also, the transition cannot be based on the politicians' dreams that do not consider the cost of the transition and the technologies available (or not) for it. These politicians do not seem to understand that their legislation, based on the ideas only partially developed with gaps bigger than the Pacific Ocean, would make the alternative energy lose credibility after power is unavailable or its costs skyrocket. The alternative energy would have to be cheap, abundant, and available day and night regardless of whether the wind blows or the sun shines outside. Political leaders cannot tell people on a freezing night that there is no electricity in the grid because it was not produced from alternative energy sources. A massive percentage of buildings in the northern US would have their water pipes burst, leading to extensive water damages measured in thousands, hundreds of thousands, and even millions of dollars for large buildings. Without reliable energy, people risk freezing to death.

Once, the main heater broke in my house in the greater Boston area when no technicians were available on Christmas day. I had to wait overnight for a technician to fix the heater. After sending my wife and kids to stay with my parents, I spent a very uncomfortable night sleeping dressed in several sweaters and my winter jacket in a freezing house. I was concerned about pipes (and me) freezing. I was lucky that the electricity was available – only the main heater was dead – so I could install three mini-heaters next to the water pipes. Without power, these water pipes would have probably burst, causing significant damage to the house. Even if I did not understand the importance of having energy – 24 hours a day, 365 days per year – that night would have made me realize the importance of having reliable power in the grid.

Once again, I believe in and support the transition to non-fossil sources of energy when they are reliably available. However, even more than this, I wish not to become a victim of overly aggressive politicians who push for a transition to alternative energy sources today or tomorrow – while they are not fully available – by threatening that the world will end in a decade or so in the future. These threats may stay just that – the threats. In the 2019 article *"Climate Scientists Refute 12-year Deadline to Curb Global Warming,"* scientists seriously disagreed with Democratic freshman Rep. Alexandria Ocasio-Cortez. [175] She stated that millennials understood that they had only 12 years before *"the world is going to end"* around the time the year of 2030 rolls in. [176] Personally, I do not agree that all millennials agree with the statement based on my conversations with many people from this group. But it pays to use the round numbers even in doomsday scenarios. These numbers make it easier for the followers to remember when the world supposedly ends!

[175] Andrew Freedman, Axios, "Climate Scientists Refute 12-year Deadline to Curb Global Warming," January 22, 2019.
[176] Ibid.

GROUP 5: RUSSIA-UKRAINE WAR STRAINED GLOBAL COMMODITY SUPPLY

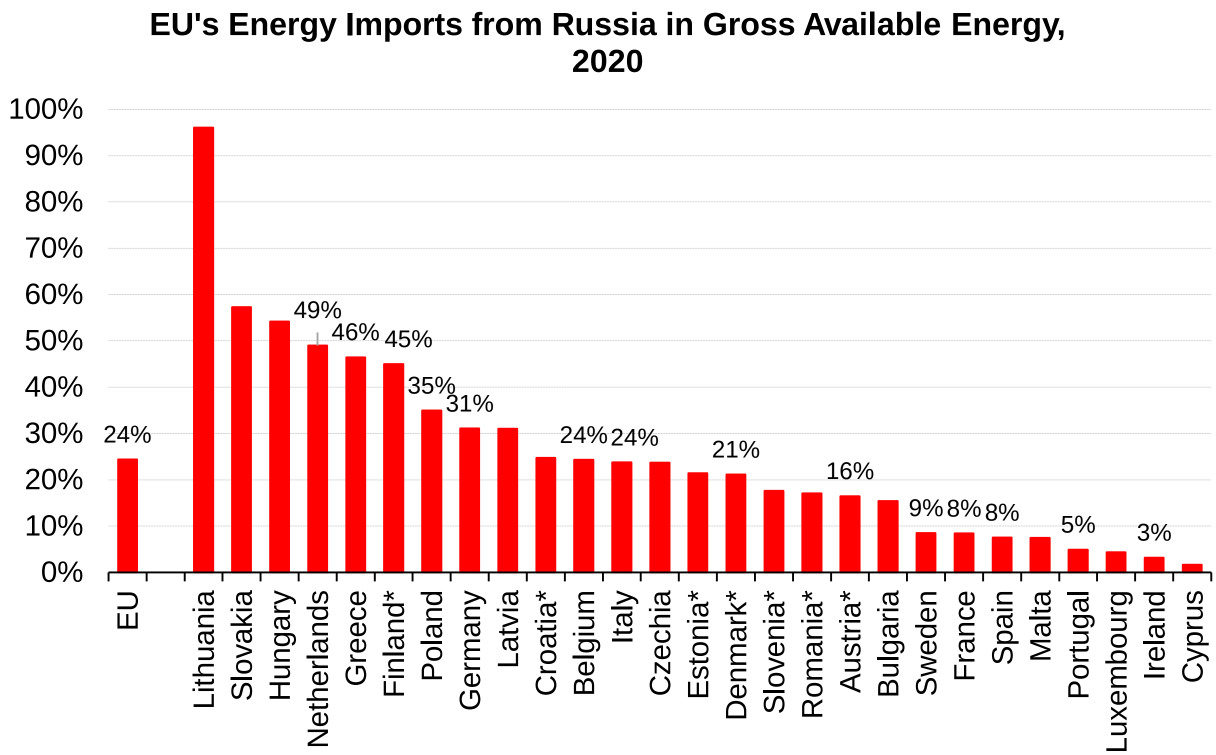
16. **The Russia-Ukraine War Resulted in Higher Commodity Prices that Increased Global Inflation:** Any limitation to the supply of goods is inflationary, especially such a significant one. The impact of the Russia-Ukraine war has likely led and is likely to continue to lead to higher commodity prices. By the end of March, the Bloomberg Commodity Index had returns of 25.5% since the beginning of the year. [177] In this report, I will focus on four major groups of commodities whose supplies are likely to be lowered due to sanctions on Russia and the war in some parts of Ukraine. As a result, their prices are likely to go up: Energy, Wheat, Fertilizers, and Metals. I totally disagree with the Russian aggression against Ukraine. Unfortunately, the sanctions imposed on Russia are a double-edged sword that may cause recession not only in Russia but also in countries that heavily depend on exports from Russia.

    a. **Energy:** In 2020, the European Union (EU) imported 58% of the energy it consumed. [178] *"The EU's energy mix in 2020 consisted of 35% oil and petroleum products, 24% natural gas, 17% renewables, 13% nuclear energy, and 11% solid fossil fuels. Russia is the EU's leading supplier of natural gas, oil, and coal - the main energy commodities of the EU's energy mix. In 2020, imports from this origin satisfied 24% of the EU's energy needs."* [179]

       Any disruptions to the Russian energy exports to the countries importing the most will increase energy prices *(see Chart 3 below. Countries in BBIS' investment universe show percentages of energy imported from Russia).*

[177] Source: Bloomberg. Downloaded via Refinitiv.
[178] Eurostat, "The EU Imported 58% of Its Energy in 2020," March 28, 2022.
[179] Ibid.

Chart 3. European Union's Energy Imports from Russia by Country as a Percentage of Gross Available Energy, 2020. [180]

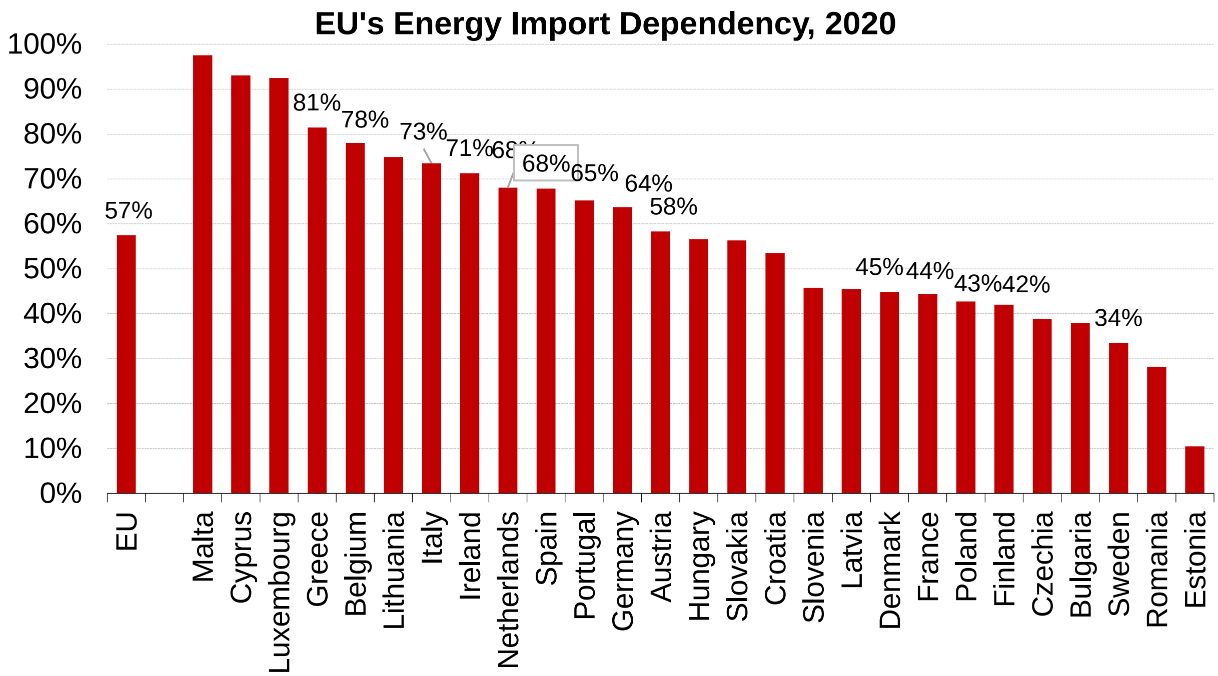


*Source: Eurostat, including estimates for non-reported data for countries with **

