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GEOIntelligence

## Executive Summary Report

While international attention has largely pivoted toward the Middle East and growing tensions with Iran, the war in Ukraine persists as a brutal and unresolved conflict with global implications. Now in its fourth year, the Ukraine-Russia War continues to escalate both in scope and intensity. Russia has increased the scale and frequency of its strikes on Ukrainian infrastructure and civilians, while Ukraine has countered with innovative and increasingly effective asymmetric tactics, including a stunning drone strike deep into Russian territory on June 1, 2025. Despite mounting casualties, a ceasefire, let alone a comprehensive peace agreement, remains elusive.

This report provides a strategic overview of the current state of the conflict, focusing on battlefield developments, international responses, and economic sustainability for both belligerents. Special attention is given to Ukraine's long-range drone attack and its implications for Russia's military posture, internal security, and warfighting capacity. This paper also explores the evolving diplomatic landscape under the Trump administration, with analysis of U.S. policy shifts, stalled negotiations, and Russia's long-term objectives. Additionally, it assesses the growing role of third-party actors such as China, North Korea, Iran, and Laos in shaping the conflict's trajectory. Finally, it offers an updated examination of Russia's increasingly fragile wartime economy and considers several potential outcomes – ranging from military stalemate to regime collapse – based on current economic, military, and diplomatic trends. Understanding the dynamics at play in this high-stakes war is essential not only for policymakers but also for analysts seeking to grasp how regional conflicts are reshaping global power balances in an era of renewed Great Power Competition.

### Big Picture:

Despite President Trump's engagement and direct involvement in negotiations with Russian President Putin, there are no signs of the war abating. Putin thinks he is winning the war due to the West's inconsistent support to Ukraine in terms of both political will and capabilities, especially from the United States, and the slow but steady advance of Russian forces along the line of contact. It appears Russia is stalling for time on negotiations as it wears down Ukrainian defenses and waits for the Western alliance keeping Ukraine afloat to fragment. Alternatively, some analysts assess that time is not necessarily on Russia's side as Putin's wartime economy is showing multiple indications of a downturn and possible collapse.

Russian violence has substantially increased since Trump returned to office. Drone and missile strikes increased during the late January to mid-May period. Following Ukraine's strike deep into Russia against a strategic airfield on the first of June, Russia ramped up drone and missile strikes from dozens per day to hundreds.

The Trump team has been lukewarm in its relations with Ukraine, compared to the Biden Administration. Substantial, multifaceted pressure has been placed on Ukraine to negotiate terms for



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peace, while less pressure has been placed on Russia by the United States. The U.S. has assumed that by treating Russia as an equal partner in negotiations, Moscow would respond rationally and seek an end to the war. This approach has not yielded dividends, and there are increasing indications that the current Administration is hardening its stance against Russia.

In addition to Russia's vertical escalation with an increase in the level of violence inflicted on Ukraine, there is also horizontal escalation. Russia has widened the scope of the war by both the nature of the targets it is striking and the participants involved in the conflict. Multiple reports indicate North Korea will provide another contingent to support Russia, this time with engineering troops in the Kursk region in addition to combat troops. The Hermit Regime has already provided Russia more than three million artillery rounds, tactical ballistic missiles, and other military equipment to attack Ukraine.

Similarly, Laos has stated it will provide a small contingent of troops to support Russia's military campaign. The detachment is supposed to assist with demining in the Kursk region, which is among the many remnants of the year-long Ukrainian incursion into the Russian homeland. Although the contribution is small-scale, it indicates Russia is effective at acquiring partners in its fight.

Of course, Iran continues to support Russia in terms of drones made in Iran, along with drone designs and technology for production in Russia. There are also reports that Iran may have sent Russia short-range ballistic missiles, artillery rounds, and other munitions.

Meanwhile, China explicitly said it will not allow Russia to "lose" the war. During a diplomatic exchange between China and European Union officials, China's foreign minister stated that Russia's invasion of Ukraine is a blessing for China because it prevents the United States from placing its full attention on deterring China in the Pacific region. This statement comes as it is increasingly evident that China is providing critical components for many of Russia's long-range strike weapons, which are otherwise unavailable from Western sources. Some estimates state that up to 80 percent of the necessary drone components come through or from China.

