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Drexel GPS: 2024 Outlook



Reflecting on the events of 2023, the world is now firmly grounded in geopolitical risk as we enter 2024. The ongoing Russia-Ukraine and Israeli-Hamas conflicts have been significant shocks that have tested and strained existing global structures. While the U.S. maintains its position as a global leader, both events have indicated a rewiring of key geopolitical relationships. Meanwhile, China continues to raise tensions with its aggressive moves in the South China Sea and Taiwan.

Energy and climate change continue to be politically polarizing issues, with global progress notably lacking on the climate transition. However, the COP28 meeting held in Dubai in November has the potential to catalyze global decarbonization efforts. Cyberattacks are becoming more frequent and severe and are increasingly being used as a tool of statecraft. The human, financial, and political impact of cyberattacks will grow in line with the increasing use of AI and digitization of critical infrastructure.

In the coming year, the global economy faces multiple challenges to include monetary policy, supply chain disruptions, and geopolitical conflict. Additionally, the advent of innovative technologies and persistent environmental threats could upset many outlook predictions for the new year.

Drexel Hamilton presents some of the most impactful geopolitical issues and events of 2023, along with insight on the landscape for 2024 and beyond.

The Ukraine-Russia War & NATO Expansion



The ongoing conflict between Russia and Ukraine posed a significant geopolitical risk in 2023 and that risk extends into 2024. Since its onset, the conflict has put NATO/U.S./Russia relations at their most unstable since the end of the Cold War. These tensions created enough of a perceived security threat in 2023 that they triggered an >800-mile expansion of NATO's presence along the Russian border with the addition of Finland and Sweden to the alliance. The delicate framework of global alliances is constantly challenged by the effects of economic sanctions imposed on Russia as well as the support NATO member nations provide for Ukraine in the form of military and economic aid packages.

Putin's strategy after Russia's failed initial invasion is one of success by attrition. Russia's goal is to maintain a stalemate on the battlefield long enough to drain Ukraine's resources until domestic priorities in coalition countries supporting Ukraine begin to take priority. Increasingly, this strategy seems to be having a degree of success for Russia.

Neither country has shown any major advances on the battlefield, resulting in a stalemate where neither side is able to hold any significant gains in territory. Much of the initial support for Ukraine by coalition nations was based on the premise that elevated levels of assistance would allow Ukraine to regain its footing and retake its territory in a relatively brief period of time.

- If Ukraine's military is unable to show meaningful momentum on the battlefield, expect political pressure from members of the coalition supporting Ukraine to reach some form of a negotiated agreement with Russia that does not mirror pre-February 2022 territory.
- The upcoming 2024 U.S. Presidential election, its outcome, and U.S. domestic partisan politics will have a large influence on global support for Ukraine and will be closely monitored by Moscow.
- The Russian economy has been crippled by Western sanction-driven oil price caps

resulting in revenues from Western sources decreasing 47 percent in the first half of 2023 compared to the same period in 2022. Russia has been forced to sell its oil at a global discount. To date, over one thousand global companies have left Russia in the wake of its 2022 invasion of Ukraine.

Cyber, AI, and Information Warfare



Cyberattacks, online misinformation, and other digital disruption tools present a growing and persistent geopolitical risk. The ever-increasing speed of information made possible by today's advanced telecommunications networks makes the adage, "A lie can travel halfway around the world while the truth is putting on its shoes," more relevant in the geopolitical realm than ever before.

Cyberattacks continue to become more sophisticated, prevalent, and impactful, making addressing cybersecurity a high priority topic across all sectors. Additionally, Information Warfare (IW) campaigns waged through the use of traditional major broadcast news outlets as well as social media are becoming digitally weaponized and effective tools utilized by non-state actors against nation-states and non-peer adversaries.