But while supply disruptions may initially increase prices for countries most reliant on supplies from Russia, countries reliant on other suppliers will have to pay higher prices as well *(see Chart 4).* All energy commodity prices – including those of oil, natural gas, and coal from all countries – would also increase. By the end of March, for example, the total returns of the Bloomberg Energy Index were 47.9% on a year-to-date basis. [181]

[180] Ibid.
[181] Source: Bloomberg. Downloaded via Refinitiv.

Chart 4. European Union's Energy Import Dependency, 2020. [182]

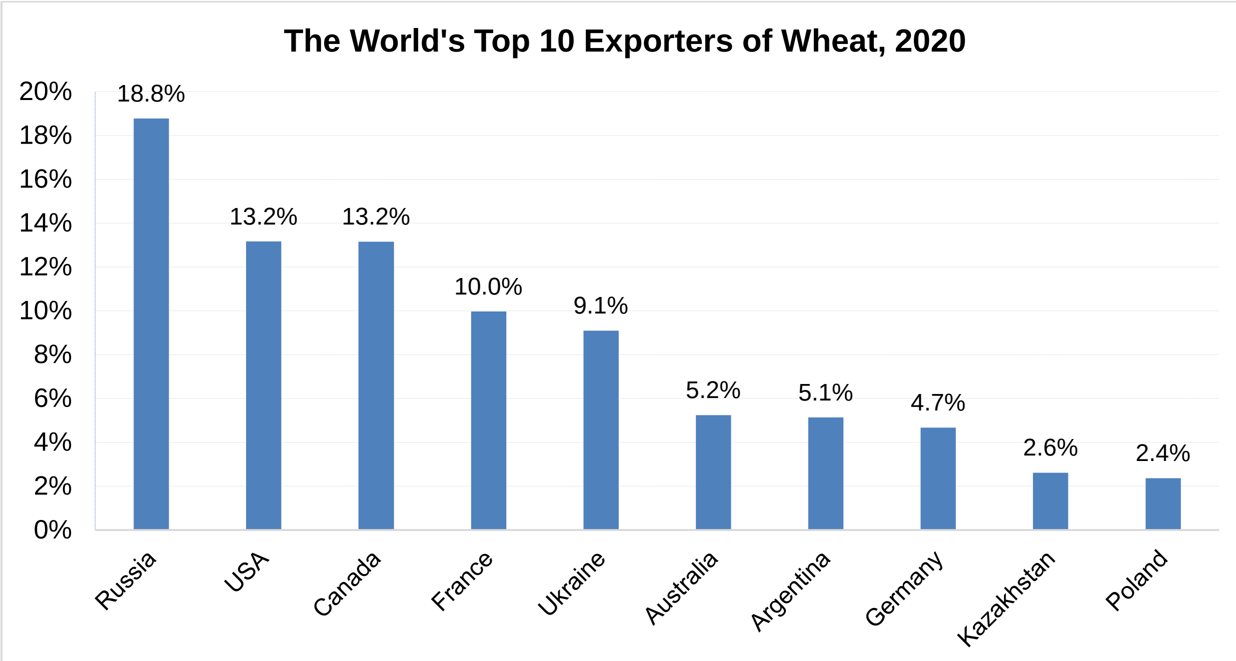


Source: Eurostat, calculation based on energy balances

b. **Wheat:** The Russo-Ukrainian war is likely to cause disruptions in the global wheat markets. Between the two of them, Russia and Ukraine controlled 27.9% of the global wheat exports in 2020. Russia was the world's largest wheat exporter with a share of 18.8% in 2020, and Ukraine was the world's fifth-largest exporter with a share of 9.1% of the global exports *(see Chart 5 for the shares of the world's top ten exporters of wheat).*

[182] Ibid.

Chart 5. The World's Top Ten Exporters of Wheat, 2020.

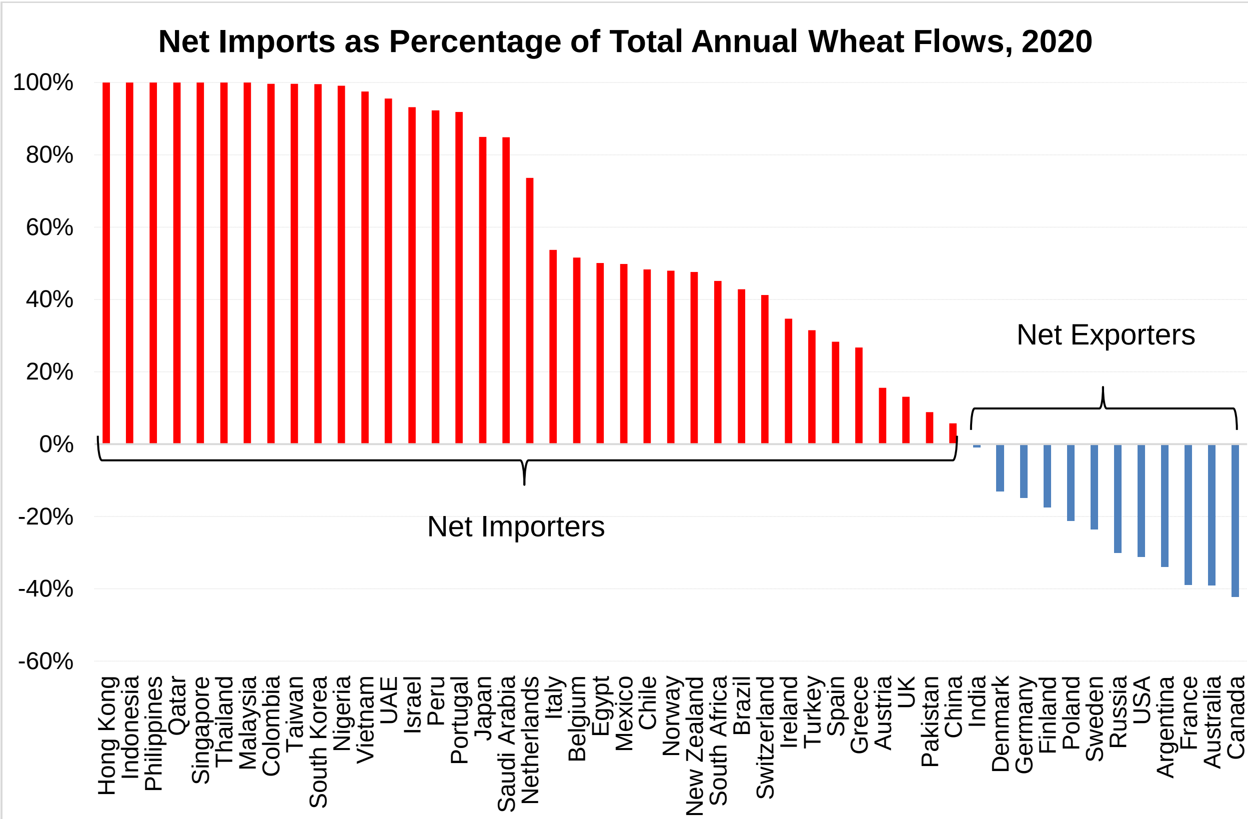


Source: The Food and Agriculture Organization (FAO) of the United Nations. Data as of 2020.

The Ukrainian harvests have been directly impacted by the war – wheat cannot be grown due to shelling and shooting in the area – thus directly leading to the wheat shortage and inflation. The economic sanctions may somewhat impact Russian wheat exports. I am saying somewhat because any wheat on the market will most likely be snapped by countries that did not impose sanctions. The impact of the western sanctions on Russia is likely to be less inflationary in terms of the wheat price increases. Most Russian wheat is likely to be sold, maybe to different countries than before.