## **Ukraine's June 1, 2025 Drone Attack:**

Ukraine's extraordinarily spectacular drone strike on Russian aviation assets using precision targeting, infiltration methods, and standoff control methods caught Russia and the world by surprise. This operation was the culmination of 18 months of planning and employed covert techniques inside Russia. There were effects far beyond the destruction of the airplanes, and it has rekindled interest in Russia's industrial and economic abilities to regenerate its high-value assets.

On June 1, 2025, Ukraine unleashed more than 100 armed drones from cargo trailers that flew a short distance to attack and destroy Russian long-range attack aircraft, some of which were part of Russia's nuclear delivery force. The drones were covertly stowed inside normal Russian cargo trailers that had been modified for the attack.

The trailers were parked near four Russian airbases that had long-range bombers on the ramp. Using the Russian cell phone network, the trailer roofs were simultaneously and remotely opened, then the armed drones flew a short distance to attack the parked airplanes. Some drones were

remotely piloted via cellphones, and others flew pre-planned routes and used artificial intelligence to identify and then attack targeted aircraft.

The farthest strike was 4,300 kilometers (2,672 miles) from Ukraine. The attack likely destroyed and/or damaged somewhere between 20 and 40 aircraft, valued at up to \$7 billion, while costing Ukraine around \$600,000. The targeted Russian aircraft were directly involved in the delivery of long-range strike weapons to strike Ukraine with impunity, causing immense damage to civilian infrastructure to include critical public facilities (hospitals, fire stations, etc.).

## **Direct Effects:**

The obvious and immediate effect has been to attrit the Russian Air Force's ability to deliver highly lethal and devastating air strikes from Russia's sanctuary airspace.

Also, Ukraine demonstrated it can reach into Russia's strategic depth when it has the time to do so. This has shaken the security services to their core and opened fissures between them. The Federal Security Service (FSB), Russia's premier internal security force, failed to detect and prevent an operation that was planned over the course of 18 months. This is the same entity that predicted a Russian victory within days after invading Ukraine. Given its failures – one of which was strategic and the other a national embarrassment – the simmering distrust that the Russian military has regarding the FSB has been amplified.

The elites in the Russian government, Putin's inner circle, as well as the industrial sector, are all less secure due to this method of attack as part of the ongoing Ukrainian interdiction campaign targeting key Russian facilities. Industries using Western technology acquired before sanctions were imposed will be difficult, if not impossible, to rebuild if they are struck by Ukraine. Russia's air defenses are largely ineffective against Ukraine's long-range drones, which fly too low to be reliably detected by systems designed to target airplanes and missiles. As a result, virtually all of Russia's industries are now vulnerable to these strikes.

The Ukrainian strike capability obviously eliminated some of Russia's strike capability. Russia now has fewer airplanes to deliver long-range, highly accurate, and devastating strikes upon the Ukrainian people. However, the impact on Russia's overall nuclear capacity has been minimal. The vast majority of their nuclear capabilities reside in the Strategic Rocket Forces, which are not reliant upon military aircraft for weapons delivery.

Perhaps more importantly, the incident is viewed with anger and embarrassment inside Russia. The Russian Air Force supports ground operations and is secondary to its heavy reliance on the army for military operations. Similarly, the Russian Navy is also held in low regard. The sinking of the heavy cruiser Moskva in the Black Sea was an embarrassment more than a strategic loss. Clearly it is the Army that is the central focus of the Russian military doctrine. The Russian Army delivered its much-glorified European victory of World War II and is engaged in direct combat against what they describe in the same terms as their existential struggle against Nazi Germany. And now, in Putin's eyes, the Army is – once again – delivering victory in Ukraine (although the situation is hardly anything approaching "victory").

## Indirect Effects:

With each penetration of the homeland's airspace and destruction of industrial production, Ukraine is able to inflict "a thousand cuts" on the Russian economy and wartime capacities. The cumulative effect of this campaign degraded Russia's wartime production and some of its long-range bombers, etc., but it is unclear as to the extent that this is damaging Russia in a meaningful way.

