

# Bridgewater®

## Daily Observations

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### How Can We Tell How the First Battle in the Long War for Control of the World Order Is Going?

As you know from [my book](#) and my [YouTube video](#), both titled *Principles for Dealing with the Changing World Order*, and from my other communications, I believe that there is a classic dynamic that has repeated throughout history that has driven, and is now driving, the changing world order. It is primarily driven by a number of interrelated forces, most notably 1) the financial and economic forces, 2) the forces that drive internal harmony and conflict, and 3) the forces that drive external harmony and conflict. History shows that these big cycles drive paradigm shifts and paradigm shifts drive big market movements, so they drive the positions we are in and much more. To watch these transpire I shift my perspective between a) the very big picture that drives, and is reflected in, how the paradigms shift over relatively long periods of time (e.g., from the inflationary 1970s to the disinflationary 1980s) and b) day-to-day and week-to-week developments. I believe that doing that will help me to understand the most important characteristics of the paradigm that we will be in over the next 10 years or so.

#### The External Conflict

To me the Russia-Ukraine-US-other-countries dynamic is the most attention-grabbing part of the changing world order dynamic that is underway, but it is essentially just the first battle in what will be a long war for control of the world order. It is a very important battle because it will tell us 1) if Putin and Russia win or lose this first battle, 2) how powerful a weapon the American-led sanctions are, and 3) how other nations will align with either side or remain neutral. After we see these things, we will then begin to get clues of what the reactions to them will be—i.e., what will the US, its European allies, and Putin do if a) Putin and Russia win this battle or lose it, b) if the sanctions are or aren't as effective as needed, and/or c) if China and other opposing countries don't cooperate? I'd expect that we will see the answers to the first set of questions in the next few weeks.

1. **How can we tell if Putin and Russia win or lose this battle?** If Putin and Russia a) get tangible assurances that Ukraine is incapable of being a threat to Russia along with the de facto independence of or Russian control over the eastern provinces of Luhansk and Donetsk, with b) sanctions on Russia that are tolerable, and c) Putin remains in power, then he will have gotten what he wanted at an acceptable cost, and hence it should be scored as his win. If not, it should be scored as his loss. Once we find this out, we will see what comes next, most importantly what Putin will do if faced with a loss. Will he raise the stakes (almost certainly) and what would that be like (very scary)?

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2. **How can we tell how powerful American-led sanctions are?** If they lead to the desired results of a) winning the battle with Russia and b) having other countries fall in line in following them to achieve this goal, and they do so without the weaponization of the capital markets doing the United States more harm than good, then the sanctions will prove to be very powerful. If not, they will prove to be inadequate. Then we will see what comes next. If they prove themselves to be adequate weapons, we will see some countries (e.g., Russia) raise the stakes and fight using other weapons, and we will see others knuckle under. If they are not effective, we will risk seeing America lose its most unique and greatest power—its control over the world’s reserve currency and capital markets system—as others increasingly escape it. This a real big deal for the power of the United States and the power of the dollar. Without a strong sanctions power, the United States doesn’t have any unique powers relative to the opposition, though it would still have rough power parity with the other powerful countries. That leaves both sides, and a number of countries on each side, with just the power to inflict devastating destruction on the other side militarily. Given how many countries there are that have that power (i.e., how many have nuclear weapons) and given how the sides are lining up, this set of conditions looks frighteningly like those that existed before World War I except the destructive powers are much more “advanced.” That is a scary picture.
3. **How can we tell how the sides are lining up?** That is easy to see by watching their actions. As explained and shown in my [March 16 Observations](#), I am keeping a record of indicators to show how the sides are lining up. It is shown in the table below and will be revised as events transpire. For example, how countries line up around whether Putin can attend the G20 meeting will be an obvious big indicator. A split in which the 20 countries choose to not get together would also be a demonstrable statement that we are past the point of working together to resolve issues in an attempt to have a more unified world order and are on to the opposing sides squaring off for a war.

