

# The Fragreport



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## US-Iran Tensions Reach Brink Setting Stage for New Frontier

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The impact of recent geopolitical tensions between the US and Iran escalated to a level that rattled markets in early January and led us to question if a new war was underway in the Middle East. Fortunately, for now, it appears that the fears of a major confrontation between the US and Iran have settled.

It is without question that the sacking of [IRGC](#) (Islamic Revolutionary Guard Corps) Quds Force commander, [General Qassem Soleimani](#) was a major development underscoring the ongoing decades-long proxy war between Sunni and Shiite powers in the Middle East.

For over twenty years, Soleimani successfully crafted and managed a [network of proxies](#) across the Middle East serving the interests of expanding Iran's influence over the region. He is [responsible](#) for the deaths of many innocent people, and for the deaths and maiming of US soldiers. Soleimani's death was [applauded](#) by Sunni powers and delivered a tremendous blow to the Iranian regime and its allies.

Soleimani's demise and the aftermath reinforced signals of a paradigm shift occurring in the region in recent years. At the end of 2019 we witnessed ongoing [protests](#) in Iran, Iraq, and Lebanon over a variety of domestic issues. Protestors in these countries share a common grievance towards their political elites, who particularly in the case of Lebanon and Iraq, are significantly [influenced](#) by the Iranian regime.

The Middle East has been at crossroads since the turn of this century; and for that matter, since the dawn of Trump—so is the United States. The Trump administration is interested in scaling back its involvement in the area, but recent escalations with Iran are making that goal increasingly difficult to achieve. As far as the Iranian regime is concerned, it's business as usual. We must understand that Iran's regime is ideologically beholden to exporting the [Islamic revolution](#), but [the Iranian people are becoming wary](#).

Wariness for conflict and foreign intervention whether from the US or Iran is a [sentiment](#) that is widely shared throughout the Middle East today. Iran is attempting to [parlay](#) this sentiment in its favor by calling for unity in the region to [force the US into withdrawal](#), but in the eyes of its Arab neighbors, Iran has a lot to answer for.

Moreover, the Iranian regime has a lot to answer for at home as well. The downing of a Ukrainian airliner during retaliatory missile attacks on two US military positions in Iraq sparked outrage and [protests](#) in Iran. The severity of this action led to the deaths of many Iranians and [Iranian-Canadians](#), leading protestors to [call on the government](#) for justice after the regime initially denied responsibility to finally admitting it accidentally shot down the plane.

One thing is clear—the US and Iran do not want to engage in a war, as comments from the [Trump administration](#) and [Iranian officials](#) suggest. Reports have surfaced that Iran [warned](#) Iraq before launching missiles at the bases in the country, although this has been [disputed](#) by the Pentagon.

On January 8, [following Iran's missile attack](#), President Trump began his address to the nation by stating clearly: "As long as I am president of the United States, Iran will never be allowed to have a nuclear weapon." Iran's nuclear ambitions are still a critical unresolved global security concern. Western powers have attempted to find a [diplomatic solution for years](#), but have yielded little in stopping Iran's nuclear program.

The Iran nuclear deal ([JCPOA](#)) was perhaps the zenith of those efforts, but it [gave the regime a lifeline and further prolonged](#) Iran's proxy wars. Furthermore, [Iran declared it will not comply with the limits of the deal](#) and was [served a violation notice](#) by foreign ministers of remaining signatories: France, Germany, and the UK. Furthermore, Israeli intelligence reported that Iran will have [enough enriched uranium](#) to produce one nuclear bomb by the end of the year.

For many years, observers of Iran—including myself—viewed Iran's regime as a calculated player on the geopolitical stage, but [the chain of events](#) leading to this moment are changing my view. As of January 15, Iran's President Hassan Rouhani made [threats](#) against US and EU troops, and rejected any possibility of engaging in a [new nuclear deal](#) with the Trump administration. Rouhani also echoed calls by Supreme Leader Ayatollah Khamenei for a US exit from the Middle East.

As Iran faces [new sanctions](#) and continues to deal with [existing stringent sanctions](#), the regime is in a dismal economic situation. Economically speaking, [Iran cannot afford to engage in a confrontation with the United States](#), maintain expansive proxy-wars, and keep a sustainable economy at home. Our assessment is that the theocratic regime of the Islamic Republic of Iran is facing its last days. It cannot continue to struggle to [spend billions on supporting proxies](#), or hope to build support in the region to expel the US.