In the social sector, each penetration erodes the trust the society has placed in the regime. Specifically, it strikes at the heart of the Russian government's competence, which underpins its authoritarian regime – the social contract is that the government provides effective domestic security in return for society's submission to harsh population and economic control measures.

Most importantly, the national industrial base is being degraded, which will limit its ability to supply the war machine at a rate surpassing its losses in Ukraine. Most analysts doubt Russia can replace the lost aircraft from this incident and the hundreds lost in combat and combat-related accidents. Sanctions, along with a minimal aviation industrial capacity, substantially limit Russia's ability to replace lost aircraft. The two notable industrial exceptions are artillery ammunition and drone production, both of which far surpass anything Ukraine and the Western nations combined are currently able to produce.

But increased industrial production of military supplies has come at the cost of domestic production for consumer goods. The following information includes numerous examples and points to major structural challenges, which normally precede a recession and potential economic collapse.

## What to Expect from Peace Negotiations:

Russian President Putin is unmoved by the stunning drone strike deep into Russia's heartland. Further, he has no intention of negotiating away anything Russia has gained and will maintain his maximalist demands as preconditions for any peace agreement.

Why would Putin stall peace instead of retaining what he has and calling it quits?

First, Putin genuinely thinks that Russia is winning the war and will eventually get all they demand of Ukraine. Putin's calculus, according to one analyst, is "...the Kremlin's path to victory is not through battlefield brilliance. It is through Western abandonment. Specifically, Putin is betting that political fatigue in Western capitals will deliver him what his military cannot. That bet extends to the negotiating table. Despite Russia's limited gains and mounting losses, Moscow has shown little interest in serious diplomacy, insisting on maximalist terms while launching new attacks."

The second and more important reason for Putin's stalling is to delay additional, more crippling sanctions from being imposed during ongoing negotiations, or in the event they fail. Beneath the bluster lies a far weaker hand than many in the West assume. Some sectors of the non-military economy are in shambles, and the civil sector's ability to absorb and manage the shortages is being tested.

The strategic paradigm has two aspects. The first is Putin's bet that his Army will deliver success by grinding down Ukraine's forces, which will eventually be abandoned by the depleted and distracted West. The second aspect is that the Army will deliver "victory" before its own economy

collapses. He believes that by establishing irreversible control through military occupation – a “facts on the ground” perspective – Russia will be able to dictate the terms of peace, just as it did after World War II. Regardless of the respective plights of both combatants, the Trump Administration has sought a negotiated resolution to the conflict since it entered office. It is now increasingly obvious to the leaders involved in the conflict and the Trump Administration that Putin does not seek a diplomatic resolution to the conflict. Rather, he has openly stated on multiple occasions recently that he wants all of Ukraine and will settle for nothing less. As stated in the opening and elsewhere in this paper, Putin thinks he is winning and is betting both his and Russia’s future on a favorable outcome for Russia on its terms rather than Ukraine’s, the EU’s, or the United States’ terms.

Recently, however, President Trump has openly stated that he is both disappointed with President Putin – a direct and personal attack – and with the destruction his forces have caused in Ukraine. This theme has been repeated several times in the recent past and may be the beginning of a campaign to increase pressure on the Russian leader. When the Pentagon stopped weapons shipments to Ukraine, it did not alter Russia’s behavior in any way. When Putin continued and escalated deadly attacks against civilian targets in Ukraine, President Trump returned to supplying weapons. President Trump is increasingly frustrated with Putin dragging his feet on cease-fire discussions as well as Russia’s increasing violence against civilian targets in Ukraine. Last week, President Trump secured a deal with the Europeans to fund U.S. defense articles for Ukraine, especially the much-needed Patriot air defense systems. Time will tell the extent of this support to Ukraine. Further, President Trump issued a threat of tariffs and enhanced sanctions against Russia if progress is not made in 50 days, as well as tariffs against countries that circumvent the tariffs and sanctions on Russia. China and India have done much to help Putin circumvent Western sanctions, especially in buying Russian petroleum products – if they are heavily tariffed, it could pressure them to reduce their economic support to Russia.

