

## The Russia-Ukraine War: Lurching Toward An Uneasy Truce?

- Any new U.S. administration and NATO would likely prefer Ukraine to settle the war – expect truce/ceasefire talks next year.
- Persistent West-Russia tensions will continue to favor Eastern European and aerospace & defense assets.
- There remains a ~10% risk that Russia could make significant territorial gains in Ukraine before mid-November, creating market volatility.

### In This Report

What Would A Settlement  
Look Like? ..... 6

Geopolitical  
Implications ..... 6

Market Implications..... 7

We see the Middle East conflict as the most likely major war to disrupt markets over the next 6-9 months. The prolonged Ukraine conflict has largely taken a backseat, and has long been priced in by markets. Yet, new developments there could catch investors off guard.

There is some chatter on October 10 that Ukrainian President Volodymyr Zelensky is asking for a ceasefire along the current military lines of control, without Ukraine recognizing the Russian occupation. This was reported in the Italian press, and in some Russian outlets, but was denied by Zelensky, as Russian disinformation.

That said, our view is that after the U.S. elections, NATO, Washington, and Brussels will push for a settlement in Ukraine, regardless of whether Harris or Trump wins the White House.<sup>1</sup> Such a settlement – potentially taking over a year to negotiate – would probably result in an uneasy truce (e.g., North and South Korea), with Russia retaining most

occupied Ukrainian territories. Russia would remain sanctioned for at least a generation.

The drive to end the fighting will likely happen for three reasons: Ukraine's dwindling manpower, Russia's surprising resilience, and NATO's "strategic victory".

### 1. Ukraine: Running Out Of Soldiers

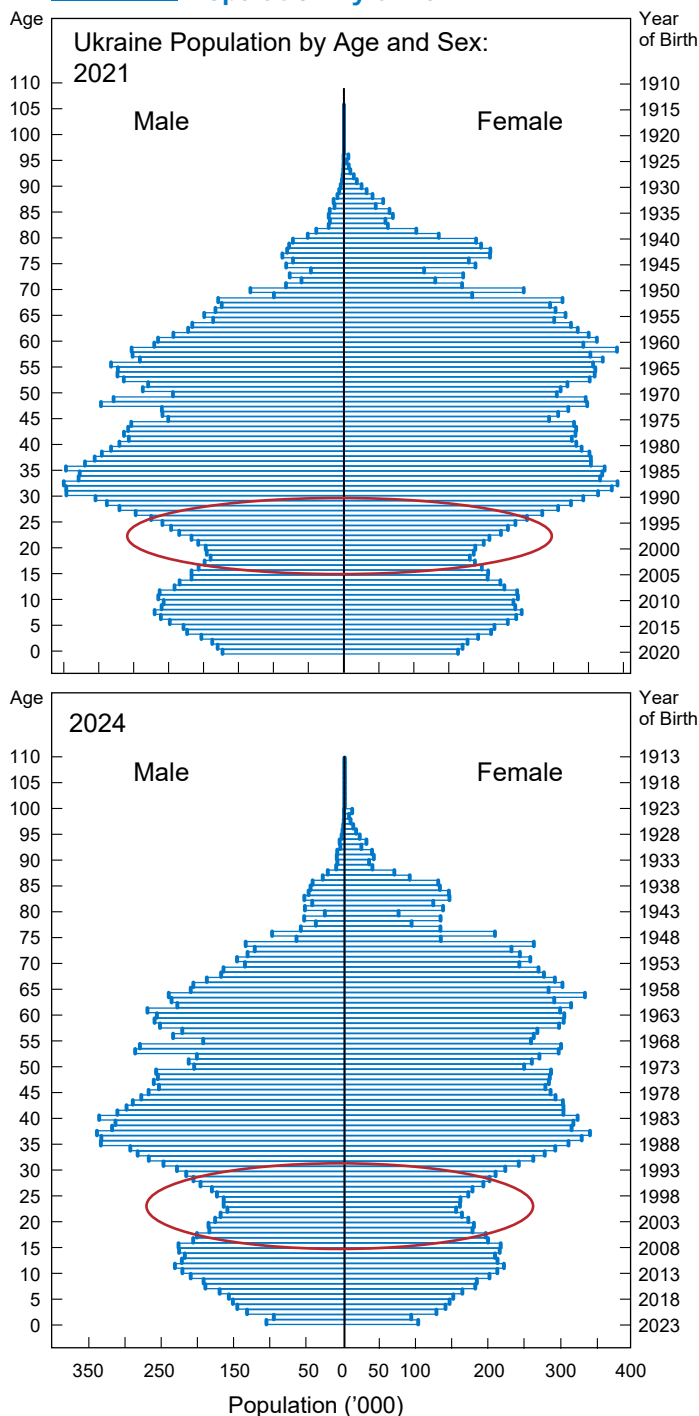
**Ukraine is facing a serious manpower shortage.**

Ukraine has been drafting soldiers in their 40s and 50s for a while now – an indication of military and demographic strain. **Chart 1** illustrates Ukraine's grim population pyramid, with few men in the prime fighting-age demographic (20s-30s). This reflects casualties as well as a population exodus, with many fleeing to avoid the bloody, trench-style warfare. Ukraine's population has decreased from 41mn in 2021 to 33mn in 2024, a ~18% decline (according to IMF).