The year 2023 may very well go down as the "Year of AI," marking an inflection point for when general awareness of the technology went mainstream. The year 2023 may also be cited as the official start of a geopolitical footrace to secure dominance in the AI space via access (or denial of access) to the advanced semiconductors necessary to take advantage of the innovation that AI promises to deliver. Expect to see economic policies impacting sectors such as export/import controls to be designed with the impact of AI in mind, such as the CHIPS Act. For better or worse, AI appears to be here to stay.

China-U.S. Relations



The U.S. and China are two countries with opposing ideologies, large economies and militaries, and multiple unresolved geopolitical disputes that play out on the global stage. Both nations expend political and economic capital on policies in preparation for a range of scenarios ranging from trade wars to outright military conflict. Both nations seek to improve their bargaining positions through an evolving series of geopolitical moves.

The Chinese surveillance balloon incident over the US in 2023 is an example of how tensions between the two nations can quickly escalate and cause complex geopolitical stress within an already delicate balance of diplomacy and economic trade. The balloon was shot down by the U.S. Air Force after it flew across North American airspace, including Alaska, western Canada, and the contiguous United States. The incident escalated U.S.-China tensions, with the United States calling the balloon's presence a violation of its sovereignty.

In addition, China's increased military presence in the South China Sea, along with its naval and military activity in and around Taiwan's sovereign territory, has added to geopolitical tensions. President Xi's official political rhetoric doubles down on China's long-proclaimed stance that Taiwan will be reunified with China, although he gives no specific timeline. Xi's rhetoric includes language that dictates reunification will be accomplished using force if necessary.

Despite these geopolitical tensions, China's policies in the short term are likely to remain focused on economic recovery and stabilizing a commercial relationship with the U.S. China is also concentrating on The Digital Silk Road component of a rebooted Belt and Road Initiative (BRI) in order to secure access to advanced AI chips and technologies.

The U.S. will continue to pursue economic policies designed to increase domestic and diversified semiconductor manufacturing capabilities away from China. Complete isolation is not a viable option for either economy. However, decreasing supply chain risk by moving away from China should be a core critical tenet of U.S. economic, political, and defense policy in 2024. The U.S. will also continue to improve its partnerships with nations of the South China Sea and Pacific who are also wary of the aggressive nature of Chinese military activity in the region.

This strategy included the establishment of a new Marine Corps base in Guam in 2023. From this location, the U.S. will be providing more military assistance and aid to Japan. In response to China's activity, Japan is quickly shifting away from its decades-long policy of maintaining a purely defensive force to a military capable of legitimate offensive force-projection in the region.

Climate Change-Based Risk & Energy Sector Liability



Climate change is one of the most significant issues of our time, with far-reaching impacts on national security and global stability. The year 2023 saw an increase in the frequency and severity of extreme weather events such as hurricanes, droughts, floods, and wildfires. These events damaged infrastructure and disrupted supply chains, leading to resource scarcity and economic instability. Climate change has also led to reduced precipitation levels in parts of the world, which has led to water scarcity that is raising geopolitical tensions between affected countries. More frequent and severe droughts in sub-Saharan Africa have reduced the availability of water for agriculture and drinking.

New challenges and risks associated with climate change will play out in 2024. The World Economic Forum's Global Risks Report for 2023 highlights some of the most severe risks we may face over the next decade are related to climate including energy supply and food crises, failure to meet net-zero targets, weaponization of economic policy, and weakening of human rights. The report also warns that tougher trade-offs risk eroding climate action and future resilience.

The Pentagon's latest analysis has identified climate change as a significant threat to national security, with worst-case scenarios leading to mass displacement, food and water insecurity, and civil unrest. Preparation for changing weather patterns and their impacts has been recognized as a priority for current and future operational contingency scenarios by the Department of Defense (DOD).

Climate-related events such as this year's Maui wildfires are increasing in frequency. The full extent of financial liability exposure for the island's energy utility provider remains to be determined, but this risk to utility companies due to increasingly severe changes in global weather patterns will be an ongoing theme.

