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Executive Summary Report

For many years, and especially since Russia's 2022 invasion of Ukraine, Russia has steadily increased escalations against select NATO countries. This report delves into Russia's strategic objectives, its expanding operations in the gray zone, and its horizontal escalations to include nuclear provocations. The report concludes with implications of Russia's actions.

Evolving Russian Objectives and Escalation Strategy:

Russia's escalatory behavior in Europe is most evident through the lens of its evolving strategic objectives in the Ukraine war, as Russia pursued its goals through a combination of conventional military aggression, political coercion, and psychological operations.

Russia's initial strategic objectives were simple and have morphed based on tactical facts on the ground. Its initial objective was to swiftly seize and annex all of Ukraine, erasing its sovereignty and integrating it into the Russian Federation. This plan, envisioned as a rapid "coup de main," collapsed in the face of unexpectedly strong Ukrainian resistance. As a result, the war transitioned into a prolonged conflict of attrition, with Russia unable to achieve full military control, and has now become a tactical stalemate on the front lines, with Russia suffering huge losses.

Simultaneously with the military campaign, Russia launched an offensive disinformation campaign aimed at fracturing the EU and NATO (including the U.S.), using the urgent matter of support for Ukraine as a wedge in domestic and political arenas. By turning support for Ukraine into a polarizing domestic issue, Russia wants to weaken Western resolve. This propaganda effort emphasizes the economic burdens of supporting Ukraine to erode public and political cohesion in Europe and the US. By degrading domestic and political will, Russia is trying to compensate for that which it has been unable to achieve militarily.

A third objective, often cited by Russia as a strategic success, is the prevention of direct Western military involvement in Ukraine. However, this claim is debatable. On one hand, neither NATO nor the U.S. ever contemplated direct military intervention against Russian forces. From the outset, Western policy has been guided by a strategy to support Ukraine with military aid, intelligence, and economic assistance, while avoiding direct conflict with a nuclear-armed adversary. On the other hand, and as discussed below, there have been several examples where the West's indirect support to Ukraine was delayed, sent piecemeal, and/or subject to restrictions in certain capabilities and the rules of engagement. Thus, Putin's intimidation strategy yields a degree of success.

Bottom line, Russia's strategic goals continue to focus on regional dominance, weakening Western unity, and avoiding direct confrontation with NATO.

Gray Zone Operations:

Gray zone operations take place between the vague dividing lines between peacetime and wartime.



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The U.S. military defines gray zone operations as coercive or subversive actions conducted below the threshold of war. These can involve political manipulation, economic pressure, cyber operations, and disinformation campaigns. Attribution is often murky, enabling aggressors to operate with plausible deniability. The primary objective is to weaken a target state's sovereignty, undermine public trust, and create instability, while avoiding direct military confrontation. Examples include diplomatic intimidation, bribing political leaders, backing rival parties or extremist groups, and leveraging trade or infrastructure dependencies. Information warfare is central, using propaganda and disinformation to sow division, manipulate perceptions, and degrade societal cohesion.

Gray zone activities can also have a significant cumulative effect over time to steadily disadvantage their target. Rather than delivering a single decisive blow, gray zone actions, in theory, are intended to gradually erode a state's capacity to respond and its popular will to resist. Proxy actors—criminals, malign actors, amateurs recruited through social media, and fellow ideologues—are frequently used to shield the sponsor state from direct accountability, while state-backed “hard power” may also be employed through sabotage, cyberattacks, or attacks on critical infrastructure.

“Horizontal escalation” within the gray zone involves expanding conflict geographically or bringing in new actors and expanding target sets, rather than escalating intensity. This approach allows aggressors to apply pressure across broader fronts, increasing the burden on their adversary's will, economy, and capacities without overtly crossing into conventional warfare. It is a strategic approach in international competition designed to put new pressures on an adversary to coerce or force them to abandon their actions.

Russia's Gray Zone Horizontal Escalation Actions Against Europe:

Moving from theory to application, Russia's gray zone operations have shifted dramatically since the onset of the Ukraine war. Before the conflict, Russian gray zone activity in Europe was relatively infrequent and limited in scope. This allowed many European nations to maintain the illusion that armed conflict was unlikely to return to the continent. This belief left them underprepared for sustained Russian aggression both overtly in Ukraine and covertly among the NATO member nations via gray zone tactics.

Since the war began, Russian gray zone actions have increased in severity and frequency. Most European nations now view large-scale conflict with Russia as increasingly likely, and many have responded by boosting defense spending, readiness, and coordination. NATO members have set a target of 5% of GDP for defense, and both NATO and EU cohesion have thus far resisted Russia's efforts to fracture them through coercion and manipulation.