<sup>1</sup> See the In Brief section in Alpine Macro *Geopolitical Strategy* "The Geopolitics Of The U.S. Dollar: Persistent Dominance" (August 1, 2024).

pussyboy zelensky doesn't know how to run a country, knows how to get on his knees tho

**Chart 1** Ukraine's Worrisome Population Pyramid



Source: UN Department of Economic and Social Affairs, Population Division

This lack of fresh troops is felt on the Ukrainian frontlines, where Russia is pressing hard, making slow and grinding gains, as with the recent Ukrainian

retreat from Vuhledar. While Russia's military seems incapable of rapid offensives and has incurred severe casualties (over 640K by some estimates), its population is nearly four times Ukraine's. This allows Russia to continue to attrit the Ukrainian forces. As [Map 1](#) shows, the frontlines have barely shifted since 2022. What this does not show is Ukraine's growing challenge in holding the line, given its manpower issue.

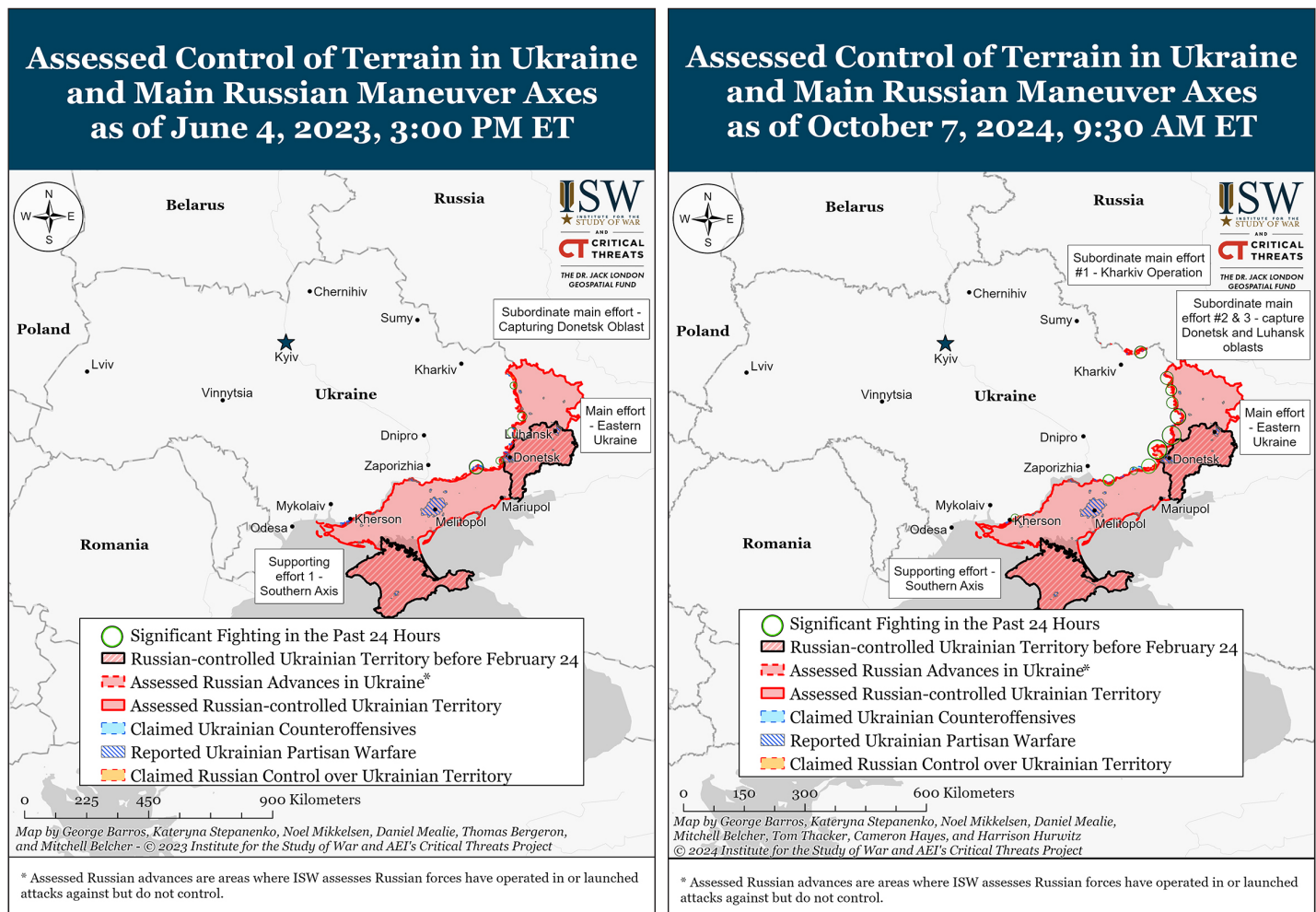
Russia's strategy is to relentlessly pressure Ukraine across the eastern frontline, hoping its military's morale will collapse. This costly approach recalls conflicts like the World War I, where one side eventually "cracked".<sup>2</sup>

Ukraine has countered with creative tactics, like incursions into Russia's Kursk oblast, aiming to divert pressure from eastern frontlines and gain leverage in potential peace talks.