Expect to see companies, particularly in the utility and energy sectors, engage in strategies like the DOD's posture on climate risk. As climate-based liability risk becomes more aligned to the cost of capital and credit ratings, expect to see energy and utility providers proactively make investments designed to harden their infrastructure against weather-related events. These investments will be designed to ensure structural integrity as well as mitigate financial liabilities arising from litigation and penalties.

Israel-Hamas War



The last quarter of 2023 saw the ignition of a new full-scale war between Israel and Hamas in Gaza with a great deal of concern for escalation of hostilities across the Middle East.

Israel faces an increasing amount of political fallout for the manner in which it has prosecuted the war in Gaza, with over 20,000 Palestinian deaths to date. Israel is being accused by multiple countries, international aid organizations, and the U.N. Secretary General of indiscriminate targeting of Hamas with its airstrikes with little to no regard for collateral civilian casualties. Israel has countered these accusations by accusing Hamas of intentionally co-locating its operations in and near civilian locations in an attempt to restrict Israel's ability to isolate and target combatants.

The risk of escalation in the broader region remains extremely high going into 2024 given Israel's historically contentious relationship with its neighbors in the region. Hezbollah and Hamas are both well known to be direct proxies of Iran with both terrorist groups receiving most of their funding and training from Tehran. While Hamas operates primarily in Gaza to

closer to the south, Hezbollah operates out of Lebanon to Israel's North. In 2006, Israel and Hezbollah fought a bloody war and the two sides have engaged in multiple cross-border skirmishes since. Iran funds multiple proxy forces in the region to include the Houthi rebels of Yemen. Houthi missile attacks on shipping vessels in the Red Sea since the onset of Israel's retaliation in Gaza have caused major shipping carriers to delay and, in some cases, completely suspend transit operations through the Red Sea.

There is little doubt that the resulting uptick in Iranian proxy attacks against U.S. military forces in the region are a direct result of Iranian proxies attempting to cause a widespread escalation of the Israel-Hamas war.

U.S. military action against the Houthi rebels in Yemen has largely been defensive and proportionate to this point. U.S. policymakers are aware that direct and disproportionate strikes against targets across the Mideast could be spun through misinformation campaigns and further complicate the situation, leading to further violence.

In the court of public and political opinion Israel is increasingly losing support for its conduct in the war. The IDF is being accused of not using appropriate restraint and consideration of civilian casualties with its targeting of Hamas.

Viewed against the public perception of its vastly superior military might in comparison to Hamas, the social media-driven optics of the aftermath of airstrikes into civilian areas of Gaza feed fuel into what is almost assuredly a pro-Hamas IO (Information Operations) campaign that is designed to portray and reinforce the IDF as indifferent to the destruction it inflicts on Gaza's civilian population.

The situation is still developing, and it remains to be seen how the U.S. will ultimately respond to the increasing numbers of attacks on its personnel in the region. The United States has sent two naval strike groups to the region to function as a deterrent to Iran and its proxies such as the Houthi's and other militant groups looking to seize upon the situation as a means to escalate the conflict.



Summary

The geopolitical landscape that ended 2023 and begins 2024 feels more dynamic and challenging than it has been in recent memory. While a definitive outcome of the Ukraine-Russia war is not likely to be determined in 2024, the possibility of some form of a brokered cease-fire could possibly be on the horizon. There is concern that in this scenario, any gain in territory by Putin for his invasion will be spun as a victory for authoritarian regimes globally.

The rapid adoption of AI-derived technologies that show promise to improve the human condition globally, are the same technologies that pose a growing threat of being utilized to amplify the frequency and impact of cyberattacks. AI used as a tool for misinformation campaigns could have global consequences as critical infrastructure is increasingly targeted by malicious state and non-state actors.

Viewed against the backdrop of complex and shifting geopolitical alliances stemming from the current conflicts, the stage is set for 2024 to continue the increasing trend and appetite for timely, nuanced, and comprehensive geopolitical analysis across all sectors.

Drexel GPS will continue to monitor these situations as they evolve in 2024 and beyond.

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