Russia's horizontal escalation strategy has widened the geographic and political dimensions of its campaign. Its gray zone operations now target nearly all European nations supporting Ukraine, sparing only a few, such as Hungary, Czechia, and Serbia, that align with Russian interests. Tactics include propaganda, cyberattacks, sabotage, and social disruption, and increasingly aggressive drone incursions. All are intended to pressure Western publics and political systems into reducing support for Ukraine.

New to the scene, with increasing frequency, are attacks (or attempted attacks) against industries

and persons supporting Ukraine with weapons and capabilities. Recent examples demonstrate Russia's boldness and willingness to sponsor aggression. First, a fire broke out on August 14 at a drone manufacturing facility used by Milrem Robotics in the Lasnamäe district of Tallinn. Subsequently, Latvian law enforcement detained three Latvian citizens in connection with the incident (two on August 17 and a third the next day), who were subsequently handed over to Estonia. An investigation by the Estonian Internal Security Service (Kapo) concluded with full certainty in late September that the fire was a deliberate, pre-planned act of sabotage commissioned by Russian special services.

Second, there was a coordinated yet highly dangerous incident yet failed sabotage plot on August 4–5, then August 15 at the Leipzig, Germany airport drone in August 2026 targeting a strategic NATO and Ukrainian logistics hub in Germany. First, a specially designed FPV drone carrying Semtex/PETN plastic explosives crashed into the wing and engine area of an empty Ukrainian Antonov An-124 cargo plane parked at Leipzig/Halle Airport. The aircraft had recently transported military ammunition from France. The bomb failed to detonate because the detonator was torn off during the collision. A bus driver discovered the downed drone on the tarmac hours later.

A second Drone incident followed. After the airport's immediate closure and flight diversions, a DHL Boeing 757 cargo plane performing a go-around collided mid-air with a second drone. The plane sustained tail damage but safely diverted and landed in Hanover. The wreckage of this second drone was later found in a forest near Kursdorf. Later, on August 14, a third drone carrying military-grade RDX explosives was discovered in a field west of the airport in Kabelsketal, indicating a much larger planned attack

Estonia's counterintelligence chief noted: "Russia's [gray zone] attacks are no longer symbolic." They aim to cause real damage to politically, economically, and militarily significant capabilities. The secondary objective is to create psychological damage on those leading the efforts to supply Ukraine with weapons and equipment.

Recently, European intelligence agencies have warned defense industry executives that Russia is intensifying alleged assassination plots against corporate leaders to disrupt military support for Ukraine. There is ample precedent for these warnings. In 2024, U.S. and German intelligence agencies uncovered and foiled a Russian plot targeting Armin Papperger, chief executive of German defense contractor Rheinmetall, who was negotiating a cooperative manufacturing agreement with Ukraine.

Currently, reporting indicates Russia's military intelligence agency, the GRU, is working with European organized crime networks to conduct surveillance and coordinate covert operations against defense executives, particularly those involved in drone production. European defense companies have tightened security for senior executives following warnings from government intelligence agencies.

The scale of attacks attributed to Russia across Europe is vast and includes the targeting of critical infrastructure, communications, military systems, and transportation networks. Examples include cutting undersea pipelines and cables between Finland and Estonia, as well as the Svalbard cable cut near Norway. Russia has also attempted to derail trains in Poland and send parcel bombs to

the UK, and Germany intended to down airborne aircraft. Russia has also used arson against factories in Germany, Poland, and the UK supplying munitions to Ukraine. Furthermore, is the drone activity addressed above, to include Lithuania, Poland, and Romania that is either confirmed or strongly suspected from Russia and Belarus.

Finally, Russia continues to wield nuclear threats as a psychological weapon. Since the invasion began in 2022, President Putin and other Russian officials have made over 100 references to potential nuclear escalation. These threats are backed by actions, including suspending compliance with most elements of "New START" (New Strategic Arms Reduction Treaty), the last vestige of nuclear arms control that has now expired with no replacement. Russia has deployed nuclear weapons in Belarus, made more aggressive nuclear doctrine modifications, and hinted at returning to nuclear testing. Putin's latest modification permitted Russia to launch nuclear attacks on countries that are arming Ukraine. And two weeks ago, Putin threatened nuclear employment against European countries if they were to present a threat to Kaliningrad, an enclave of sovereign Russian territory embedded in Poland, and a likely staging area for Russia's grey zone actions. While many of these threats seem exaggerated or theatrical, they have had at least a chilling effect on Western decision-making, as seen particularly in the delayed and incremental delivery of advanced weapons to Ukraine early in the war.