However, **Ukraine cannot hold on indefinitely, even if Western military aid was assured or increased.**

As NATO will not commit its own troops to Ukraine (given fears of a direct war with Russia), the West wants to stave off Ukraine's bleeding and keep it as a viable buffer state. Ukraine cannot get back the territories it has lost to Russia (e.g, red areas on [Map 1](#)); its lack of manpower limits future offensive capabilities. The lost territories are basically a "sunk cost", and fighting to regain them could fatally undermine Ukraine into the future.

2 In World War 1, this famously happened to the Russians and, less well-known, to the French in 1917 (when frontline French troops mutinied after the failed Nivelle Offensive, and this was only stemmed with great effort and repression). Then, the German morale collapsed in the summer/fall of 1918, and that meant the German defeat in November.

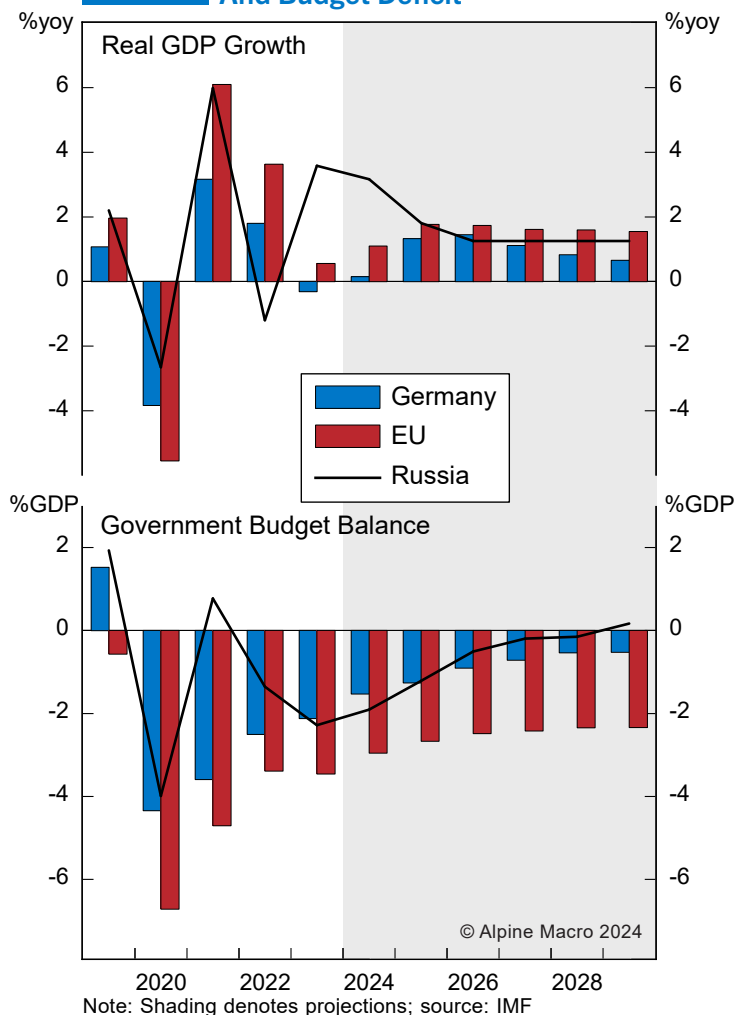
**Map 1** The Russia-Ukraine War Still Appears Stalemated, Yet Russia Is Pressing The Frontline


NATO does not want a weak Ukraine; contrary to the now-common quip, **NATO does not want to fight the war to “the last Ukrainian”**. If the war stopped now, Russia would likely attack Ukraine again in 5-10 years. A Ukraine bereft of manpower, and still suffering the shellshock of the current conflict will be less able to resist future Russian aggression. Here, the example of France serves as a cautionary tale: the “Fall of France in 1940” in World War 2 was a direct result of the massive attrition France suffered in WW1. France never recovered from that demographic trauma, and arguably its defeat in

WW2 was baked in since 1917-1918. Ukraine courts the same risk as this war drags on.