What is increasingly obvious is that Russia will not respond positively to normal “carrots” and seems to believe there are few “sticks” remaining for the West to employ. Direct negotiations went nowhere, personal engagement among the Presidents did not render a peaceful outcome, metering weapons delivery has not reduced Russian attacks, and the current lenient but expansive sanctions are bypassed or otherwise minimally effective. All these major approaches will have to be substantially revised to coerce Russia into changing its behavior.

Last week, the EU issued its 18<sup>th</sup> set of sanctions on Russia, targeting several areas of Russia’s economy, oil in particular, including a price cap intended to diminish oil prices. If President Trump rolls on with similarly tough sanctions on Russia, combined with continued arms deliveries to Ukraine, perhaps at some point, Putin might come to the negotiation table. Russia’s economic situation, described below, might enhance the odds of negotiation.

## **Russian Economic Prospects:**

If Russia’s economy were to collapse, the effects would not be localized within Russia. Therefore, a short analysis of the economic situation is warranted as it bears directly on the outcome of the war and beyond. Reporting indicates the war in Ukraine costs Russia somewhere between \$500 million and \$1 billion every day, so a look at the economic indicators will give some hints into how the course of the war may progress and for how long.



Russia's economy began contracting in the second quarter and will continue to do so in the third quarter. Two quarters of decreased economic activity can indicate the beginning of a recession... or worse. Some believe stagflation has already begun. This phenomenon mainly affects domestic consumers.

The prime interest rate has been exceptionally high for over a year. The prime rate was 21% until June 6, 2025, then later cut by a mere one percent to 20. This decrease is nearly meaningless and will probably not have a positive effect. The high rate has decimated some sectors of the economy, which will be important for near-term economic health and sustaining both the military and civilian sectors, as well as Russia's limited exportable goods.

Analysis indicates Russia's budget deficit has become an urgent and serious matter. According to media sources, Russia ran a budget deficit of 3.4 trillion rubles (\$43.3 billion), or 1.5 percent of gross domestic product, for the first five months of the year. The budget shortfall was almost five times as wide as in the same period of 2024, when Russia ran a deficit of 730.4 billion rubles, or 0.4 percent of GDP. Spending in the first five months was 20.7 percent higher than in the same period of 2024, the ministry's data showed. Revenues for the period were 3.1 percent higher than a year ago. The government is planning to tap its fiscal reserves for 447 billion rubles (\$5.51 billion), or about one-tenth of its liquid assets, to balance the budget in 2025. It is unclear what happens after the available liquid assets are exhausted. Therefore, there is substantial uncertainty in the federal budget outlook in the later part of this year.

Russia's main source of income is the energy sector, which has been hard-hit by depressed global prices. Prices for Urals crude, for example, have decreased by 33 percent since early July 2024 (\$81.74 down to \$55.14). Increasing production has been limited by its increasingly fragile infrastructure partially dependent upon Western technology that is now sanctioned, along with sanctions on transport, and Saudi Arabia's increased production for the global market. None of these problems can be easily fixed, and Russia lacks the internal capacity to solve them on its own – each would require significant international cooperation that Moscow is unlikely to receive. Further, none of the major oil producers is interested in helping Russia out of its energy dilemma. The obvious point here is that low energy prices directly affect Russia's ability to sustain the fight in Ukraine while giving a boost to other national economies from lower energy prices.

The other substantial problem for Russia is the effect on its agriculture sector, which is nearly 6 percent of its economy. Both domestic availability and consumption and exports to developing countries will be and are directly affected by the budget woes and compounded by unhelpful weather conditions.

Media reports that Russia's largest maker of combine harvesters and tractors, Rostselmash, announced in early May 2025 that the demand for its machines has collapsed, forcing it to suspend production from June and cut costs, since farmers have no money to buy new equipment. Farmers do not have the funds to purchase the equipment they need, resulting in a significant market downturn. Expensive loans add to other woes, such as high export duties and rising costs for fuel and fertilizers, making farming unprofitable in many regions and undermining Russia's ambition to be an agricultural superpower both for domestic consumption and export. Finally, the central bank's tight monetary policy has rendered commercial loans, currently at rates around 30 percent, inaccessible for most farmers, who primarily use them to buy new equipment.