Many countries worldwide import a high percentage or even all of their wheat *(see Chart 6 below for net exporters and net importers of wheat among 49 countries in BBIS' universe.)*

Chart 6. Net Imports as Percentage of Total Annual Wheat Flows in 2020.



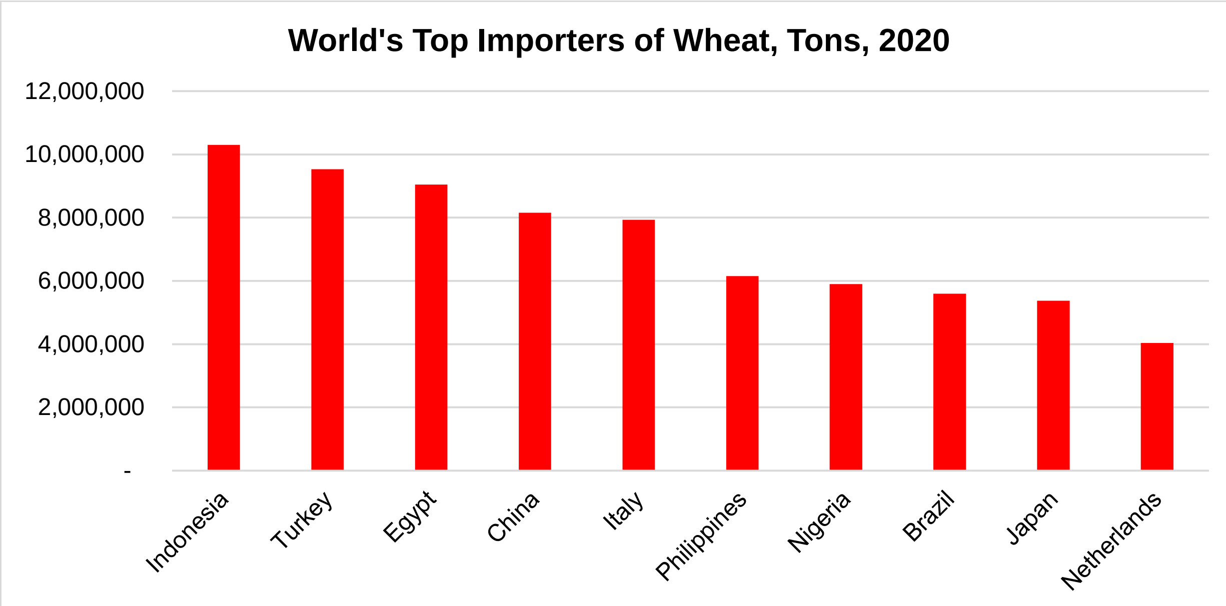
Source: The Food and Agriculture Organization (FAO) of the United Nations. Data as of 2020. Total Annual Wheat Flows = Imports + Exports + Production. Net Imports = Imports – Exports. The chart includes 49 countries in the

Many more countries import a significant portion of wheat but do not have single-country ETFs representing their stock markets and, therefore, are not included in BBIS' research universe. Even if countries importing a large percentage of their wheat want to do something to finish the war between Russia and Ukraine, they may be forced to buy wheat from any available sources, including from Russia, and potentially at higher prices. Wheat bread is a staple in many countries around the world. Its deficit or significant increase in prices may cause riots, such as those taking place in Peru. These protests and riots were caused by high prices of food, fuel, and fertilizers, all of which were impacted by the war thousands of miles away. [183] [184]

Significant wheat importers are likely to pay more for wheat due to its price increase *(see Chart 7 below).*

[183] NHK News, "Peruvians Protest Surging Fuel and Food Prices," April 6, 2022.
[184] Marcelo Rochabrun, Reuters, "Peru Protest Death Toll Hits Five as Fuel Price Rises Stoke Anger," April 6, 2022.

Chart 7. World's Largest Net Importers of Wheat in 2020.



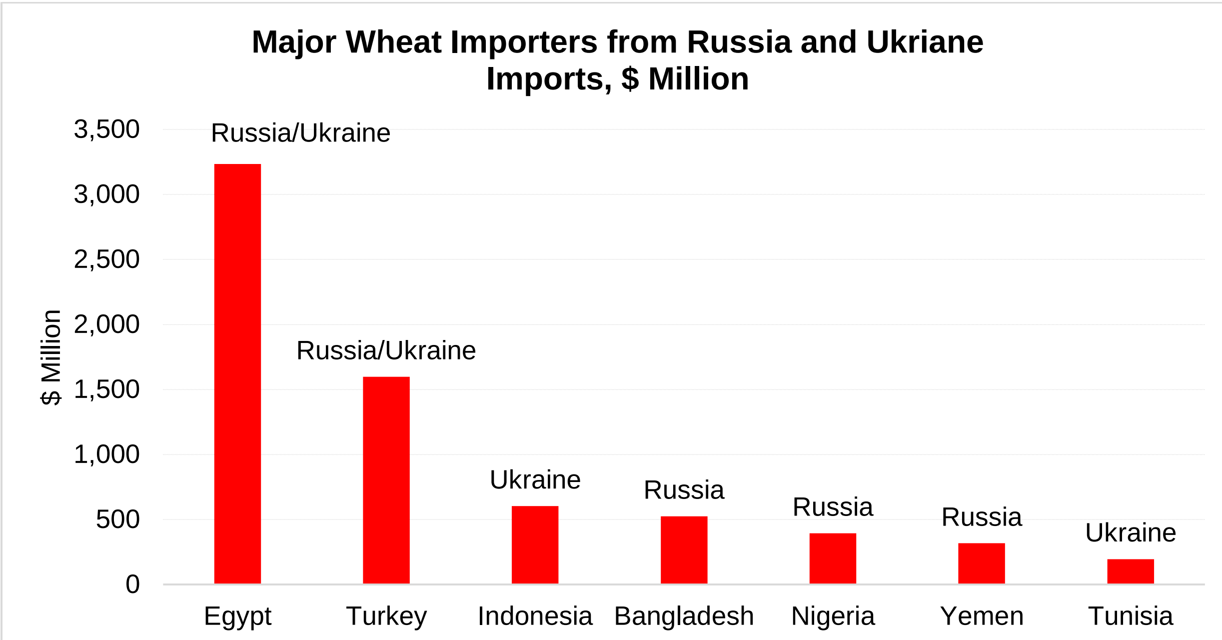
Source: The Food and Agriculture Organization (FAO) of the United Nations. Data as of 2020.

Overall, the wheat shortage and its supply instability are likely to be inflationary in many countries. It may contribute to the price increases of wheat, where Russia and Ukraine hold a very high share of exports, and wheat substitutes such as rice, corn, maize, soybeans, and other grains. As of the end of March 2022, total returns of the Bloomberg Wheat sub-index of the Bloomberg Grains Index were up 29.6%, while total returns of the Bloomberg Grains Index were positive 24.9% on a year-to-date basis. [185]

Wheat supplies to the following countries – Egypt, Turkey, Indonesia, Bangladesh, Nigeria, Yemen, and Tunisia - are likely to be impacted directly, not just via the global wheat price increases (*see Chart 8 showing countries with the highest combined wheat imports from Russia and Ukraine).* The governments of these countries would have to either find other suppliers or continue buying from Russia and Ukraine. Most likely, these countries would have to pay higher prices for wheat in 2022 and beyond.

[185] Source: Bloomberg. Downloaded via Refinitiv.

Chart 8. Countries Importing Most Wheat from Russia and Ukraine.