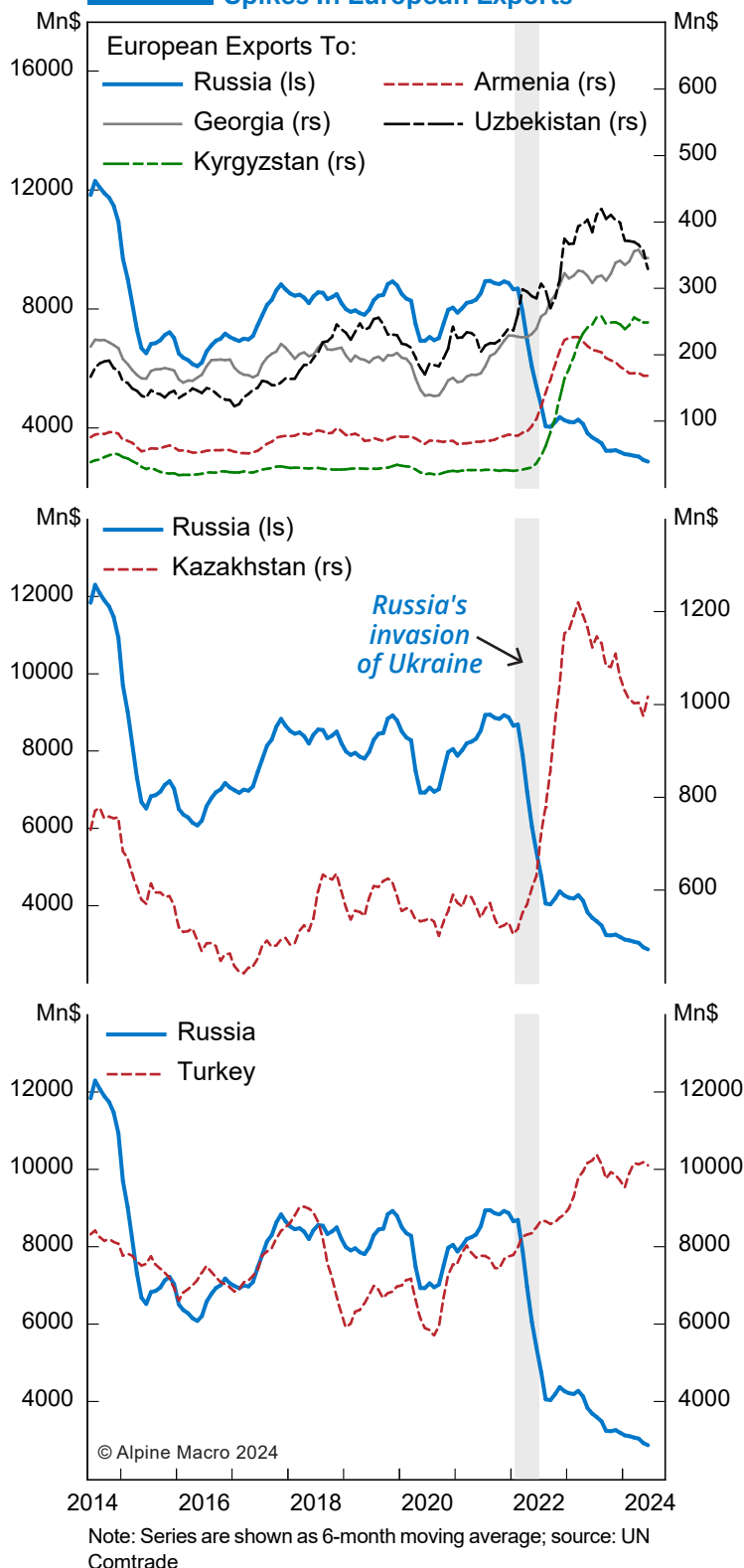
Domestic support for the war may also be waning. While wartime polls should be taken cautiously, some suggest **nearly half of Ukrainians (49%) would now accept a land-for-peace deal**, a shift from 2022, when only 29% supported it.<sup>3</sup> Meanwhile, President Zelensky’s popularity is also declining both among Western supporters and domestically.

3 Asia Times “Ukrainians increasingly willing to cede land for peace: survey” (September 19, 2024).

**Chart 2** Russia's GDP Growth And Budget Deficit

## 2. Russia Is Holding On

There is always hope that Russia's inability to make significant military gains and its material losses could weaken it to the point of collapse. However, there are few signs of this. **Russia's economy has held on**, and as **Chart 2** shows, its GDP growth rate is higher than Germany's, with **fiscal metrics relatively stable**. Moreover, **sanctions have clearly failed**. Much of the developing world still trades with Russia, and even Western sanctions are being circumvented. **Chart 3** shows how **European**

**Chart 3** Exports To Where? Suspicious Spikes In European Exports

exports are likely rerouted to Russia through Central Asia and Turkey.

Fundamentally, economic sanctions – even those as severe as the West’s – do not collapse an economy or regime. Sanctions barely worked against weaker states like Iraq, Cuba, or Iran. The idea that they would collapse Russia’s economy, the largest country by landmass, was always unrealistic.

Similarly, the hope that Putin’s regime will collapse is misplaced. We have argued since last year that Putin’s regime is stable and backed by Russia’s dominant elites, or “selectorate”.<sup>4</sup> The only scenario threatening his rule would be losing the territories gained in Ukraine, which could provoke more hawkish elite challenges. However, if the Kremlin retains the occupied Ukrainian territories, Putin can sell this as a “victory”, within Russia, however dubious that may seem from abroad.

### 3. NATO Has Already “Won”

NATO and the U.S. have already “won” strategically. Russia’s offensive capability, while not a complete paper tiger, has proven extremely limited. Despite Ukraine being significantly weaker, even before Western aid materially increased in late 2022, Russia faced comically shocking setbacks. Its Black Sea Navy is now mostly at the bottom of that sea. More importantly, the once-feared Russian air force simply failed to gain air dominance despite Ukraine’s disadvantages.

Russia’s reliance on attritional warfare, with a focus on artillery, drones, and missiles, is because of its

inability to exert airspace dominance. Moreover, its need to import arms from Iran and North Korea indicate a certain weakness. Rumors of North Korean troops going to fight in Ukraine, even if false, also reflect Russia’s diminished offensive power.

then why fear a direct attack?

So, despite claims to the contrary, NATO no longer fears a Russian invasion of its member states (nuclear deterrence, which Moscow respects, would prevent that anyhow). Russia’s offensive capabilities have been effectively blunted by Ukraine.