Another problem is the drought conditions in southern Russia, which is its primary grain-producing region. While they are self-reliant on domestic grain production for consumer needs, the Developing World is heavily dependent on Russian and Ukrainian grain and grain oils for food. The governor of Rostov has declared an “agriculture emergency,” which will constrain exports. There is uncertainty in the upcoming grain exports, which will add to the budget deficit.

A staple of the Russian diet is potatoes. Prices have surged with inflation over the past 18 months to the point of crisis and outrage. Potato prices have tripled recently and are about twice the cost of potatoes in the United States.

The domestic impacts do not end there – since February 2022, Russia has seized approximately \$50 billion in domestic oligarch and foreign-owned assets, generating revenue for the federal budget. In 2024 alone, the Kremlin nationalized assets worth around 2.4 trillion rubles (about \$26 billion). With oil revenues declining and military expenses surging, nationalized assets offer short-term relief and are expected to provide at least another 100 billion rubles in 2025. However, the long-term economic risks are significant. Arbitrary expropriations have driven away foreign investors and alarmed Russia’s remaining business class. Domestic confidence in property rights is declining, leading to capital flight and reduced private investment. Ultimately, while asset seizures have strengthened Putin’s immediate war footing, they have undermined long-term economic resilience.

In short, several indicators point to a down trend in the economy and ability to sustain the fight, with the breaking point for military production occurring sometime in late 2025 or early 2026 when Russia runs out of currency reserves.

## **What to Expect in the Near Future:**

Worst Case for Russia. Assuming energy prices remain low, the Russian economy will continue to spiral downward. This could lead to bankruptcies by key producers and could also result in a run on banks. Russia could run out of money for wartime production before Ukraine runs out of troops with continued Western aid. A rough time estimate where this scenario could play out is late 2025/early 2026 timeframe when the economy may no longer be capable of supporting its war machine.

Best Case for Russia. The U.S. stops supporting Ukraine with military and other support, enabling a Russian “victory” before Russia’s economy collapses. The lesser victory would be military control and international recognition of occupied territories out to the political boundaries of the five existing states where Russia has boots on the ground. The greater victory would be that Western support is exhausted or cut off, precipitating the Ukrainian government’s downfall and military collapse, giving Russia a walk into Kyiv and Ukraine west of the Dnipro River.

Worst Case for Ukraine. Russia effectively waits out the West. Specifically, Russia sustains its war economy (with China’s expansive help along with others) as the means to pursue the conflict for a longer period than the Western democracies are willing to support Ukraine. Russia continues to grind down Ukrainian defenses and collapse the Ukrainian army, leading to their battlefield defeat and political surrender to Russia.

Best Case for Ukraine. Russia is incapable of sustaining the fight and returns to its borders. In this scenario, the Russian economy is no longer capable of sustaining both domestic and wartime needs. China and North Korea cannot provide or are prevented from providing via secondary sanctions and/or other actions, sufficient wartime materiel to pursue the fight. Upon economic collapse, Russia loses the ability to sustain its forces in the field and redeploys them to the Russian mainland. This includes return of Crimea to Ukraine due to Russia's inability to sustain its occupation because of Ukrainian control of the seas, loss of the land bridge from Russia to Crimea, the destruction of the Kerch Strait Bridge, and loss of freshwater reserves formerly from the North Crimea Canal.

A corollary to this scenario is that Putin and his inner circle are dethroned completely via domestic regime change, thus rendering Russia incapable of threatening its neighbors with military action.

## **Strategic Implications:**

The war has become a test of strategic patience between Russia and the West. Putin is betting on Western fatigue. His strategy is not centered on military victory, but on the erosion of U.S. and European support and slow, but steady gains on the battlefield. Ukraine, on the other hand, is seeking to defend itself until the Russian economy can no longer support the war.

