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After Soleimani

(Due to the Martin Luther King Jr. Day holiday, our next report will be published on January 27.)

On January 3rd, the U.S. launched a missile strike that killed Major General Qassem Soleimani, the leader of the Quds Force of the Islamic Revolutionary Guard Corps (IRGC). As a high-profile commander, his death rocked the region and raised fears of a broader confrontation.

Although the situation remains fluid, Iran and the U.S. appear to have come to a point of stasis; in other words, the odds of further immediate escalation have declined. In this report, we will discuss recent events and examine the context surrounding these events. As always, we will conclude with market ramifications.

Who was Soleimani?

Qassem Soleimani was the leader of the Quds force of the IRGC. This force primarily manages the foreign elements of the IRGC. Soleimani mostly spent his time managing foreign militia and terrorist groups. He would supply arms and resources to these groups and, in return, they would follow Iranian guidance. This allowed Iran to project power in the Middle East. Soleimani's goal was to create a "Shiite Crescent" from Iran to Lebanon.

Probably the best personal analogy, in terms of status, would be to compare Soleimani to General David Petraeus. Both were considered charismatic leaders who tended

to self-promotion. Petraeus was not only a military leader, but he also became head of the CIA. Soleimani played a key role managing Iran's power projection and was considered a very powerful and high-profile leader. Therefore, we would view the attack on Soleimani to be on the same level as targeting Petraeus. Although Soleimani has already been replaced, finding someone with the late leader's skill in managing foreign proxy groups will be difficult.

Iran's Calculations

Soleimani traveled rather freely around the region directing various proxy groups. In recent years, he made little attempt to hide his movements. Foreign powers who opposed Iran apparently calculated that assassinating Soleimani would cause excessive blowback and thus refrained from acting against him.

Over the past several months, Iran has behaved with increasing confidence in the region. It has attacked oil tankers in the Persian Gulf. Although it took modest steps to conceal the origin of the launches, Iran made a brazen attack on Saudi oil facilities. Iran also took down a U.S. drone over international waters. For all these events, the U.S. responded with limited reactions of additional economic sanctions and an unconfirmed cyberattack.

It appears Iran probably became convinced that President Trump was the mirror image of Theodore Roosevelt, assuming the former talked loudly but carried a small stick. This was a serious miscalculation. A useful framework for examining American foreign policy comes from Walter Russell Mead,

who uses four American figures—Hamilton, Jefferson, Jackson and Wilson—as archetypes. We discussed this [methodology in an earlier WGR](#).

In the Cold War era, Hamilton, the most realist of the four archetypes, dominated American foreign policy. However, after the collapse of the Soviet Union, the Wilsonian archetype dominated. This archetype tends to push democracy promotion and a "moral" foreign policy. No president is a pure archetype, but this framework, in my opinion, helps one to understand how an administration will likely act once in power.

In our early analysis of President Trump, we pegged him as a Jacksonian, the rarest and most uniquely American of the four archetypes. Most of the time, Jacksonians are confused with Jeffersonians, the most isolationist of the archetypes. Under most circumstances, Jacksonians prefer to avoid foreign entanglements. They are content to let foreign nations hash out their differences and maintain a modest global footprint. However, unlike Jeffersonians, Jacksonians have bright "red lines." Crossing the "honor" of the U.S. will not be tolerated and will be met with overwhelming force. Jacksonians loathe long wars; they tend to be reluctant to engage militarily but, when they do, they prefer decisive actions that end conflicts quickly.

One of president Trump's red lines is American lives; the death of any American has tended to trigger aggressive responses. The attack on Soleimani appears to be a response to the [death of an American contractor in Iraq](#) who was killed by an Iranian proxy group. It seems that attacking American embassies is a red line as well.

Iran went astray in assuming that President Trump was a Jeffersonian, a leader who is reluctant to use force. As we noted above, Iran's actions were becoming increasingly brazen because it assumed the U.S. would not respond aggressively. Because the Iranians misunderstood President Trump, they crossed red lines, prompting the administration to order the direct attack on Soleimani.

What has Iran learned?
It appears that Iran has discovered three takeaways from this event.

Lesson #1: Avoid Trump's red lines.
America's behavior before the assassination was misread as weakness. It was not weakness but rather a lack of concern. If red lines are not crossed, the U.S. is not going to react aggressively. However, once crossed, disproportionate actions are almost certain.

