



Market Commentary  
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English Version

# Afghanistan and September Fireworks

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## Afghanistan and September Fireworks

The Biden Administration's chaotic and ill-conceived withdrawal from Afghanistan is a reminder of how desperate the US is about disentangling itself from the Middle East and pivoting to Asia where it's only peer competitor – China – awaits.

Domestically, this does not bode well for Biden's legislative agenda when Congress returns from recess, including issues around the debt ceiling.

The infrastructure bill will probably still pass, but the reconciliation bill is on life support.

If it passes, it should be very watered down.

However, the debt ceiling and Treasury funding will become flashpoints once again.

Expect market volatility to increase this month, but ultimately it will not be enough to derail the global economic recovery or the bull market.

Lately, the political cliché of Afghanistan being the “graveyard of empires” has been thrown around quite wantonly. The political enemies of President Biden – both foreign and domestic – have alluded to the failed British excursions during the mid- and late-Nineteenth century, and the Soviet withdrawal in 1989 as historical precursors to this century's failed American *Vicennium* intervention. But as with all historical analogies, the devil is in the details rather than the trope. The Afghan wars have been an abject failure for reasons beyond the scope of this piece. But they are not the end of American hegemony. The end of overwhelming American dominance began with the rapid economic rise of China, starting in the 1990s. But do not mistake a decline in relative power with one in absolute power. **No nation on earth still retains as much hard and soft power projection capabilities as the US.** Instead, the Afghan withdrawal should be viewed as a further realignment and disentanglement from non-Sino related theaters of operation. A pivot to Asia, emphasizing the Great Power struggle of our time.

However, **President Biden will pay a price, mostly domestically, for his befuddled exit. Whatever goodwill he had is now largely gone, and the most paradigm-shifting components of his agenda are now mostly unworkable.** If the progressive wing of the Democratic party fails to acknowledge this, then it could setup a chaotic legislative agenda when Congress returns from recess. Pelosi, Sanders, and Schumer may think they are playing with more political capital than Biden has. If so, look for moderate Democrats and the Republican caucus to form a more capable bulwark. September sparks may fly.

### Long-term consequences of the Afghan withdrawal

The US will now attempt to sign a deal with Iran as soon as possible, so that it can strike the proper strategic balance with Saudi Arabia and minimize the threat of war in the Middle East. The payoff of two strategic peers brought within the confines of an agreement is bipolar stability. Both the US and Iran have strong, aligned incentives to make a deal, so I think it ultimately gets done despite the current pessimism.

But since there is no deal presently (and the new hardline Iranian President will make one more difficult to negotiate), look for the geopolitical risk premium on oil prices to increase. If OPEC retains its discipline, that should lead to higher oil prices in the short-term (once we get past the Delta variant blip).

The US will be freer to navigate its own geopolitical conflict with China after it has disentangled itself from the Middle East. Ironically, this should increase the risk premium on Asian assets since the US is more likely to respond to Chinese strategic overreach.

— “With razor-thin majorities in both chambers of Congress, the Democrats needed cohesiveness right now and the optics around the messy exit are not helping. According to several polls released in the aftermath of the Afghan government’s collapse, **Biden’s approval rating fell to the lowest of his Presidency.**”

### Short-term consequences of Afghanistan

Domestically, this does not bode well for Biden’s legislative agenda when Congress returns from recess. With razor-thin majorities in both chambers of Congress, the Democrats needed cohesiveness right now and the optics around the messy exit are not helping. According to several polls released in the aftermath of the Afghan government’s collapse, Biden’s approval rating fell to the lowest of his Presidency. Some of this, surely, is a knee-jerk reaction. It might not matter much in 2024, or even 2022 for that matter, as a lot can happen between now and then.

**But that doesn’t mean that there are no short-term consequences that could potentially have market effects.** The pull-out has come under bipartisan criticism, and it could impair the White House in getting their agenda through Congress. Right now, I would say that the bipartisan infrastructure bill is still likely (~70% odds), but the USD 3.5 trillion reconciliation bill is, at best, 50% whereas the odds looked better just a few weeks ago. If anything does come through, it will likely be scaled back to sub USD 1.5 trillion. Indeed, this might not be bad at all if it prevents the economy from overheating from an over stimulative policy mistake.

Instead, what the developments in Afghanistan have done is increase the probability of issues around the debt ceiling, now that Republicans and Moderate Democrats see a politically weakened White House. Since the debt ceiling will not be included in the reconciliation bill, it means that Schumer will need at least 10 Republicans to raise or suspend it, but McConnell has already publicly said that the Republicans will not address the debt ceiling while a reconciliation bill is on the table. Lastly, the expiration of normal government funding at the end of September could also be a political tussle. Now, I expect these issues to be ultimately resolved (i.e., the US will not default), but political games of “chicken” can rattle markets.

**Expect volatility to increase around this time.**

# House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
US Equities <sup>1</sup>	NEUTRAL	OVERWEIGHT
European Equities	OVERWEIGHT	OVERWEIGHT
Japanese Equities	NEUTRAL	NEUTRAL
Emerging Market Equities	UNDERWEIGHT	OVERWEIGHT
Chinese Equities	NEUTRAL	OVERWEIGHT
US Treasuries <sup>2</sup>	UNDERWEIGHT	UNDERWEIGHT
Investment Grade Fixed Income	NEUTRAL	NEUTRAL
High Yield Fixed Income	NEUTRAL	NEUTRAL
Emerging Market Sovereign	NEUTRAL	OVERWEIGHT
US Dollar	NEUTRAL	UNDERWEIGHT
Energy <sup>3</sup>	OVERWEIGHT	OVERWEIGHT
Precious Metals	NEUTRAL	OVERWEIGHT
Cash	OVERWEIGHT	NEUTRAL

<sup>1</sup> Relative to global equities in USD

<sup>2</sup> Relative to aggregate fixed income markets in USD

<sup>3</sup> Relative to an overall commodity allocation



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