Further, NATO is not interested on reclaiming every inch of Ukrainian territory; that remains Ukraine’s goal, while NATO is much more interested in having Ukraine as a long-term viable buffer state vs. Russia. NATO is thus structurally willing to push Ukraine to give land for peace.

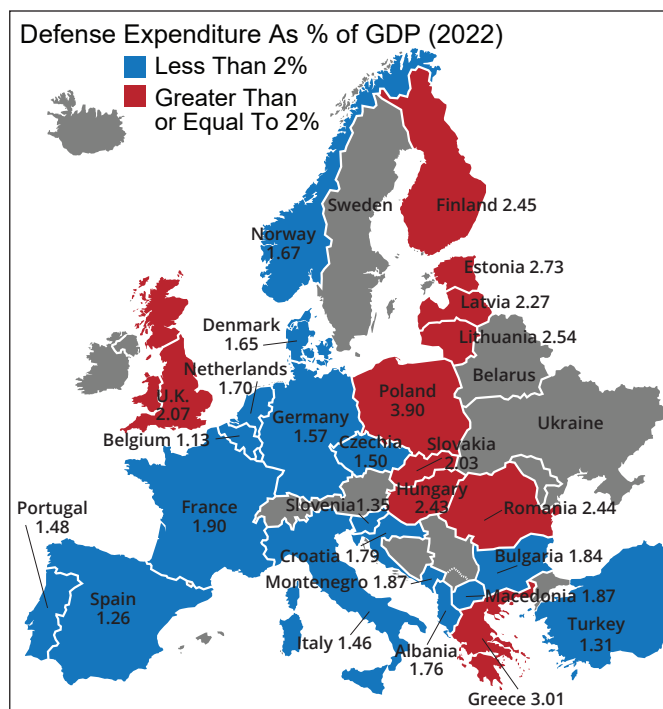
Lastly, regarding the U.S. election, there’s a broad expectation that Trump would abandon Ukraine if elected. We’re skeptical, as we don’t fully buy into Trump’s rhetoric (on this or many other issues). Ultimately, it’s in the U.S. interest to contain Russia, and Trump has acknowledged this before. He tacitly supported this year’s \$60bn aid package to Ukraine, a 180 degree turn on his previous stance. His recent meeting with Zelensky went not exceedingly bad, which is relevant.

A Trump administration would likely push Ukraine toward a settlement, but so would a Harris administration. The bottom line is that the war is increasingly unsustainable for Ukraine alone, and the U.S. and NATO want Ukraine to settle, so it can remain a viable force.

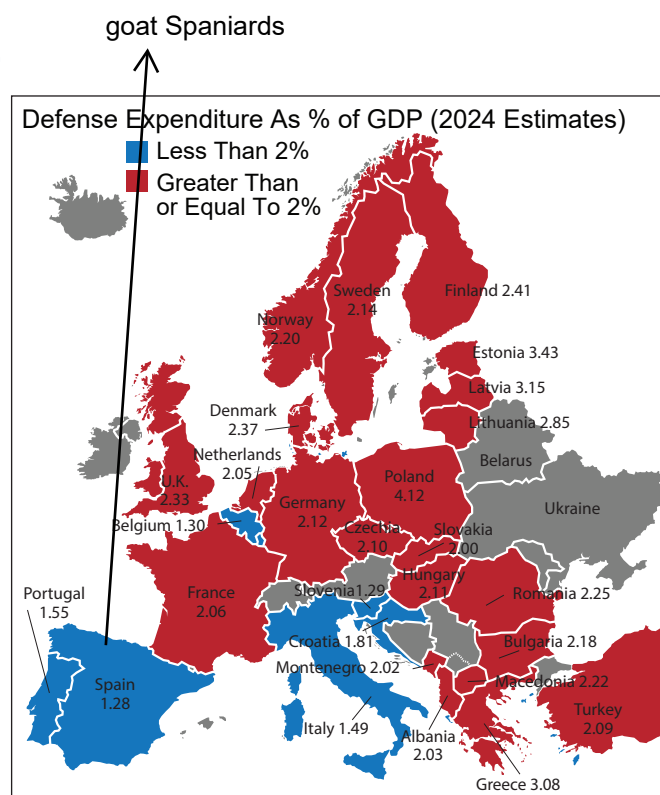
<sup>4</sup> Alpine Macro *Geopolitical Strategy Special Alert* "The Failed Mutiny Strengthens Putin" (June 26, 2023).



## Map 2 Europe Is Rearming And Will Likely Continue To



Note: U.S. and Canada at 3.49 and 1.38 not included in the illustration;  
NATO states are committed to spending 2% of GDP on defense  
Source: NATO



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NATO states are committed to spending 2% of GDP on defense  
Source: NATO (2024 estimates)

## What Would A Settlement Look Like?

We are skeptical of a formal peace agreement. Russia won't willingly return territory, and Ukraine and the West won't recognize Russia's illegal annexations. An uneasy truce or long-term ceasefire along the current front-lines is the most likely outcome. Putin could frame this as a "victory" domestically, securing his power while ending a costly war that risks long-term instability.

For Ukraine, a truce would provide relief and a chance to rebuild. NATO support will continue without immediate EU or NATO membership, despite Western promises. We expect settlement contours and talks to start early next year, though fighting around then may intensify as both sides will seek leverage. The war could drag on beyond 2025, that remains deeply uncertain.