The Iranian response of inconsequential missile strikes on military bases in Iraq that housed U.S. troops suggests the lesson has been learned. Not only was the missile strike a "pinprick" that didn't cause any American casualties, but there is evidence that the [missile strikes were designed to avoid any American deaths](#). In the aftermath, Iran announced it had "[concluded proportionate measures](#)" and there would be no further response. The attack appeared to offer both parties an "off-ramp" and the U.S. accepted it. The U.S. response to the attack was more economic sanctions, something to which Iran has become accustomed.

The modest response by Iran carries risk for Tehran. After a multi-day funeral procession, the Iranian people had to be expecting a massive retaliatory response. A symbolic missile strike carried the risk that the Iranian leadership would appear weak and unrest could develop. However, Iran

has reasonably good control over news flow and the Iranian media indicated that scores of American soldiers died in the missile strike. Although we doubt that all Iranians will be fooled by the ruse, it will likely be enough to keep the regime in place. It is interesting to note that there has been some celebration in Iran over the lack of a U.S. counterstrike.

Lesson #2: Operational security is important. Soleimani didn't completely disregard his own security, but he became a visible target by encouraging a "cult of personality" to develop around him. It does appear that the U.S. was able to track his movements through a combination of signals intelligence and human intelligence. We would expect future leaders of the Quds Force to be more circumspect in their movements and avoid the high profile that Soleimani created for himself.

Lesson #3: Strategic patience is probably the best policy. The desire for revenge is a strong human emotion. The assassination of such a high-profile figure does put pressure on Iran to respond. However, Iran needs to consider the current political environment in the U.S. and its own long-term goals.

A theme we have been discussing for over a decade is the waning of U.S. hegemony. Our position has been that the U.S. was never a natural hegemon and only assumed the role to ostensibly avoid WWIII. Hegemony was sold to the American people as a means to defeat communism. Once the Soviet Union fell, Americans generally thought the need for extensive international involvement had concluded. Policy elites knew this was not the case; hegemonic stability theory postulates that global trade declines and instability rises in the absence of a global hegemon. However, these policy elites have, so far, been unable to create a

compelling narrative for the American people to continue hegemony.

The Jacksonian and Jeffersonian archetypes are inconsistent with hegemony. Hegemons are doomed to fight inconsequential wars and act as the global policeman. Trends in the American political system suggest that hegemony is on its way out. The American public is tired of the costs of hegemony, unfortunately not understanding the lessons from the WWII generation, who realized the path to WWIII is paved with the stones of multipolarity.

Both Presidents Obama, who leaned toward Jeffersonian foreign policy, and Trump wanted to reduce American involvement in the Middle East. Obama wanted to "pivot to Asia," which meant less involvement in the Middle East. Trump has announced troop withdrawals from the region. It is notable that the Defense Department had draft letters agreeing to remove U.S. forces from Iraq. Although the U.S. retracted the leak of the letters, the fact that they existed suggests the military is prepared to exit Iraq.

Iran's goal is to become the Middle East's regional hegemon. Soleimani spent the last decade of his life creating and aligning proxy groups that would give Iran influence from Tehran to Beirut. The Iran-Iraq War showed how important it was for Iran to have a friendly power in Baghdad. Iran has been able to expand its influence in Iraq after the ouster of Saddam Hussein and it would like to continue this trend.

Although the U.S. isn't the only impediment to Iranian regional hegemony, it is probably the most potent. If the U.S. withdraws from the region, it would improve Iran's position. Tehran would still have to deal with Russia, Israel, Turkey and Saudi Arabia, but all four nations pale in comparison to the power

America can wield through its military and financial capabilities.

The U.S. will still have influence even as its military footprint recedes. At the same time, the Trump administration has offered talks and Tehran might be better off accepting the outreach. It appears that if Iran bides its time, its influence will probably rise if for no other reason than the creation of a power vacuum as the U.S. withdraws.

What has the U.S. learned?
The U.S. has also discovered a couple things about Iran through this situation.

Lesson #1: Iran's missile development is probably better than we thought. First, satellite imagery confirms that the missile targeting was extremely precise, pointing to the strong capabilities of Iranian technology. Second, Iran's willingness to attack the base's central infrastructure (rather than vacant hinterlands) shows a high degree of confidence in its capabilities. Third, Iran clearly would have wanted to avoid U.S. casualties, so it likely had precise intelligence on the operating tempos and schedules at the bases, allowing it to strike when there was little chance of casualties. In other words, Iran likely has intelligence assets at these facilities. Fourth, reports that Iraq was given early warning about the strike suggest another reason why there were no casualties as Iraq may have tipped off the U.S., or the Iranian communication could have been intercepted by the U.S. (whether or not intended by Iran).

Lesson #2: Iran's leadership believes they have control over information flows. Thus, Iran can hide the fact that the missile response was symbolic at best. That means attempts to deliver different narratives into Iran through media activities will be difficult and will probably fail.