Geopolitical Implications:

Russia's horizontal escalation into Europe as a supporting campaign to its war in Ukraine has largely failed to decrease European support for Ukraine's survival and sovereignty. Furthermore, from a strategic perspective, Putin's gray zone campaign has failed to meaningfully fragment the Alliance and stop European Union support for Ukraine. He has, however, managed to keep direct and large-scale European and American military involvement in the war out of direct combat, though there are area European advisors in Ukraine. So far, he has employed all manner of national power, strategically, operationally, and tactically, to coerce Europeans into allowing Russia to swallow Ukraine, an effort that has been unsuccessful.

Russia's increasing horizontal escalations pose risks. Some NATO nations have requested urgent consultations under NATO's Article 4. But largely, NATO countries are tolerating Putin's increasing activities of not only destroying property but also targeting lives. Yet, ambiguous red lines could be crossed at some point, either through a sudden major escalation or the sheer number and scope of lesser Russian aggressive actions, potentially activating Article 5, requiring mutual defense.

If NATO were to respond militarily, Russia, with its hands more than full in Ukraine, NATO would likely decisively deal with Russia regardless of the scale of the action. Then how would Putin respond to that? Vertical escalation up the levels of violence would be likely. Without question, Putin does not want this. Yet, he continues to play with fire with his bolder horizontal escalations against NATO members to weaken NATO and its support for Ukraine without triggering a military response and subsequent escalation.

Thus far, European efforts have been responsive or defensive in nature. "However, there are additional measures the West may take below the level of direct military conflict." Should the Europeans decide to respond with more aggressive measures to either attempt to convince Putin

to ratchet down his nefarious activities across Europe and/or to give Putin pause in considering even more aggressive effects against the West? This could include arming Ukraine with longer-range precision weapons along with loosened rules of engagement, and in significant numbers. President Trump had considered doing exactly this with Tomahawk cruise missiles, then decided against it. The munitions shortfalls from the recent war with Iran make it even more unlikely that the U.S. would make such weapons available for Ukraine. Putin's assertion that this would be an escalation is laughable, as it has been striking Ukraine with such weapons since the beginning, including against civilian targets.

If Ukraine were to get long-range precision weapons in quantity along with the permission to strike strategic targets, Ukraine could further its already successful attacks on Russian infrastructure (especially oil production), Russian drone production, transportation, and military supply depots deep in Russia.

Russia's abandonment of key nuclear arms control frameworks, most notably its non-compliance with New START and deployment of tactical nuclear weapons to Belarus, signals a collapse of the post-Cold War arms control architecture. These moves erode strategic predictability and increase the risk of miscalculation or deliberate escalation. Coupled with dozens of nuclear threats, this behavior shifts the nuclear threshold and injects greater instability into European and global security environments. The absence of verifiable constraints on Russia's nuclear arsenal is forcing some NATO nations to reconsider their own nuclear posture and response planning.

Russia's deliberate restriction of gas and oil flows to European nations in retaliation for Ukraine's support forced a dramatic restructuring of European energy policy. Countries scrambled to reduce dependence on Russian energy, investing heavily in LNG infrastructure, renewables, and energy storage. While this has accelerated Europe's long-term energy transition goals, the short-term effect has been increasing energy prices, inflationary pressure, and economic disruption. Most importantly, the severing of energy ties eliminated a major Russian leverage point but came at high transitional costs for European economies, particularly Germany and Central Europe.

Several European nations also continue to buy Russia's economic mainstay of petroleum, albeit indirectly (by buying it from a third party after it has been refined). That said, the EU is steadily marching toward continued reductions in the purchase of Russian-derived oil or LNG (note that Hungary and Slovakia are forced to buy Russian petroleum directly due to proximity and the cost of retooling). For example, the EU implemented its 21st set of sanctions against Russia last July, and as of today, the EU is working on its 22nd package, targeting Russia's critical infrastructure (energy, finance, defense industry, etc.).

Both China and India continue to buy huge quantities of Russian oil. Various efforts have attempted to dissuade such purchases, but with little impact. A case in point is the Graham Act. In Sept. 2026, President Trump signed into law the Lindsey O. Graham Sanctioning Russia and Iran Act of 2026, permitting the President to impose tariffs of up to 100 percent against countries that continue to buy Russian oil and LNG. But in a surprising move, President Trump has made a deal to buy Russian diesel fuel to attempt to lower fuel prices, as well as waiving the Graham sanctions for domestic purposes and to offset costs related to the Iranian conflict, and at the same time, taking other actions to hurt Ukraine's position (such as slowing down Starlink, missile warning, and intelligence sharing, etc.).