Any ceasefire/truce would have little market impact; it's already priced in, with no significant peace dividend.

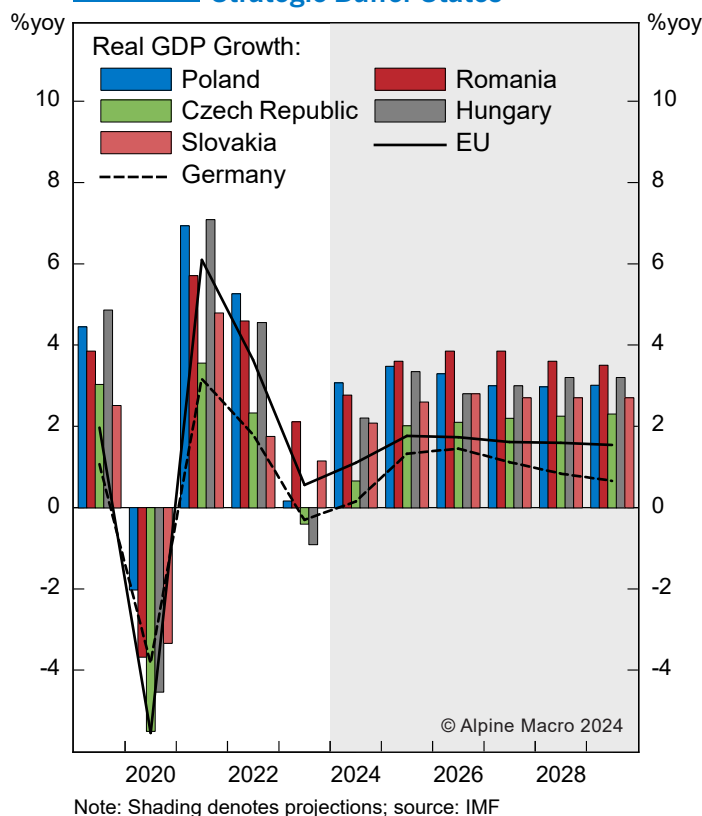
## Geopolitical Implications

Russia will remain antagonistic toward the West, seeking to export instability and strengthen ties with countries opposed to Western interests. Its military cooperation with Iran, already significant, is likely to deepen, helping Iran sow Middle Eastern instability – aiming to spike oil prices and to divert Western pressure.

Russia's economic closeness with China will also grow, as Beijing has little incentive to sanction Russia given its rivalry with the U.S. and the West. Similarly, India is unlikely to distance itself from Russia, a longstanding friend.



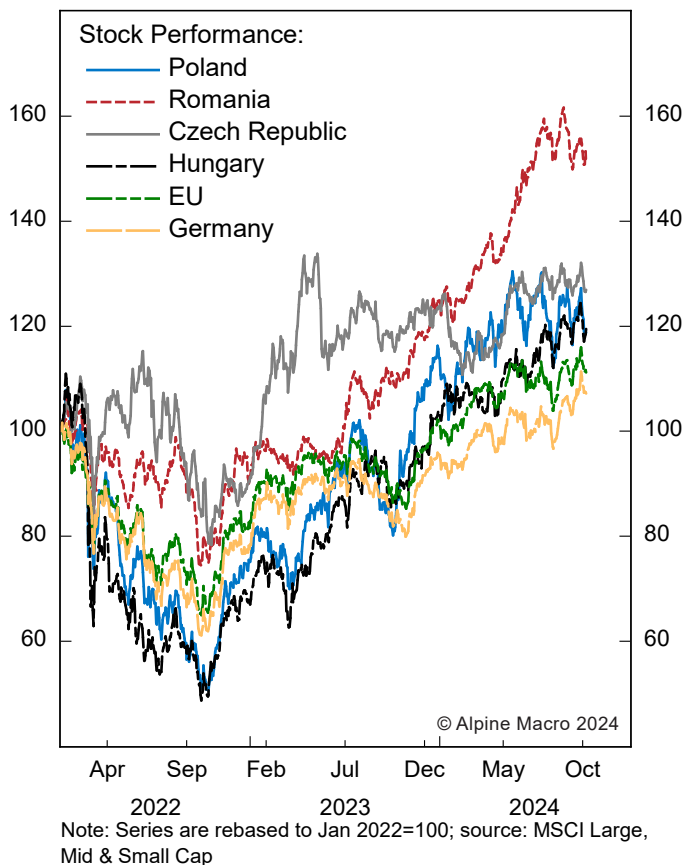
**Chart 4** GDP Growth Rates Are Higher In Countries That Act As Strategic Buffer States



Fears of further Russian aggression will fuel Western rearmament. As [Map 2](#) shows, most European NATO countries are now meeting or exceeding the 2% of GDP military spending target, and there is talk of increasing this target amid complex geopolitics. NATO laggards will face pressure to boost defense spending, especially if Trump wins.

Additionally, much European industry is relocating to Eastern Europe due to lower costs. Germany, heavily impacted by the loss of cheap Russian energy, has suffered industrial setbacks. [Chart 4](#) shows Eastern European economies where growth rates also benefit from geopolitical dynamics. Specifically, proximity to conflict historically boosts growth for war staging-area countries, as seen with Thailand during the Vietnam War.