Recent Government Actions Against Russia

Economy	Announced New Sanctions	Financial Sanctions	Central Bank Sanctions	Military Equipment Export Controls	Technology Export Controls	Airspace Bans	Sanctions Against Individuals	Oil and Gas Import Sanctions	UN Vote to Demand Russia Withdraw Military	On Russia's "Unfriendly" List
United States	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
United Kingdom	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Canada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Australia	Y	Y	Y	Y <sup>1</sup>	Y <sup>1</sup>	N	Y	Y	Y	Y
EU	Y	Y	Y	Y	Y	Y	Y	N <sup>2</sup>	Y	Y
Japan	Y	Y	Y	Y	Y	N	Y	N	Y	Y
Switzerland	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
South Korea	Y	Y	Y	Y	Y	N	N	N	Y	Y
Taiwan	Y	N <sup>3</sup>	N <sup>3</sup>	Y	Y	N	N	N	n/a	Y
Singapore	Y	Y	Y	Y	Y	N	N	N	Y	Y
Saudi Arabia	N	N	N	N	N	N	N	N	Y	N
Turkey	N	N	N	N	N	N	N	N	Y	N
Indonesia	N	N	N	N	N	N	N	N	Y	N
Brazil	N	N	N	N	N	N	N	N	Y	N
Mexico	N	N	N	N	N	N	N	N	Y	N
India	N	N	N	N	N	N	N	N	Abstain	N
South Africa	N	N	N	N	N	N	N	N	Abstain	N
China	N	N	N	N	N	N	N	N	Abstain	N
Russia	-	-	-	-	-	-	-	-	N	-

<sup>1</sup> Australia put military equipment and technology export controls into effect in 2014 in response to Russia's annexation of Crimea. These sanctions were extended in 2022.  
<sup>2</sup> The EU has imposed sanctions on Russian oil companies but has not banned the import of Russian oil. Additionally, the EU is planning on banning the import of Russian coal.  
<sup>3</sup> Taiwan's sanctions list did not explicitly mention financial- or central-bank-related sanctions.

For these reasons, what we will learn over the next few weeks will be important.

## Remember the Other Big Influences and Keep an Eye on Them

While I just described my take on how the external conflict is going, we need to also pay attention to two other big influences that are changing in ways that never happened before in our lifetimes and that prompted me to do the study that led me to write my book. The internal conflicts over wealth and values that are causing political conflicts that are so great that they threaten the domestic order of the United States and the enormous amount of debt and money creation that are reducing the value of debt and money are reshaping what money and stores of value are. I will briefly touch on developments pertaining to these.

**Regarding the internal conflict issue:** History has shown that when the causes people are behind are more important to them than the system (as they increasingly appear to be in the US), the system is in jeopardy. This risk to the internal system typically shows up in the form of growing populism of both the right and the left. Populists are not compromisers—they are win-at-all-cost people—so when they grow in power at the expense of the moderates who are inclined to compromise, the risks to the rule of law and the democratic system increase. By all measures these trends and the risks to the system have been increasing in the US and in some other countries. The recent developments pertaining to the Supreme Court are today's attention-grabbers along these lines. Since the Supreme Court is the ultimate arbiter in this constitutional, rule-of-law system, we are seeing increasing moves by some to either gain control of it or not accept its judgments. The situation with Justice Thomas and his wife is the latest and most obvious reflection of this politicization and desire to either control the court or not accept its outcomes. This is becoming very partisan. The appointment of Ketanji Brown Jackson was less so because a few Republicans crossed over. Politics related to the Supreme Court will get intense because two very contentious cases, one about abortion and the other about gun rights, are ahead. These two issues are important enough to some people that there is conjecture that some states could refuse to accept the rulings—which would threaten the constitutional system. Then we will have the midterm elections, which also will be indicative of how the internal conflict is shaping up.

**Regarding the enormous creation of debt and money issue:** We are seeing it play out classically, in the same way that it has played out many times throughout history, with the same cause/effect mechanics driving how this is transpiring. More specifically, because the increases in the amounts of money and credit were much greater than the increases in goods, services, and investment assets, the prices of debt and money went down relative to the prices of goods, services, and financial assets. As a result both inflation and rising interest rates are beginning a squeeze in buying power that is coming from both ends. It is consistent with the description of the paradigm shift that is likely to be with us for most of the next decade so I reattached it [here](#) in case you want to review it. Higher inflation and higher interest rates aren't just market and economic issues; they are also domestic political and international geopolitical issues as they affect domestic politics. World economic growth and the strength of the dollar as a reserve currency affects international geopolitics. As described in my book in much greater depth than I can replicate here, to be effective a currency has to be effective as both a storehold of wealth and a medium of exchange. Because currencies are held in debt and money, when the buying power of currencies falls faster than is being compensated by the interest rates (which is now the case in most currencies, debts, and money) their value as storeholds of wealth declines. Adding to the risks of the dollar and risks of US debt is the weaponization of the dollar. The weaponization of the dollar is risky because it causes some of those holding dollar-denominated debt to worry about being sanctioned, which leads them to diversify away from it and pursue other defensive moves that weaken this unique power of the United States. Further, the prospect of weakness for this reason could itself lead to dollar selling, which would be bearish. In other words, the United States' unique power and privilege of having the dominant world reserve currency could be threatened by both a) its weakening due to the creation of a lot of debt and money and b) the fear of holding it for geopolitical reasons.

In my opinion these are the most important issues for investors and non-investors to pay attention to, and we should get some clarifications on them in the not too distant future. I will keep you posted.

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