Considering all these events, we've entered a new frontier in the Middle East. Iran's influence and actions over the past 40 years has created a [destabilizing effect](#) in the region, and when taking inventory of the impact of its actions, the results are costly. On the geopolitical front, these actions have [encouraged](#) a positive development once considered unimaginable; Gulf Arab states are building roads for normalization with Israel because of common security concerns.

This new frontier is also forcing the hand of other regional players to make concrete decisions concerning alliances and policy in the region: namely [Russia](#) and [Turkey](#). Both are dealing with [Libya](#) and [Syria](#), and both were cautious in commenting on the assassination of Soleimani. It should be noted however that [Vladimir Putin](#) visited Syria's President Bashar Al-Assad, a close ally of Iran in Damascus days after Soleimani's death. In addition, a Russian warship [aggressively approached](#) a US Navy destroyer in the Arabian Sea a few days following that visit.

It is likely that Iran will continue to conduct operations against the US in [Iraq](#), although not directly. Iraq's parliamentary [vote to expel US troops](#) is indicative of this concern on the part of Iraqi politicians. The lack of Kurdish or Sunni support for the measure implies their concerns for counteracting Iranian influence in Iraq. It appears that the Trump administration will [respond](#) swiftly if American lives are lost. Trump also issued a definitive warning to Iran to [not kill protestors](#). As we reflect on protests inside Iran, the regime will try to calm the situation, and will eventually resort to [suppression](#) but may heed Trump's warning.

The Iranian regime would be rational to re-negotiate a new nuclear deal and effectively live to fight another day, but its rhetoric and actions are proving otherwise. For the first time in eight-years, Iran's Supreme Leader delivered a [sermon](#) during Friday Prayers on January 17. His speech reasserted Iran's traditional talking points against the United States, calling US officials "[clowns](#)," and went further to call out the UK, France, and Germany. This unfortunately signals no changes on Iran's policy, but may isolate the Supreme Leader and the [IRGC](#) from [dissenting](#) politicians leading to greater power struggles within the regime.

Developments inside Iran concerning politics, protests, and the actions and statements of key individuals in the regime will be closely monitored throughout the year. Upcoming Iranian parliamentary [elections](#) at the end of February will offer protestors another opportunity to show discontent with the regime whether at the polling booth or in the streets—recalling the [2009](#) Iranian Presidential Elections.

The impact on investors during this escalation was [short-lived](#). Markets were rattled for a few days then rebounded, implying the market has low concern for a confrontation with Iran. We are expecting US-Iran relations to be a major foreign policy issue on the campaign trail during the 2020 US Presidential election. In addition, the US is now a [net-](#)

[exporter of oil](#) and is becoming increasingly less dependent on oil from the Middle East, although [global dependency](#) is still high. Overall, we believe that any geopolitical action within the Middle East will have minimal impact on both equity and commodities markets in the long-term.

As protests continue in Lebanon, Iraq, and Iran, citizens will continue to defy foreign influence in domestic politics. We are witnessing the early stages of defiance that may force Iran's Shiite allies to scale back dependence. Notably, if the Trump Middle East [peace plan](#) is successfully considered, this will further [diminish](#) Iran's image and influence on the Israeli-Palestinian conflict. Finally, Trump's request for more [NATO](#) involvement in Middle East is a message to Europe and the alliance as whole to become more invested in regional stability and in deterring Iran's nuclear ambitions.

So far, 2020 is off to a very critical start. Fortunately, a large-scale conflict between the US and Iran was successfully averted, but the danger has not subsided. The assassination of Qassem Soleimani has solidified an ongoing paradigm shift in the region and is setting the stage for a new frontier for all those who stand to gain or lose in the Middle East.

**ABOUT THE AUTHOR:**

*Robert R. Fragnito is the Chief Operating Officer and a Financial Consultant at MCF Capital Management, LLC. He earned his bachelor's degree from The George Washington University in Washington, DC. He majored in International Affairs with a functional concentration in Conflict and Security and a regional concentration in the Middle East. While in Washington, Robert interned for several foreign policy organizations and focused on Iran.*

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**CONTACT INFORMATION**

MCF Capital Management, LLC | 23010 Lake Forest Dr. Ste E | Laguna Hills, CA 92653 | Tel: 949 472 4579 | Fax: 949 472 8195  
[www.mfcapitalmanagement.com](http://www.mfcapitalmanagement.com)

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