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Executive Summary Report

While the United States is focused on the Iranian Conflict, along with associated ramifications, other parts of the world have continued to struggle with their own existential threats. A recent visit to Ukraine by one of our GEOIntel Contributors provides a window into that conflict and reveals some important trends.

Among them is an assertion that time may be on Ukraine's side in its conflict with Russia. At first hearing, this is a shocking statement and bears examination. There are two key aspects to this argument.

First, Ukraine withstood all that Russia threw at it for over four years - an incredibly harsh winter with uncertain and/or unreliable partners. Russia's destruction campaign revealed Ukrainian resilience among the populace and industry. As a result of these events and more, citizens have a feeling of certain victory.

The second aspect, which is implicit in the population's line of thinking, is significant. Specifically, there is a large degree of uncertainty regarding the "inevitability" of Russia's victory. At the outset of Russia's invasion, strategic analysts and commentators opined about Russia's imminent victory within a few days, yet it was soundly repulsed. Russian successive offensive campaigns in subsequent years have been parried at substantial cost to both Ukraine's and Russia's blood and treasure. Indeed, the front-line trace of the forces is nearly the same today as it was four years ago. The Ukrainians simply did not and still do not believe Russian victory is possible or inevitable. This point goes directly against the prevailing U.S. government view that Russian victory is inevitable, which drives its key negotiating position: Ukraine must "make a deal while they can" and accept terms in Russia's favor.

That said, there are counterarguments that suggest Russia, despite its challenges, may retain the better hand.

Discussion:

The Ukrainians themselves never ascribed to the inevitability theme because this is an existential struggle for them. Ukraine now has solid, unemotional reasoning and indicators that could lead outsiders to conclude it may be right on this point.

On the Ukrainian side, several positive developments in both defensive and offensive operations underpin increasingly successful actions against the Russians. On the defensive side, the most notable improvement is Ukraine's much-improved air defense and counter-drone efforts. Ukraine claims to shoot down up to 97% of the drones, cruise missiles, and missiles shot at them due to layered defenses and an effective weapons mix.



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Ukraine is dominating the drone fight. One-way attack drones are the predominant killer on the battlefield, with Ukraine claiming 80-96% (depending on the location) of casualties are the result of its drone strikes. Given that Ukraine spends just \$800 to \$1,000 on an attack drone, it has bent the cost differential to its favor. Further, Ukraine is able to kill Russians at a rate higher than Russia's ability to replace them and reorganize units.

Russian tactical attack drones along the front lines are diminished by electronic warfare systems or they are shot down. Russia's more capable strike drones are often defeated by counter-drone interceptors, which are very good at shooting them down. At the next layer, Ukraine uses fighter jets to destroy cruise missiles with air-to-air missiles or gunfire. Lastly, Ukraine relies upon its Patriot systems to defend critical sites against ballistic missiles (this may become problematic for Ukraine with the heavy use of Patriot systems in the Iranian Conflict that may limit numbers available for Ukraine).

There is much more to Ukrainian confidence, however. Ukraine's national industrial capacity has proven resilient and is improving. As an example, its air defense interceptors will be largely automated this year, which decreases the need for defensive drone pilots flying interceptors. Those troops could then be applied elsewhere (offensive drone operations, perhaps).

Overall, Ukraine is domestically producing a significant portion of its own weaponry to meet its needs – up to 50% in some cases. Multiple bilateral trade and production agreements have been signed with diverse countries and companies to increase the supply of weapons and provide reciprocal technology-sharing agreements. These arrangements give the Europeans and Gulf Cooperation Council nations proven technological expertise, while the Ukrainians get a reliable source of weaponry. This is especially important for sophisticated systems that are necessary to bypass Russian air defenses and electronic warfare to reach mid-range targets (up to 150 kilometers/93 miles) inside Ukraine and high-value asset targets deep inside Russia.