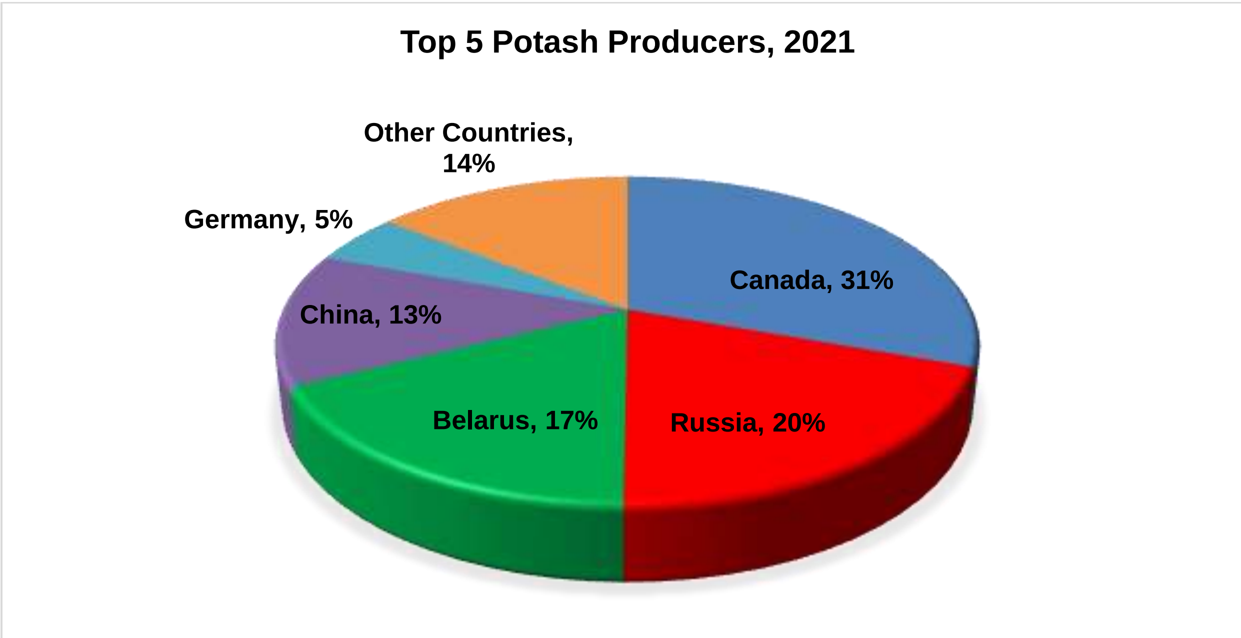


Source: The Observatory of Economic Complexity (OEC), DW, Beyond Borders Investment Strategies.

c. **Fertilizers:** The negative impact of the war on the global fertilizer market cannot be overstated. Russia and Belarus, two countries sanctioned for starting the war, control 37% of the potash production in the world. It is not surprising that the prices of fertilizers shot up in many countries worldwide *(see Chart 9 below for the largest potash producers)*. The higher prices of fertilizers most likely will increase the prices of grains, vegetables, and other agricultural products. As mentioned above, the increase in fertilizer prices already caused riots in Peru, where farmers could not get fertilizers at affordable prices. [186]

[186] NHK News, "Peruvians Protest Surging Fuel and Food Prices," April 6, 2022.

Chart 9. The World's Top Five Potash Producers.



Source: US Department of the Interior, US Geological Survey, "Mineral Commodities Summaries 2022."

In order to have access to fertilizers, countries take different strategies. In large part, to avoid the negative impact of not having fertilizers in Brazil – one of the world's largest agricultural producers – Brazilian President Jair Bolsonaro traveled to Moscow to meet President Vladimir Putin on February 16, just before Russia attacked Ukraine on February 24, 2022. [187] President Bolsonaro said during the negotiations, *"We very much want to collaborate in many areas - defense, oil and gas, agriculture. The meetings are happening."* [188] Mr. Bolsonaro said Brazil would stay neutral and not take sides in the conflict. [189] Petrobras, the country's state-owned oil company, continues to work with the Russian firm Acron on either finishing a fertilizer plant or using it as a distribution center in Brazil's Midwest farming state of Mato Grosso do Sul. [190] Much of Brazil's imports from Russia, which were $5 billion in 2021, were fertilizer products. [191] This amount is expected to increase in the future significantly. [192]

By the end of March 2022, the US Producer Price Index (PPI) 'Potash, Soda, and Borate Mineral Mining' index increased by 10.7% on a year-to-date basis. [193]

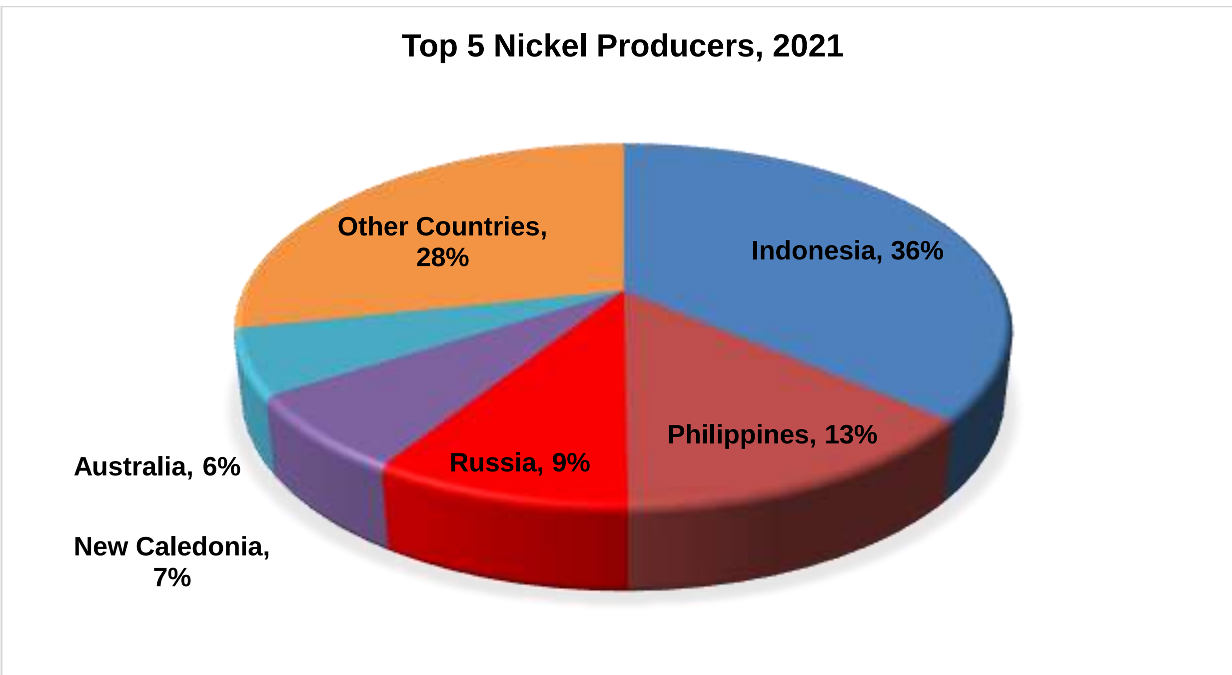
[187] Terrence McCoy, The Washington Post, "Brazil's Bolsonaro Embraced the U.S. Under Trump. Now He's in 'Solidarity' with Russia," February 16, 2022.
[188] Ibid.
[189] Ibid.
[190] Rodrigo Viga Gaier, Reuters, "Brazil's Petrobras Still in Fertilizer Plant Talks with Russia's Acron, Say Sources," March 4, 2022.
[191] Russian Briefing, "Russia To Provide Brazil With Nuclear Power Plants & Fertilizer," February 17, 2022.
[192] Ibid.
[193] The US Bureau of Labor Statistics, US Department of Labor via Refinitiv.

d. Metals

The war in Russia negatively impacted the supply of a number of metal markets. For example, Russia's share of nickel production was 9% of the world's total in 2021 *(see Chart 10 below).* Historically, the metal has been used to produce stainless steel and other corrosion-resistant alloys due to the metal's ability to withstand extreme temperatures. It has been used to make equipment that had to work in extreme temperatures and other durable objects, such as coins. [194] Recently, nickel has been used to produce rechargeable batteries for electric vehicles. According to Nickel Institute, *"The major advantage of using nickel in batteries is that it helps deliver higher energy density and greater storage capacity at a lower cost."* [195]

The overwhelming majority of Russia's nickel was produced by Norilsk Nickel, the world's most significant palladium and high-grade nickel producing company. [196]

Chart 10. The World's Top Five Nickel Producers.



Source: US Department of the Interior, US Geological Survey, "Mineral Commodities Summaries 2022."

[194] Geology.com, "Facts About Nickel: Nickel Uses, Resources, Supply, Demand, and Production Information," Republished from a USGS Fact Sheet from March 2012. Downloaded on April 6, 2022.
[195] Nickel Institute, "Nickel in Batteries." Downloaded on April 6, 2022.
[196] Niccolo Conte, Visual Capitalist, "Elements: The World's Largest Nickel Mining Companies," December 23, 2021.

According to Vladimir Potanin, the company's CEO, Norilsk Nickel has been facing transport and other problems after the West imposed sanctions on Moscow over the Ukraine conflict. [197] Norilsk Nickel faced hurdles in shipping its palladium due to restrictions on air travel to and from Russia. The company also faced *"logistical problems due to the refusal of a number of European ports to handle our cargo."* [198]

The company was developing strategies for redirecting its metals to China and other countries that had not sanctioned Russia. [199] As long as these strategies are not developed and implemented, nickel prices will be high, especially in the West. This high nickel price may result in higher costs of the Electric Vehicle (EV) batteries and EVs themselves.