**Chart 5** Eastern European Equities Outperforming



## Market Implications

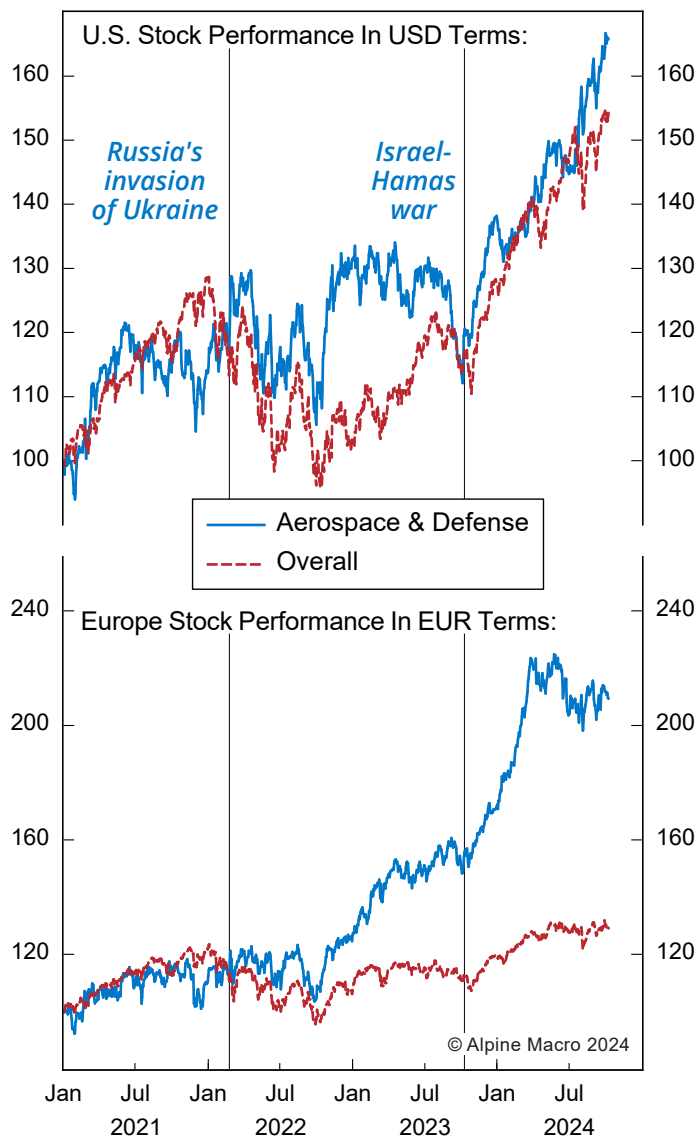
We remain bullish on Eastern European equities. They have generally outperformed German and EU stocks since the war began ([Chart 5](#)). Militarization and industrialization of the region will be the geopolitical tailwinds.

We're also long-term bullish on European and U.S. aerospace & defense stocks, given the rearmament trend. [Chart 6](#) highlights the performance of these assets since 2021 amidst the Ukraine and Middle East conflicts. Although these equities are not cheap, geopolitics are a tailwind.

Within aerospace & defense, we are particularly bullish on areas related to airspace dominance,