Ukraine's ability to strike deep into Russia against high-value assets directly attacks Russia's center of gravity – its energy exports, which fund the war economy. Strikes against energy transfer ports and refineries have had a very negative effect on Russia's economy on multiple levels. Last week, Ukraine once again attacked one of Russia's large facilities at Perm with significant damage – a target about 1,000 miles from Ukraine. One estimate puts the lost export capacity at 40%, although repairs make this a dynamic number, which partially negates the potential windfall profits from the current spike in energy prices. Interdictions are also affecting the production of domestic fuels (diesel, gasoline), plus essential mechanical oils and lubricants. In addition to throttling domestic private and commercial transportation, it further hinders industrial capacity and military hardware readiness. This situation inside Russia will worsen because Ukraine will field its own indigenous ballistic missile this year, which will put all armament production and logistics sites under threat.

Enter the Iran Conflict and Role of Gulf Cooperation Council (GCC) Nations:

In addition to enhancing the military capabilities of European partners, Ukraine has recently expanded its defense cooperation base to unexpected partners. The American and Israeli war against Iran has created opportunities for Ukraine to expand its international support base for funding its own security expenditures. Ironically, it has become a security provider to the GCC nations while engaged in an existential war with a Great Power nation at home.

Ukraine is sharing its technology and expertise with the GCC nations to defeat Iranian attacks and protect energy, economic, and critical domestic infrastructure sites. Since February, Iran has launched somewhere between 4,300 and 5,400 missiles and drones against the GCC nations. Defensive interceptions have been mostly successful using a range of weapons, tactics, and capabilities.

Interception rates are key to stabilizing the international energy markets and economies, especially in the developing nations. The GCC nations have a significant supply of Patriot air defense interceptors, which cost up to \$3.7 million each and have delivered a 90-plus % intercept rate against incoming ballistic missiles. However, the Iranian Shahed drone, its most notorious and effective attack system, costs about \$30,000 to manufacture. In the absence of cheaper systems, the GCC nations are compelled to shoot expensive Patriot missiles at cheaply produced drones. The cost differential is substantial, and this is where Ukraine's anti-drone, air defense expertise, and battle management technology come into play. Ukrainian interceptors typically cost \$1,000 to \$4,000 each, with more advanced systems costing \$15,000. Ukrainian technology has inverted Russia's and Iran's cost differential advantage.

In the past few weeks, Ukraine deployed more than 200 counter-drone and defense experts to the GCC nations to counter Iranian threats. Ukrainian expertise addresses the unsustainable consumption of U.S.-supplied air defenses while diversifying its partnerships. President Zelensky signed 10-year defense cooperation agreements with Saudi Arabia, Qatar, and the UAE. Agreements with Oman, Kuwait, and Bahrain are being negotiated. Among other things, the frameworks guarantee a year of diesel fuel for Ukraine, securing a critical portion of its 7.4 million per-ton annual requirement.

These agreements prioritize joint factory construction abroad to scale Ukraine's output of 2,000 drones per day for Ukraine, which will add to its daily total drone capacity to more than 4,000 drones of various types. Employing approximately 6,000 drones daily will outstrip any potential defenses the Russians will be able to produce or sustain against such numbers. These agreements transition Ukraine from an aid recipient to a systemic security exporter. Over the next three to six months, co-production will generate structural, non-Western revenue streams for Kyiv, while guaranteed diesel imports shore up military logistics.

Regardless, Ukrainian expertise and technology have directly contributed to protecting energy production in the Middle East. These efforts have stabilized markets and damped the potential for worse outcomes from Iranian attacks on the region's energy infrastructure.

In the near term, we can expect the GCC nations to sustain their demand for Ukrainian technology and expertise to protect and harden vulnerable economic and civilian infrastructure. Air defense capabilities will improve with time and increase regional stability. Given the historical dependence of GCC nations on foreign know-how and technology, security cooperation agreements will endure despite the end of the current hostilities with Iran. Similarly, the war against Iran will grant a reprieve for the GCC to build its capabilities while not under duress. Therefore, demand for Ukrainian expertise, technology, and low-cost/high-production interceptors will endure for the foreseeable future.

Counterpoint:

Despite the trending indicators favoring Ukraine, Russia enjoys several advantages as well.