Low supplies of another metal produced by Norilsk Nickel – palladium – are even more problematic. Palladium is primarily used for catalytic converters, part of a car's exhaust system that controls emissions, mainly in petrol and hybrid vehicles. [200] More than 80% of palladium is used in catalytic converters that turn toxic gases, such as carbon monoxide and nitrogen dioxide, into less harmful nitrogen, carbon dioxide, and water vapor. [201]

The supply for palladium was lower than the demand long before the Russia-Ukraine crisis. The demand for metal exceeded its supply for eight years leading to 2019, the last year with 'normal' demand for vehicles before the pandemic. [202] The global metal supply dropped further in 2021 due to the significant decline in palladium production in South Africa, the largest metal producer with a 40% market share. [203] The decrease reached 13.5% on a year-over-year basis as of November 2021. [204] *Chart 11 shows that the palladium market is a duopoly, with South Africa and Russia's production responsible for around 40% of the global palladium production.* At the same time, demand for palladium has been on fire due to China tightening regulations as the country attempts to tackle air pollution from petrol vehicles and Europe shifting demand from diesel vehicles to petrol vehicles. [205] The former vehicles use platinum catalytic converters, while the latter use palladium. [206] The shortage of palladium was so acute that it led to a jump in the theft of catalytic converters worldwide, where thieves would cut catalytic converters from parked vehicles. [207]

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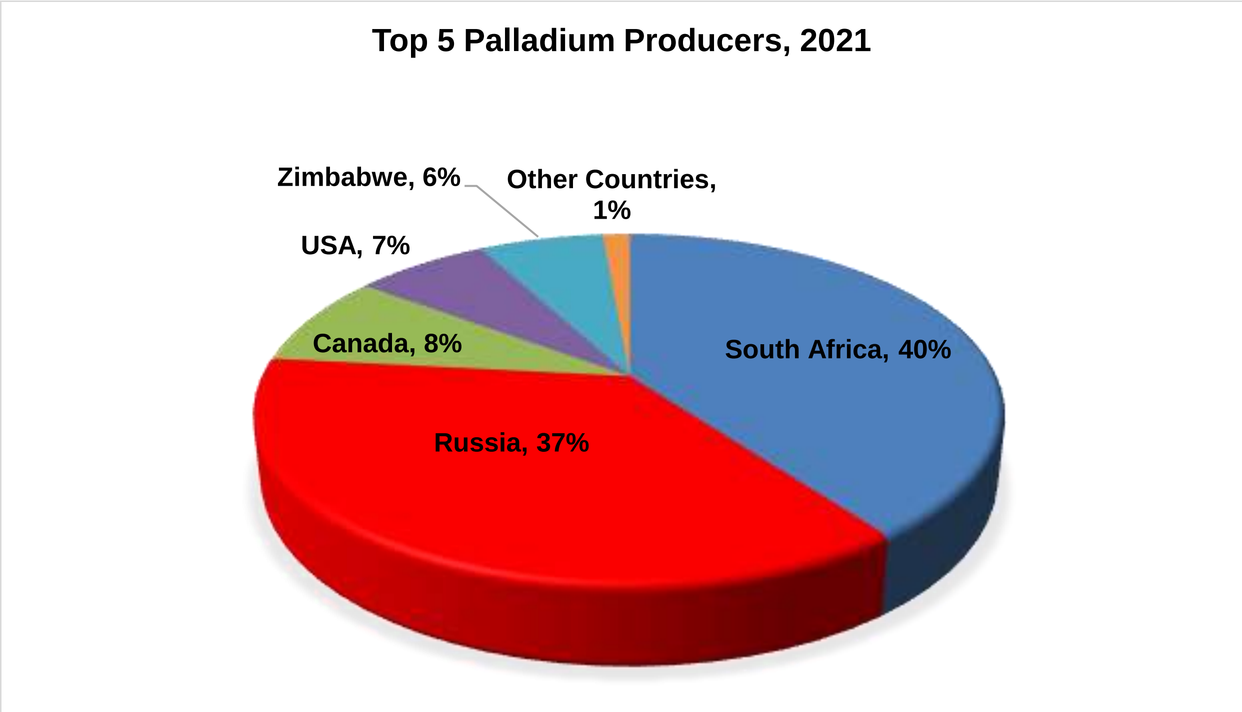
[197] Article by Agence France Presse (AFP), Barron's, "Russia's Nornickel Hit Hard amid Sanctions, Owner Says," March 12, 2022.
[198] Ibid.
[199] Ibid.
[200] BBC News, "More Precious Than Gold: Why the Metal Palladium is Soaring," January 20, 2022.
[201] Ibid.
[202] Ibid.
[203] Ibid.
[204] Ibid.
[205] Ibid.
[206] Ibid.
[207] Ibid.

Chart 11. The World's Top Five Palladium Producers.



Source: US Department of the Interior, US Geological Survey, "Mineral Commodities Summaries 2022."

While I understand and share the belief in the need to stop the war, unfortunately, imposing sanctions on the in-demand metals is inflationary. It is not surprising that the price of the Bloomberg Nickel sub-index, which measures nickel price performance, increased by 56.2% from the beginning of 2022 until the end of March 2022. [208] During the same period, the price of palladium increased by 40.7%. [209] An ounce of palladium is now more expensive than an ounce of gold. On March 31, a troy ounce of gold cost $1,947.80, while an ounce of palladium cost $2,559.70. [210] [211]

[208] Source: Bloomberg. Downloaded via Refinitiv.
[209] INSEE - National Institute for Statistics and Economic Studies, France. Import Price – Palladium (London), $US per Troy Ounce. Downloaded via Refinitiv.
[210] Ibid.
[211] INSEE - National Institute for Statistics and Economic Studies, France. Import Price – Gold (London), $US per Troy Ounce. Downloaded via Refinitiv.

PART 2: MARKET DEVELOPMENTS DURING THE FIRST QUARTER OF 2022

1. **The Biggest Losers:** Russian equity indices became the biggest losers of the Russian aggression in Ukraine. The MSCI Russia Index lost 100% of its value in March 2022. It was the first country index to lose all of its value since BBIS started running money in January 2014. *"On March 2, 2022, MSCI announced that it would reclassify the MSCI Russia Indexes from Emerging Markets to Standalone Markets status in one step as of the close of March 9, 2022."* [212]

   MSCI deleted all Russian securities from various indices by giving them values very close to zero. According to the MSCI *"Q&A: Reclassification of MSCI Russia Indexes to Standalone Markets Status"* report, *"reclassification will be implemented using a lowest system price of 0.00001 of the security's price currency for all Russian securities, including local securities listed on the Moscow Exchange and ADR/GDR listings trading in London and New York. • Russian securities quoting in RUB will be deleted from the relevant indexes at a price of RUB 0.00001 • Russian securities quoting in USD will be deleted from the relevant indexes at a price of USD 0.00001."* [213]

   The MSCI Egypt became the second-worst performer during Q1 2022, with a loss of 23.4%. *Charts 7 and 8 showed that Egypt is not only the world's third-largest net importer of wheat but also the largest importer of wheat from Russia and Ukraine.* Also, in Egypt – with its pyramids and Red Sea resorts - tourism is a very serious business. Tourism accounted for 12% of the 2019 Gross Domestic Product (GDP). [214] While very few Russians visited Egypt after all flights were canceled in the wake of a Russian airplane with 227 people on board blown by a terrorist in 2015, Ukrainians represented the second-largest nationality, after Germany, among tourists. [215] [216] In 2019, one million and two hundred thousand Ukrainians visited Egypt or just under 9% of the total number of tourists (13.5 million). [217] In 2021, Russian flights to Egypt were resumed after a six-year hiatus, and Egypt predicted that 300,000 to 400,000 Russian tourists would visit the country each month (3.6 to 4.8 million tourists per year). [218] [219] However, instead of the projected increase, there has been a 30% decrease in tourism bookings from Russians and Ukrainians in February — even before the war started. [220]

   The MSCI Austria Index became the third-worst performing market during the quarter, with a loss of 20.0%. I believe it happened due to Austria's reliance on Russian natural gas. According to a Reuters article, *"Austria Says It Will 'Do Everything' to Cut Dependence on Russian Gas,"* the country imports

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[212] MSCI, "Our Solutions, Index Country Membership," March 2, 2022.
[213] MSCI, "Q&A: Reclassification of MSCI Russia Indexes to Standalone Markets Status," March 2022.
[214] Knoema, World Data Atlas: Egypt's Tourism and Travel Revenue." Downloaded on March 6, 2022.
[215] Mada Masr, "As Russia Invades Ukraine, Conflict Has Already Dealt Blow to Egypt's Tourism Sector," February 24, 2022.
[216] El Watan News, "Meet the Top 10 Countries That Sent Tourists to Egypt in 2019," February 6, 2020.
[217] Ibid.
[218] Khalid Khassan, Al-Monitor, "Russian Observers Set up at Egypt's Airports," August 21, 2021.
[219] Ahmed Gomaa, Al-Monitor, "Egyptian tourism sector braces for impact from Ukraine crisis," February 25, 2022.
[220] Ibid.

around 80% of its natural gas from Russia. [221] Suppose Austria has to replace the relatively inexpensive exports due to the sanctions with more expensive gas from other pipelines or, especially, with Liquefied Natural Gas (LNG) deliveries from Qatar, the US, or other countries across the ocean. In that case, the Austrian industries' profits will decline.