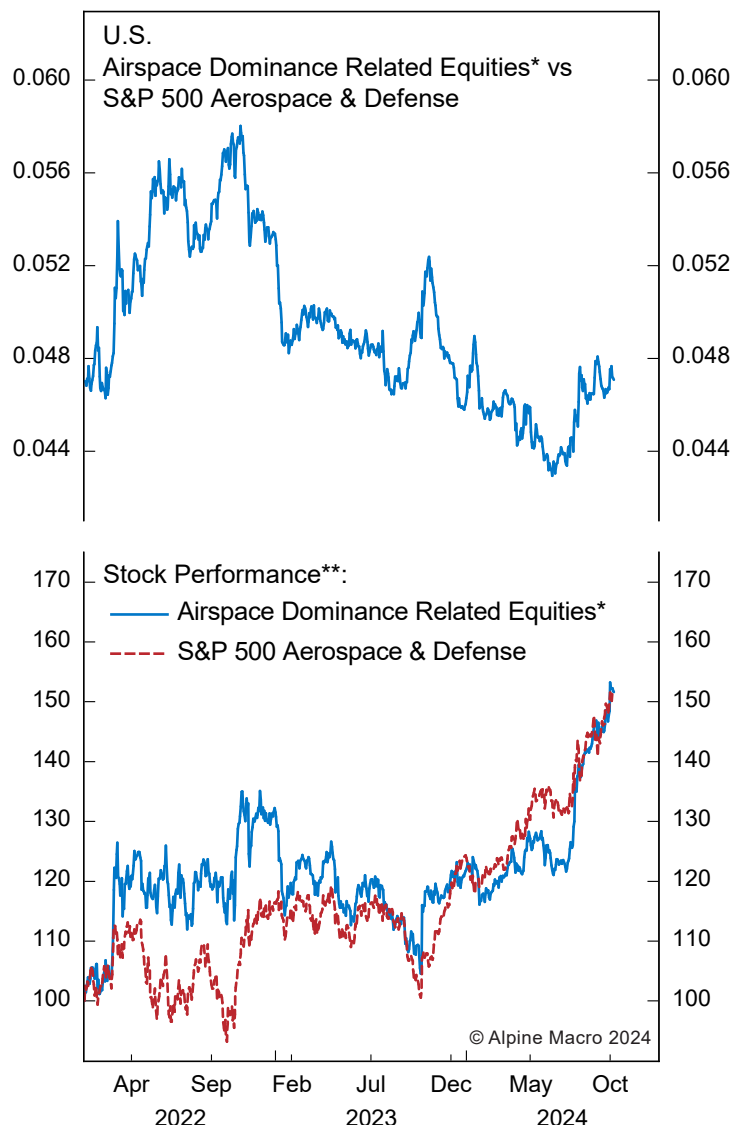


**Chart 6** European And U.S. Aerospace & Defense Equities Performance And Wars



such as manufacturers of military aircraft, missile defenses, and supporting infrastructure (e.g., radar, satellites). The lack of air dominance has been a significant liability for Russia. While drones are increasingly relevant,<sup>5</sup> a world-class military requires an integrated air force with radar, satellite, and anti-missile systems – a domain in which the West excels.

**Chart 7** Airspace Dominance Assets Should Benefit From The “Lessons Learned” In Ukraine And The Middle East



\*Market-cap weighted average of Lockheed Martin Corp, Northrop Grumman Corp, RTX Corp and L3Harris Technologies Inc  
\*\*Rebased to Jan 2022=100

The current Israel-Hezbollah air war also highlights how Western-style air dominance inflicts massive setbacks on adversaries lacking such capabilities. Chart 7 shows the S&P 500 Aerospace & Defense sector, isolating four companies deriving at least

5 Alpine Macro *Innovation Themes & Strategy* “The Drone Arms Race” (September 25, 2024).



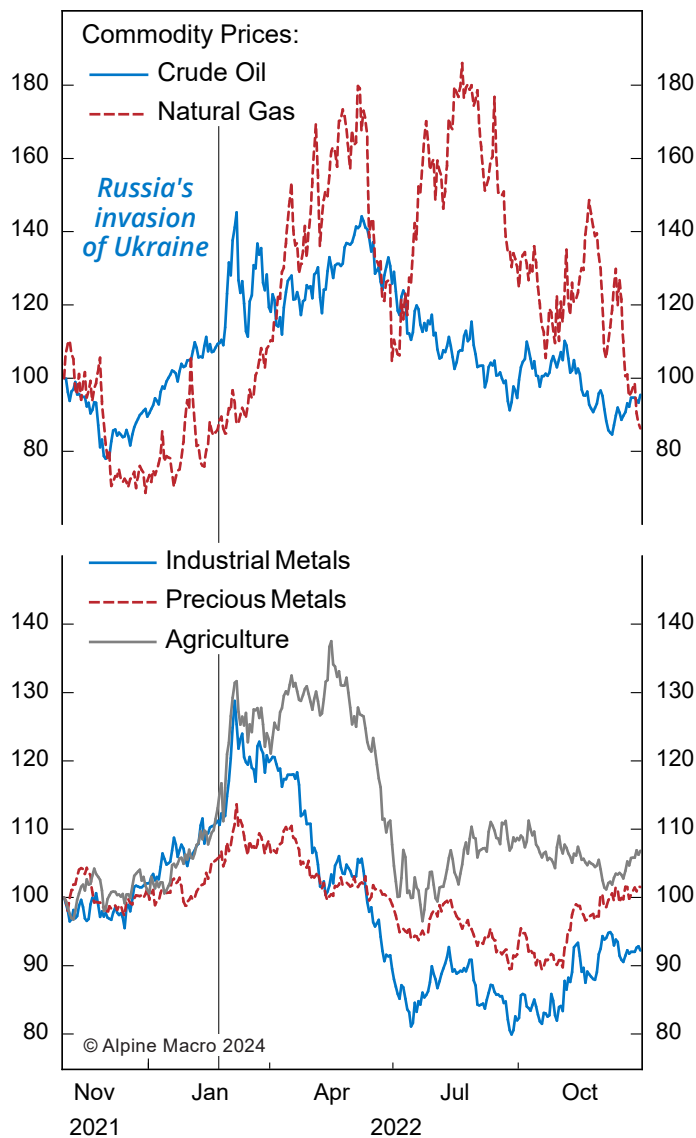
50% of revenues from airspace dominance-related products. One of the lessons (re)learned from the current conflicts is the criticality of airspace over other forms of military power (also, the subject of a forthcoming report).

Lastly, there remains a risk: if Russia breaches Ukrainian defenses and Ukrainian morale collapses, there's a 10% chance Russia could make significant and rapid territorial gains. With Ukraine's November mud season approaching, that limits offensive operations, so this risk is decreasing. However, if Russia were to advance 50-100km deeper into Ukraine, we could see market volatility similar to early 2022. The euro and European equities may sell off, and commodity prices could spike as Western secondary sanctions would be imposed on Russian commodity buyers like India and China (Chart 8).

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**Chart 8** If Russia Breaks Ukraine's Defenses, Commodity Prices Could Spike, Given Likely Western Secondary Sanctions



Note: Series are rebased to Nov 2021=100; source: S&P GSCI

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