Russia fields a larger army (though with increasing challenges to sustain its numbers), has more firepower in several areas such as artillery and aviation, has a population almost four times that of Ukraine, boasts larger economy that is on a wartime-footing (but with many challenges), and one must not forget that Russia always has an option to escalate in ways that Ukraine cannot, to include nuclear weapons employment that it has threatened too many times to count (thankfully, this is a very low possibility).

Surging oil prices benefit Russia despite Ukraine's interdiction campaign, providing a fiscal lifeline that dwarfs the value of Ukraine's defense contracts. Despite Ukrainian strikes degrading Russian export nodes like Ust-Luga on the Baltic Sea coast, the macroeconomic environment favors Russia's war-financing capacity in the near term.

Unless regional hostilities stabilize to permit the transfer of Patriot interceptors from GCC inventories, Kyiv's strategic vulnerabilities will persist. The depth of this alignment is inversely correlated to Iranian drone capabilities; a ceasefire or peace plan will diminish Gulf dependence on Ukrainian expertise, capping this partnership at a transactional level while Russia continues weaponizing an inflated energy market. Regardless of the outcome, the GCC nations are duly chastised by Iran, and they will sustain their push to defend the energy production and infrastructure.

Running counter to Ukrainian optimism is the hard reality of Ukraine's own demographic weakness and societal challenges. Recently, Kyrilo Budonov, the former Director of Military Intelligence and current Head of the Presidential Office, summarized these challenges. "On the one hand, everyone says we must fight until victory. On the other hand, everyone is running away from mobilization. All of this is happening at the same time. This is a huge, enormous problem." Further, he discounted the ability of technology alone to deliver victory, stating, "Wars are not won without people...winning without people...that simply doesn't exist."

Amongst other Russian advantages, we must also reflect on history. The Russian people have proven over many centuries the ability to survive and recover despite epic challenges. Noting that there are many examples, let's recall Russia during World War II, where it suffered about 27 million fatalities (with 20 million of them civilians) only to steamroll the Germans into defeat with its Western Allies.

In this vein, many experts predicted the collapse of the Russian economy dating back to 2024 and 2025, only to see it survive.

Russia under Putin appears to be stable, but discontent is growing among the public and some of Putin's supporters. Historically, regime change in Russia has occurred rapidly and dramatically (such as the Red Revolution of 2017 and the End of the Cold War in 1991). This is not to say that regime change is on the horizon, but in Russia, anything is possible.

Economic Implications:

The Ukraine-Russia War, combined with the Iranian Conflict, creates a complex and multidimensional economic situation. In the near-term, the escalations have caused inflationary pressures, especially in Europe, driven by energy and food costs related to supply-side disruption. Additionally, free-market nations are shifting to higher defense spending, which places added pressure on civilian funding. The capital markets have fluctuated between “risk on” and “risk off” given the uncertainty and continuous military activity. These near-term impacts will continue until the resolution of the conflicts.

As described above, Ukraine’s resiliency, innovation, industrial base, and ability to execute favorable outcomes have placed it in a unique situation. Ukraine has leveraged its success while still in an active war to negotiate bilateral trade agreements and consulting relationships with GCC nations that are involved in the Iranian conflict. These bilateral agreements provide funding and, more importantly, have created cooperation with free-market nations across the globe, providing an opportunity post conflicts for greater defense and economic investment partnerships. Alignment across multiple theaters with common interests for safety, diversity of supply chains, and free navigation of global commons creates an environment for free-market nations’ economic security in the long-term. This may support why the equity markets have reflected resilience for the longer term, even with the ongoing uncertainty.

The Iranian Conflict, along with Iran’s closure of the Strait of Hormuz and the United States’ blockade, has pressurized the global energy market, placing greater stress on certain regions (such as the Middle East, Asia, and Europe) with second-order effects everywhere, including the U.S., with growing prices for fertilizer, etc. But it is a boon for Russia with increased demands for Russian petroleum products, relief on energy sanctions by President Trump, and especially with major increases in the price per barrel, bolstering its challenged wartime economy.

In summary, the economic impact, while significant in the near-term due to uncertainty, has positive potential for free-market nations with the opportunity of greater defense and technology sharing, infrastructure investment, and broadening of supply chains in the long term.

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