While not all European countries are as dependent on Russian energy sources as Austria, many countries are either reliant on energy imports in general or on Russian energy specifically. Most of them had negative returns during the quarter.

2. **The MSCI Turkey Index is the Only European Stock Market That Made it to the Top 10 After Q1 2022:** As of March 31, 2022, Turkey is the only country in Europe that made it into the Top 10 on a year-to-date basis *(see Performance Tables at the end of the report)*. The MSCI Turkey index ended the quarter in 10th place with a total return of 13.2%. A large part of Turkey's positive performance could be explained by the fact that the country and its leaders, including President Tayyip Erdogan, retained good relations with the European Union, Russia, and Ukraine. President Erdogan hosted negotiations between Ukraine and Russia in Istanbul on March 29, 2022. [222] Turkey is dependent on imports of oil, gas, and coal. In 2020, the country imported $17.6 Billion of energy (i.e., oil, natural gas), or 8.5% of its total imports of $207 Billion. [223] Most of the energy imports come from Russia. Turkey imported $13.1 billion or 6.3% of total imports from Russia. The diplomatic and business closeness with Russia means that Turkey's risk of losing Russian energy is relatively low and definitely lower than the risk faced by the European countries that support Ukraine in its fight against Russia.

3. **Middle Eastern or African Oil Exporters Did Well During the Quarter:** In the inflationary environment, it makes sense to hold tangible assets such as commodities and stocks of commodity-producing companies. Prices of commodities increase during the inflationary episodes. Stock indices of Saudi Arabia, the UAE, and Qatar ended up in the 'Top 10' of the 50 index universe. This performance was caused by the increasing oil and gas prices due to the war in Ukraine. For example, the Brent Crude Oil price increased by 58.1% in the first quarter, from $74.17 in December 2021 to $117.25 in March 2022 *(see Chart 12 below).*

   Before the Russia-Ukraine war, I did not think the Middle Eastern markets would outperform due to their high valuations. The MSCI UAE and MSCI Saudi Arabia took first and third places in the 50 country index universe in 2021. I wrote about that in the report *"The Winners of the 2021 Country Stock Market Competition"* on January 7, 2022. [224]

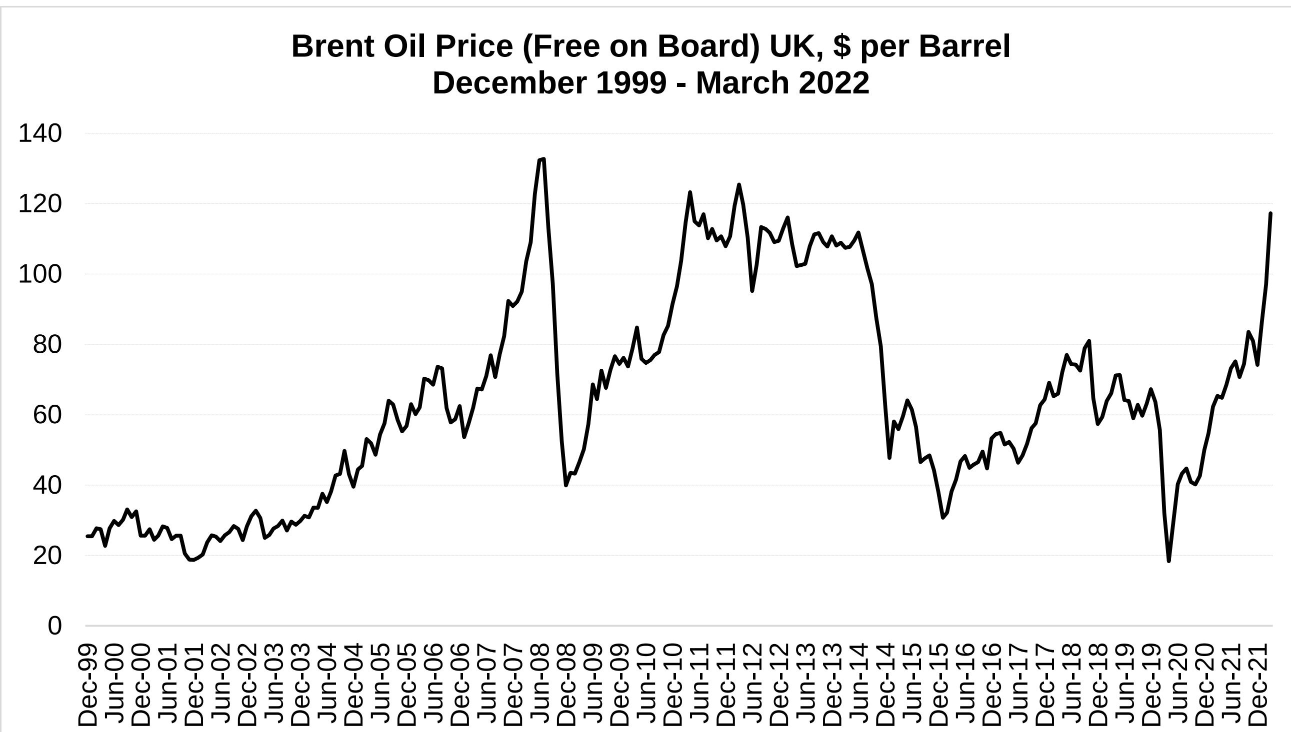
[221] Reuters, "Austria Says It Will 'Do Everything' to Cut Dependence on Russian Gas," February 28, 2022.
[222] Yesim Dikmen and Daren Butler, Reuters, "Abramovich Appears at Ukraine-Russia Talks in Istanbul," March 29, 2022.
[223] The Observatory of Economic Complexity, "Turkey, Imports." Downloaded on April 6, 2022.
[224] Vitaly Veksler, Beyond Borders Investment Strategies, "The Winners of the 2021 Country Stock Market Competition," January 7, 2022.

Below is a link to the report:

https://bbistrategies.com/our-publications--events/the-winners-of-the-2021-country-equity-stock-market-competition

Despite high current oil and gas prices, the stock markets of the energy-producing countries may perform well if the oil and gas supply shock in Europe continues. If sales of Russian hydrocarbons are sanctioned, Europe would still need to buy energy from somewhere. The Middle Eastern countries are the most likely source of energy for Europe: Saudi Arabia and UAE predominantly for oil, and Qatar – for natural gas. In addition, Nigeria, another major oil exporter and OPEC member, can also benefit from high oil prices. Countries in Europe may prefer having geographically diversified oil suppliers in the Middle East and West Africa in case Iran causes havoc for the oil tankers in the Persian Gulf.

Chart 12. Oil Prices Are Very High.



Source: US Department of Energy. Downloaded via Refinitiv.

4. **Latin American Commodity Exporters:** The stock markets of the four Latin American countries I described in *"The Four Amigos: Latin American Equity Indices Take Top Places in January 2022"* report kept all four top places from the end of January 2022 to the end of March 2022. [225] The countries included Brazil, Chile, Colombia, and Peru. All four countries benefitted from three factors: low stock market valuations, being far away from Europe, where countries face challenging economic times caused by Russia's aggression against Ukraine and sanctions against Russia, and being exporters of commodities whose prices increased dramatically.

   Looking into the future, I am not sure that these indices will continue to lead in terms of performance in 2022. The significant catalysts that contributed to the outperformance in Q1 2022 may not be there, while the political risks still exist.