What happens now?
It is obvious that both sides do not want a direct military conflict. U.S. voters will probably not support a major military war in Iran unless there is significant loss of American life. Iran's economy is in such difficult circumstances that even a minor war might not be sustainable. The following outcomes are what we would expect in the near term:

The U.S. will continue to use economic sanctions against Iran. The Iranian economy will continue to struggle but probably avoid collapse.

Iran will try to use the nuclear deal to divide the signatories against American sanctions. The effort will likely fail. European companies will have no interest in risking American sanctions for Iranian trade. Russia would prefer to keep Iranian oil off global markets because it keeps the price elevated. China will trade with Iran but only on onerous terms. As a result, sanctions will remain effective.

Iran won't negotiate with the Trump administration unless Trump wins a second term; in that case, negotiations will likely occur soon after. Iran will use all tools available to it to undermine President Trump's reelection effort. However, if the president wins a second term, the thought of four more years of sanctions will likely be too difficult to bear. This assumption also would suggest that Iran's nuclear efforts will avoid crossing the nuclear threshold which would make negotiations pointless. That doesn't mean there won't be highly visible actions toward nuclear development.

We expect further retaliation from Iran. It is highly unlikely that it views the recent missile attack as sufficient. Instead, we expect Iran to support political efforts by

Baghdad to push U.S. troops out of Iraq. To some extent, this may be "pushing on an open door." Harassing actions against America and its allies will likely continue but will studiously avoid crossing Trump's red lines.

Cyberattacks against the U.S. are almost certain. Cyberwar fits Iran's mode of operation. It is easy to create deniability and it can affect a far away nation's homeland. Although China and Russia would not openly defend an Iranian attack on the U.S., it might consider cooperating with Tehran on a cyber-attack.

Iranian proxies may become more difficult to control and represent a wild card in the coming months. Soleimani, through a combination of reputation and personality, was able to manage the various proxy groups from Iran to Lebanon. Although the institutional infrastructure of the IRGC remains in place, Soleimani is no longer in the picture and there is higher potential for a proxy to "go rogue" and perhaps be influenced by other nations to create unrest in the region.

Iran, along with other nations, will likely try to affect the U.S. presidential elections. Russia has been accused of using social media to sway the opinion of American voters in 2016. Although the degree of impact from Russian activities remains a topic of debate, the actions nonetheless tend to undermine the legitimacy of the winning candidate regardless of party. In the 2020 Geopolitical Outlook we discussed election interference as one of the key risks for this year. In the wake of recent events, Tehran has a clear incentive to support Trump's opponent. In general, Iran isn't considered to be as sophisticated in this arena as Russia or China, but that doesn't mean the mullahs are without influence. Iran may engage in

attacks on oil facilities to boost the price of oil to affect the elections, but given the existence of strategic reserves we doubt these attacks would be effective and such actions could raise the risk of military retaliation by the U.S.

Despite urging from Washington, NATO and Europe will not increase their involvement in the Middle East. President Trump has pointedly pushed for NATO to take a bigger role in the region. We see nothing to suggest that the EU is interested in participating.

The Iranian leadership is assuming it can control the political narrative and remain in power; that assumption is coming into question. In the aftermath of admitting it shot down a Ukrainian airliner by mistake, widespread protests against the government have erupted. Authoritarian and totalitarian systems are always brittle; they appear to be in complete control but history shows that the lack of legitimacy that comes from contested elections can be a problem. The speed of the collapse of the communist regimes in eastern Europe in the late 1980s is a testament to how quickly such systems can collapse. The protests over the Ukrainian airliner downing are increasingly looking like more of a general opposition to the Iranian regime. Although our base case is that the clerical regime in Tehran will survive, we continue to closely monitor events. If the protests escalate, the regime may be forced to renegotiate away its nuclear program to gain sanctions relief. That would be a major climb down, but a historical precedent exists; Iran reluctantly agreed to an end to the Iran-Iraq War to prevent regime collapse.

Ramifications

With issues in the Middle East, the usual expectation is that oil prices will be

supported. Although this may be the case, if Iran does avoid direct confrontation, oil prices probably won't be affected. There will be some degree of risk premium in oil prices, but we would not expect Iran to close the Strait of Hormuz, so oil prices probably won't be affected unless Iran or a proxy group repeats its attack on Saudi oil facilities.

One area that has benefited, and will likely continue to do so, are companies involved in cyber-defense. Overall defense spending in the Middle East should remain elevated and benefit those equities as well.

Bill O'Grady
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Confluence Investment Management LLC