

Reading Between the Lines of Kremlin Messaging

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We have been skeptical about the prospects of an imminent and sustained diplomatic resolution to the war in Ukraine.

While many have been seduced by hopes of a quick peace and return to pre-war market norms, reading between the lines of the Kremlin's messaging makes us less, not more, optimistic about the path forward. Specifically, looking beyond diplomatic

headlines, Russian President Vladimir Putin appears trapped by a strategic and historical logic that we believe has closed off any path to de-escalation, leaving an intensification of the Russian war effort as the overwhelmingly likely path forward. The consequences could be heartbreakingly tragic and dire for Ukrainian civilians above all. From a markets standpoint, we find it difficult to see a return to business as usual, with downside risks to global growth and inflation.





Kremlin Historical Arguments as Signals of Russian Intentions

Since the start of the current conflict, many observers have dismissed the Kremlin's propaganda as deranged, unhinged and irrational. We believe this is a mistake because we think this very same propaganda—when studied analytically with a historical lens—can offer a unique insight into Putin's mind and objectives. Specifically, we believe Putin's public statements make it clear that he has no effective off-ramp short of—at a minimum—regime change in Kyiv and seizure of the south and east of Ukraine.



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EXPLOITING PAINFUL MEMORIES OF THE SECOND WORLD WAR

As we discuss in [this video](#), the historical arguments Putin has used to justify the war on the domestic front make it, in our view, politically untenable for him to back down from his aggressive posture stressing regime change. In his various speeches, Putin repeatedly made familiar Russian ultranationalist claims that Ukraine is run by Nazis, and that the very borders of post-1991 Ukraine are the result of crimes committed by the Bolsheviks against the Russian people.¹ To those familiar with Russian history, the claims of genocide perpetrated by a Nazi regime next door make it politically difficult for any Russian leader to do anything but force regime change. The Soviet Union overall lost more than 26 million people in the Second World War, and historians have spoken of the event as legitimizing for the Soviet regime—a particularly unifying chord in the long saga of Russian history. For a Russian leader to make lasting peace with alleged Nazis would be unthinkable. Having repeatedly labeled—however bizarrely, given Ukrainian President Volodymyr Zelensky's Jewish heritage—the Kyiv regime as a neo-Nazi cabal, Putin has only increased the pressure domestically to effect regime change in Kyiv. We believe anything less would be humiliating, and potentially politically fatal for Putin and his inner circle. While some Western observers claim a softening of the Kremlin line on “denazification” in recent talks in Istanbul, the persistence of references to Nazis in official statements² and press reports³ makes us doubtful that the Kremlin is backtracking on such inflammatory talk in any meaningful sense.

¹ *NPR, “Putin's claim of fighting against Ukraine 'neo-Nazis' distorts history, scholars say,” 1 March 2022.*

² *Foreign Ministry Press Briefing Statement, 29 March 2022.*

³ *RIA Press Report, “Lukashenko Expressed Support for Russian Actions in Ukraine to Putin, 1 April 2022.*

SIGNALING POTENTIAL TERRITORIAL OBJECTIVES

In addition to imposing difficult political constraints on the Russian leadership, we believe Putin’s historical arguments offer a window into the Kremlin’s thinking with respect to territorial objectives. In labeling the borders of present-day Ukraine as a crime inflicted on the Russian people by the Bolsheviks, Putin opened up the potential partition of Ukraine through further Russian annexation of Ukrainian land. It was indeed telling to see Russian state TV air a map of Ukraine showing various portions of the country shaded in as variously gifts of Lenin, Stalin and the Russian tsars.⁴

A VISUALIZATION OF KREMLIN MESSAGING ON UKRAINE’S BORDERS

Source: *Gazeta.ru*, “TV channel ‘Russia 24’ made a map of the territories donated to Ukraine,” published 23 February 2022.



This map in conjunction with Putin’s speech strongly suggests that a key Russian aim will be the seizure and ultimate annexation of southern and eastern Ukraine – the areas labeled “gifts of V.I. Lenin.” That the same map showed the north of the country to be a gift of Russia’s tsars was a notable subtlety that we read as an indication of the Kremlin placing greater value on outright control of the south and east, effectively leaving the door open to the north, including Kyiv, remaining at least notionally independent.

⁴ *Gazeta.ru*, “TV channel ‘Russia 24’ made a map of the territories donated to Ukraine,” 23 February 2022.

The Particular Strategic Importance of the South and East

Beyond the historical arguments used to justify Russia’s land grabs in the south and east of Ukraine, we believe adding such territories would strengthen Russia’s strategic position on the ground in several key respects. First, establishing Russian control over southern Ukraine would, for instance, relink Crimea to fresh water sources Ukraine cut off after 2014. Indeed, Russia substantially relinked Crimea to Ukrainian water in the first week of the war. Second, Russia’s capture of the southern ports of Mariupol and Odessa would landlock Ukraine. Doing so would satisfy a third Kremlin objective—to reinforce Ukrainian dependency on Russia, thereby making it easier to establish a puppet regime in a rump⁵ Ukraine, possibly still governed from Kyiv offering a fig leaf of independence and neutrality.

VISUALIZATION OF RUSSIAN MOVEMENTS ON THE GROUND

Source: Institute for the Study of War, *Russian Offensive Campaign Assessment*, 21 March 2022. For illustrative purposes only



⁵ A rump state is the remnant of a once-larger government, left with limited powers or authority after a disaster, invasion or military occupation.



An Intensification of the Conflict is Likely

Our base case is, unfortunately, that the Kremlin intends to escalate rather than deescalate the conflict in Ukraine. At a minimum, we expect a linear intensification of the conflict through both greater geographic scope of Russian operations and increasing use of scorched-earth tactics such as those witnessed in Syria and Chechnya. In the economic sphere, we see a significant risk of Russian retaliation. Potential moves include strategic default and countersanctions making use of Russia's asymmetric leverage over the global supply chain, about which we have written previously. Recent Kremlin claims of "economic war" make us recall 1918 – the largest sovereign default, and indeed repudiation, in history, taking place in the aftermath of the Bolshevik revolution – more than the Russian financial crisis of 1998.

We do not in any way endorse or condone such moves and ambitions; the human cost alone is reprehensible. Nevertheless, we believe dismissing Putin's propaganda as the deranged rantings of an irrational man means ignoring valuable signals about Kremlin intentions and the likely future course of the crisis. In our view, it is important for investors to read between the lines of Kremlin propaganda, and to take Kremlin threats seriously, for the consequences may be dire indeed. Having done so, our concern is that headlines raising hopes of diplomatic progress are a distraction from the bleak reality on the ground and the Kremlin's likely intentions. Specifically, we think it unlikely that the Kremlin will seriously consider a ceasefire as long as it sees scope to consolidate gains in the south of Ukraine and realize regime change in Kyiv. Given both are currently far from escaping Moscow's grasp, we fear an intensification of the conflict.

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