Russia's expanding network of nations (China, Iran, DPRK, Laos) undermines global sanctions and multilateral pressure. Russia is engaging non-traditional partners (e.g., North Korea, Laos, Iran), which contributes both symbolically and materially to its war effort. More importantly, China's support is essential to providing key weapons components that Russia can no longer buy from the West.

Ukraine's strategic capabilities are evolving. The June 1 drone strike deep into Russian territory shows Ukraine's increasing capacity to hit strategic targets far from the frontline, challenging the assumption that Russia can conduct the war from a secure sanctuary. It has also shaken Russian elite confidence and eroded public trust in state security. The attack may catalyze further internal dissent and inter-agency mistrust (especially with the FSB).

Russia's wartime economy is unsustainable. Russia's economic trajectory (recession, rising deficits, collapsing agriculture, high interest rates) suggests an approaching tipping point, likely in late 2025 or early 2026, when it may no longer be able to fund the war. It does bear acknowledging, though, that the Russians have a long and storied history of enduring hardships. Yet, there are two key variables at work. The first is Western sanctions. If they tighten (especially secondary sanctions on China, Iran, and North Korea), Russia's ability to sustain the war may break down. The second is energy prices. If oil production is suppressed for a lengthy period, this will dramatically influence Russia's ability to fund the war.

U.S. actions appear inconsistent to Russia and are unlikely to bring Moscow to the negotiating table. For more than two years, the United States was clearly aligned with Ukraine in the conflict, providing unwavering political and military support. Although no new aid packages have been approved since January (exempting the recent Patriot deal), the U.S. continues to deliver weapons and equipment previously authorized under the Biden Administration – a nuance that Russia is unlikely to understand or accept. Compounding this confusion, influential lawmakers like Senator



Graham are pushing for new and more robust sanctions, likely providing President Trump flexibility on the timing to implement the sanctions. But if President Trump were to not sign the legislative act, a relevant historical precedent is the Obama Administration's initial diplomatic approach to Iran, which was overridden by a nearly unanimous, veto-proof sanctions bill passed by Congress, forcing a tougher stance. It is likely that Russia remembers this and understands that congressional sentiment can drive U.S. foreign policy regardless of Presidential intent. In short, although the President can be flexible and perhaps unconventional with these approaches, many members of Congress are not, making it difficult for the Kremlin to view the United States as a neutral actor or one that has Russia's interests in mind.

## Overall Economic Takeaways:

- A durable negotiated peace with security guarantees for Ukraine is critical to ending the destruction and loss of life and to beginning the rebuilding in Ukraine and Russia. A negotiated peace has benefits to all parties to end loss of life and to begin to rebuild infrastructure and commerce in Western markets. But for the near-term, peace is elusive.
- The war has unified the NATO Alliance and its partners and identified the significant risk and need to increase investment in defense spending and adapt to a new type of warfighting with advanced technologies and consistent scaling of munitions. Progress is being made in this area – this will be a future topic of the GEOIntelligence Group. Europe under all scenarios must also continue to diversify its energy sources. The defense and energy sectors could see increased demand and investment.
- As for Russian economics as described in the previous section, the key issues are that the Russian non-military economy is struggling, and its primary sectors of energy and agriculture are under significant economic pressures. The Russian economy is becoming more dependent on the Chinese market to support demand due to Western sanctions.
- The Ukraine war continues to provide global market uncertainty. The ongoing response of BRICS countries, beyond China, to the conflict and associated sanctions is a key consideration for Western businesses. Specifically, India and Turkey have significant Western foreign direct investment and are viewed as potential countries to derisk from China. India and Turkey also have historically been trading partners with Russia, specifically for energy and defense. The U.S. relationship with these and other BRICS countries is a strategic element in future global market power.
- Ukraine has potential foreign direct investment opportunities with an end to the war in its rebuilding and in the rare earth mineral markets, following on the heels of its agreement with the United States.
- Global Power Competition between China, Russia, and the U.S., along with its allies, is at the center of the peace process related to Ukraine. How the process evolves will likely provide a precedent for future international conflict resolutions, including Taiwan, South China Sea, etc.

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