   - The stock market valuations are not cheap anymore after the stock indices increased from 29.9% (MSCI Chile in the fourth place) to 36.0% (MSCI Brazil in the first place).
   - Valuations of commodities driving the growth are very high. For example, the copper price drives returns of MSCI Chile and MSCI Peru stock market indices as Chile and Peru are the metal's largest and second-largest producers and exporters. The price of copper is at a record high level *(see Chart 13 below).*

   I believe that MSCI Brazil and MSCI Colombia are in a slightly better position than MSCI Peru and especially MSCI Chile due to a more diversified nature of the main commodity exports, specifically when copper prices are at record high levels. Unlike Chile, which relies on just copper as its main export (48.0% of total exports in 2020), and Peru, which relies primarily on copper (27.2%) and gold (16.0%), Brazil's commodity base is more diversified. [226] [227] I call exports 'major' if they are responsible for more than 5% of the total exports. The major Brazilian exports are soybeans (13.4%), iron ore (12.4%), and crude petroleum (9.3%). [228]

   Colombia's export base is the most diversified of the Four Amigo countries. It has four major exports, each responsible for at least 5% of total exports: petroleum (28.0%), coal (12.8%), coffee (7.9%), and gold (7.3%). [229] It is essential to have a diversified export revenue base because while prices of some commodities are peaking (i.e., copper), prices of other commodities have room to grow. The Russo-Ukrainian war and western sanctions on Russia negatively impacted the oil supply to Europe, increasing the oil price worldwide. Despite its impressive increases, the price of oil can still go up. Brazil and Colombia are major exporters of petroleum.

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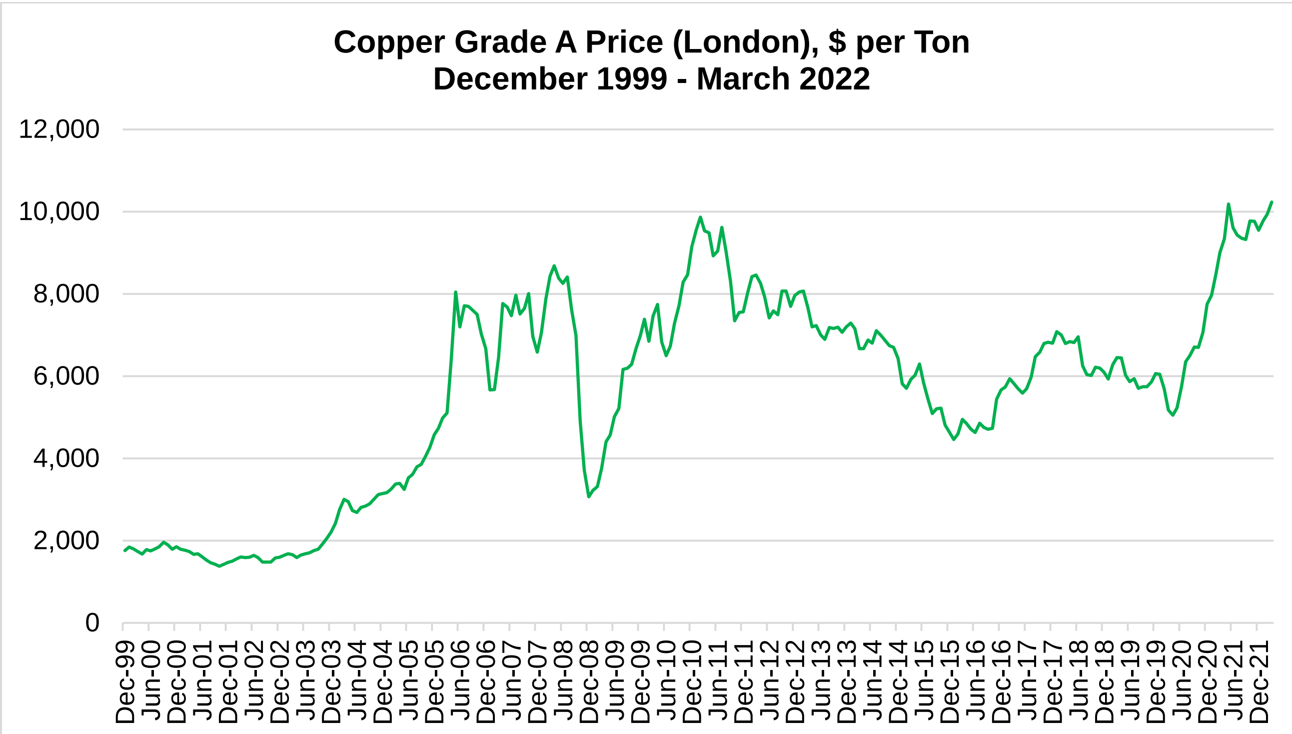
[225] Vitaly Veksler, Beyond Borders Investment Strategies, *"The Four Amigos: Latin American Equity Indices Take Top Places in January 2022," February 7, 2022.* Below is a link to the report: http://bbistrategies.com/our-publications--events/the-four-amigos-latin-american-equity-indices-take-top-places-in-january
[226] The Observatory of Economic Complexity, "Chile, Exports 2020." Downloaded on April 6, 2022.
[227] The Observatory of Economic Complexity, "Peru, Exports 2020." Downloaded on April 6, 2022.
[228] The Observatory of Economic Complexity, "Brazil, Exports 2020." Downloaded on April 6, 2022.
[229] The Observatory of Economic Complexity, "Colombia, Exports 2020." Downloaded on April 6, 2022.

Chart 13. The Price of Copper is the Highest in the 21st Century.



Source: INSEE - National Institute for Statistics and Economic Studies, France. Import Price – Copper Grade A (London), $US per Ton. Downloaded via Refinitiv.

At the beginning of the year, all political risks covered in "The Four Amigos" report were somewhat masked by low and increasing stock market valuations and increasing commodity prices – a positive environment. Now, these risks are fully exposed. The risks are related to presidents or presidential candidates. Chile is led by a Leftist president, and Peru – by a full-blown Marxist-Leninist. In Colombia, a former Socialist guerilla leads in the presidential polls, while in Brazil, a former president, convicted on corruption charges and released on a technicality, leads in the polls.

I believe that out of the four countries, Chile, the former Latin American safe-haven country, faces the highest political risks. The Leftist government of President Gabriel Boric, who came to power on March 11, 2022, may cause problems to the country's economy. He promised to destroy the neoliberal system and nationalize the country's pension funds. [230] [231] These risks have already resulted in the MSCI Chile dropping from second place at the end of January 2022 to fourth at the end of March 2022.

Peru's Marxist-Leninist President Pedro Castillo also promised to nationalize the gas industry during the presidential campaign and when he had already served as president. [232] However, he has been so grossly

[230] Blaze Trends, "Who Are the Nine Candidates for the President of Chile," August 24, 2021.
[231] David Meléndez Tormen, Pressenza, "Chile: Launching of Gabriel Boric's Government Programme," November 11, 2021.
[232] Marcelo Rochabrun and Marco Aquino, Reuters, "Peru's Castillo Urges Congress to Draft Bill to Nationalize Gas Sector," October 25, 2021.

inefficient as president that his popularity suffered, and he may not find enough congresspeople to support any of his initiatives, especially such extreme ones. President Castillo has already seen three of his entire minister cabinets and multiple individual ministers resign during the first eight months.[233] [234] He also just survived his second impeachment trial. The first one was for moral ineptitude, and the second, which he survived on March 29, 2022, was for corruption. [235]

In Colombia, a Socialist ex-rebel, Gustavo Petro, leads in presidential polls and may win the presidential election on May 29, 2022. [236] If he does, he will become the first left-wing president to lead the nation. [237] Like Gabriel Boric of Chile, Gustavo Petro has already promised to dismantle the country's neoliberal economic system. [238] I put the risk of Gustavo Petro being lower for Colombia than the risk of Gabriel Boric for Chile because Gustavo Petro may not win the presidential elections in May and June of 2022.

In Brazil, former President Lula, a leftist, leads the incumbent Jair Bolsonaro in presidential polls. [239] The presidential election is to take place on October 2, 2022. While Lula is not likely to engage in any serious anti-business activities – during his first tenure as president from 2003 to 2010, the stock market increased by 500%, powered by the commodity price surge – he may be impeached in the future. [240] In 2018, Lula was convicted of taking bribes and was given a prison term of 26 years. [241] In March 2021, Supreme Court Justice Edson Fachin, appointed by President Dilma Rousseff – Lula's protégé, annulled Lula's conviction on a technicality. [242] He agreed with Lula's lawyers that the court in the city of Curitiba in Parana state should not have tried Lula because the crimes he was accused of did not occur in that state. The Curitiba court tried Lula because Operation Car Wash, which focused on rooting out corruption at the highest levels of Brazilian society, was headquartered there. [243] Lula was not released because new information exonerated him. Justice Fachin annulled four corruption cases against Lula and ordered them to be retried in Brasilia, a city where Lula lived when he allegedly took bribes. [244] This ambiguity in Lula's status makes him vulnerable to a new trial or impeachment if he wins the presidential elections again.

You can read more about political risks that the Four Amigo countries face on pages 12-31 of the "*The Four Amigos: Latin American Equity Indices Take Top Places in January 2022"* report.

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[233] Reuters, "Peru Congress Approves Cabinet as President Faces New Impeachment Attempt," March 8, 2022.
[234] Focus Economics, "Peru: President Castillo Reshuffles Cabinet for the Fourth Time Following Prime-Ministerial Resignations," February 16, 2022.
[235] NPR, "Peru's President Survives 2nd Impeachment Effort in 8 Months," March 29, 2022.
[236] BBC News, "Gustavo Petro: Ex-rebel Wins His Coalition's Primary," March 14, 2022.
[237] Ibid.
[238] Americas Quarterly, "Elections 2022: Meet the Candidates: Colombia," December 21, 2021.
[239] Nick Burns, Financial Review, "How Lula da Silva Has Shaken Jair Bolsonaro's Grip on Brazil," March 25, 2022.
[240] Americas Quarterly, "Brazil Elections 2022: Meet the Candidates," January 5, 2022.
[241] DW, "Brazil's Supreme Court Agrees Lula Convictions Are Void," April 16, 2021.
[242] BBC News, "Brazil Corruption: Judge Edson Fachin to Lead Probe," February 2, 2017.
[243] BBC News, "Lula: Brazil Ex-President's Corruption Convictions Annulled," March 8, 2021.
[244] Felipe Oliveira de Sousa, Center for Law, Behaviour and Cognition (CLBC), Ruhr-Universität Bochum, "Lula is Free: The Brazilian Supreme Court's Habeas Decision and the 2022 Election," March 17, 2021.

Below is a link to the report:

http://bbistrategies.com/our-publications--events/the-four-amigos-latin-american-equity-indices-take-top-places-in-january

As long as the war between Russia and Ukraine continues, the performance trends discussed in this report will likely continue. In my opinion, when peace prospects appear, markets of the countries reliant on Russia for energy, wheat, and other commodities are likely to rally. Of course, the stock markets of these countries may rally if the countries find substitutes for the commodities they previously exported from Russia.

Please let me know if you have any questions about BBIS or the firm’s investment strategies. Please also do not hesitate to contact me if you would like to receive our reports or invest with BBIS. Thank you.

Best regards,
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Beyond Borders Investment Strategies, LLC
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PERFORMANCE TABLES

TOTAL RETURNS = PRICE APPRECIATION + DIVIDEND YIELD

Year to Date January 31, 2022		
1	Brazil	13.0%
2	Chile	12.6%
3	Peru	11.8%
4	Colombia	10.6%
5	Saudi Arabia	9.3%
6	Qatar	7.9%
7	South Africa	6.8%
8	Greece	6.6%
9	Turkey	5.6%
10	Argentina	5.2%
11	Philippines	4.1%
12	UAE	3.5%
13	Pakistan	2.9%
14	Hong Kong	1.0%
15	United Kingdom	0.9%
16	Nigeria	0.8%
17	Indonesia	0.6%
18	Thailand	0.2%
19	Norway	0.0%
20	Canada	-0.8%
21	Singapore	-1.1%
22	India	-1.4%
23	Spain	-1.5%
24	Taiwan	-2.0%
25	Austria	-2.1%
26	Italy	-2.5%
27	China	-2.9%
28	Poland	-3.1%
29	Malaysia	-3.6%
30	Germany	-3.7%
31	France	-3.8%
32	Portugal	-4.0%
33	Vietnam	-4.3%
34	Egypt	-4.3%
35	Belgium	-5.0%
36	Japan	-5.1%
37	USA (S&P 500)	-5.2%
38	Mexico	-5.2%
39	USA (MSCI)	-5.7%
40	Finland	-6.3%
41	Ireland	-7.2%
42	Switzerland	-7.8%
43	Israel	-8.5%
44	Russia	-8.6%
45	Australia	-8.8%
46	Sweden	-10.1%
47	South Korea	-10.1%
48	Denmark	-11.3%
49	Netherlands	-11.6%
50	New Zealand	-14.9%

Year to Date February 28, 2022		
1	Peru	21.7%
2	Brazil	18.4%
3	Chile	16.6%
4	Colombia	16.5%
5	Saudi Arabia	12.5%
6	Qatar	12.2%
7	South Africa	11.8%
8	UAE	10.5%
9	Indonesia	6.1%
10	Thailand	5.6%
11	Greece	4.5%
12	Turkey	4.3%
13	Norway	4.2%
14	Philippines	4.2%
15	Nigeria	3.1%
16	Argentina	2.9%
17	Malaysia	1.7%
18	United Kingdom	1.7%
19	Mexico	-0.6%
20	Canada	-0.6%
21	Pakistan	-1.5%
22	Hong Kong	-1.8%
23	Singapore	-2.2%
24	Spain	-3.1%
25	Australia	-3.4%
26	Portugal	-4.1%
27	Taiwan	-4.5%
28	India	-5.3%
29	Belgium	-5.7%
30	Japan	-6.1%
31	China	-6.7%
32	Israel	-6.9%
33	Vietnam	-7.1%
34	Italy	-7.2%
35	USA (S&P 500)	-8.0%
36	France	-8.1%
37	Switzerland	-8.2%
38	USA (MSCI)	-8.4%
39	South Korea	-9.4%
40	Egypt	-9.6%
41	Denmark	-10.1%
42	New Zealand	-10.2%
43	Germany	-10.3%
44	Ireland	-11.8%
45	Finland	-12.7%
46	Poland	-14.6%
47	Netherlands	-16.0%
48	Austria	-16.9%
49	Sweden	-17.4%
50	Russia	-56.8%

Year to Date March 31, 2022		
1	Brazil	36.0%
2	Peru	34.9%
3	Colombia	33.9%
4	Chile	29.9%
5	UAE	21.2%
6	South Africa	20.5%
7	Qatar	19.5%
8	Argentina	18.8%
9	Saudi Arabia	17.3%
10	Turkey	13.2%
11	Norway	10.3%
12	Indonesia	9.9%
13	Mexico	8.7%
14	Australia	7.3%
15	Canada	4.8%
16	Thailand	4.2%
17	Philippines	2.4%
18	Portugal	2.3%
19	Malaysia	2.0%
20	United Kingdom	1.8%
21	Nigeria	1.5%
22	Greece	1.1%
23	Singapore	-1.7%
24	India	-1.8%
25	Hong Kong	-1.8%
26	Spain	-4.1%
27	USA (S&P 500)	-4.6%
28	Belgium	-4.9%
29	USA (MSCI)	-5.2%
30	Denmark	-6.0%
31	Switzerland	-6.1%
32	Japan	-6.4%
33	Taiwan	-6.5%
34	Israel	-6.8%
35	Pakistan	-7.0%
36	Vietnam	-8.2%
37	New Zealand	-8.5%
38	France	-8.6%
39	South Korea	-9.5%
40	Poland	-9.8%
41	Italy	-9.9%
42	Finland	-11.3%
43	Germany	-12.8%
44	China	-14.2%
45	Sweden	-15.1%
46	Netherlands	-17.4%
47	Ireland	-20.0%
48	Austria	-20.0%
49	Egypt	-23.4%
50	Russia	-100.0%

March March 31, 2022		
1	Argentina	15.5%
2	Colombia	14.9%
3	Brazil	14.9%
4	Chile	11.4%
5	Australia	11.1%
6	Peru	10.9%
7	UAE	9.7%
8	Mexico	9.3%
9	Turkey	8.5%
10	South Africa	7.8%
11	Portugal	6.7%
12	Qatar	6.5%
13	Norway	5.8%
14	Poland	5.6%
15	Canada	5.4%
16	Denmark	4.6%
17	Saudi Arabia	4.3%
18	USA (S&P 500)	3.7%
19	India	3.7%
20	Indonesia	3.6%
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27	Singapore	0.5%
28	Malaysia	0.2%
29	Israel	0.1%
30	United Kingdom	0.1%
31	Hong Kong	0.0%
32	South Korea	0.0%
33	Japan	-0.3%
34	France	-0.6%
35	Spain	-1.1%
36	Vietnam	-1.2%
37	Thailand	-1.3%
38	Nigeria	-1.6%
39	Netherlands	-1.6%
40	Philippines	-1.7%
41	Taiwan	-2.2%
42	Germany	-2.8%
43	Italy	-3.0%
44	Greece	-3.3%
45	Austria	-3.8%
46	Pakistan	-5.6%
47	China	-8.0%
48	Ireland	-9.3%
49	Egypt	-15.3%
50	Russia	-100.0%

Sources: Refinitiv, Beyond Borders Investment Strategies (BBIS). Used MSCI country index performance for 48 countries - all but the US. The US performance is represented by MSCI USA and S&P 500 indices. All performance series measure total returns of US Dollar-denominated indices.

Disclaimer: Opinions expressed in this report are of BBIS and are for information purposes only. This report does not represent investment advice. BBIS holds investment positions in single-country equity ETFs of some or all countries mentioned in the report. Past performance is no guarantee of future results.