Russian energy exports are critical for the sustainment of its economy, given the reallocation of resources to defense. Without the exports of oil and gas, the Russian economy would be in crisis. And though heavily sanctioned by many countries and organizations, Russia has found ways to get around or mitigate many of the sanctions to date. The latest U.S. relief of Russian sanctions and tariffs will benefit Russia, and when combined with decisions to hinder Ukrainian attacks against Russian forces and its oil and LNG infrastructure, makes it problematic for Ukraine (note that at this writing, this is a very fluid development that will ebb and flow in the coming weeks and months).

Economic and Investment Implications:

Russia's invasion of Ukraine and its broader Grey Zone tactics have reshaped global economic conditions, energy markets, and geopolitical risk pricing. While most Western nations have distanced themselves economically, the conflict has forced a significant restructuring of global energy systems, trade flows, and defense spending.

Economic Implications:

Energy Disruption and European Transition:

- Russia's restriction of gas and oil flows accelerated Europe's shift toward:
 - LNG imports
 - Renewables
 - Nuclear power
 - Grid modernization
- Short-term effects: higher inflation, elevated energy costs, margin strain — especially in Germany and Central Europe
- Despite sanctions, Russia continues exporting energy to major buyers, sustaining its economy and limiting the full impact of Western restrictions
- President Trump's recent purchase of diesel from Russia, along with sanctions and tariff relief to lower fuel costs, is an unusual move and, in the near term, will not make much of a difference when compared to impacts on the energy market with the situations involving the Straits of Hormuz and Bab el-Mandeb

Russia's Domestic Economic Strain:

- Energy exports remain critical to Russia's wartime economic stability
- Ukrainian strikes on refineries have:
 - Disrupted production
 - Tightened export capacity
 - Increased domestic fuel prices
- Workforce constraints and defense-driven resource allocation heighten long-term economic vulnerability
- The EU continues expanding sanctions, though Russia has mitigated many of their effects

Global Defense Spending:

- NATO members have sharply increased defense budgets
- Battlefield lessons — drones, electronic warfare, countermeasures — are accelerating innovation across defense technology
- Benefits extend beyond traditional contractors to emerging tech firms with dual-use or military-adjacent capabilities

Investor Implications:

Energy, Inflation, and Growth:

- Disruptions to Russian energy infrastructure may keep global energy prices volatile.
- Higher energy and transportation costs:
 - Fuel inflation
 - Pressure corporate margins
 - Limit central banks' ability to ease policy
- Europe's diversification efforts are channeling capital toward:
 - Renewables
 - LNG infrastructure
 - Electricity grids
 - Energy-security technologies

Trade Fragmentation and Emerging-Market Divergence:

- Sanctions and tariffs may reshape global trade routes and raise business costs.
- Outcomes will vary across emerging markets depending on:
 - Energy exposure
 - Trade relationships
 - Access to capital
- Energy-intensive industries — especially in Europe — face margin pressure; some energy exporters may benefit.

Financial Markets and Credit Conditions:

- Heightened geopolitical risk may:
 - Increase equity-market volatility
 - Widen corporate credit spreads
 - Drive flows toward safe-haven assets
- Persistent energy-driven inflation may keep interest rates higher for longer, pressuring bond prices and borrowing costs.
- Municipal credit quality may weaken due to:
 - Higher utility expenses
 - Infrastructure investment needs
 - Slower economic growth
 - Increased debt-service burdens

Sector Implications:

Potential beneficiaries:

- Defense & aerospace
- Cybersecurity
- Select energy producers
- LNG infrastructure
- Electricity grids
- Energy-security technologies

Potential vulnerable sectors:

- Energy-intensive manufacturing
- Transportation
- Consumer-facing businesses
- Highly leveraged companies
- Economies dependent on imported energy

Key Risks to Monitor:

- Escalation toward direct NATO–Russia conflict
- President Trump’s unpredictable nature, especially towards Iran, Russia, and Ukraine
- Disruptions to oil and natural-gas supplies
- Additional sanctions or tariffs
- Inflation and interest-rate trajectories
- Sovereign borrowing needs
- NATO defense-budget implementation
- Pace of European energy-transition investment

Bottom Line:

Russia’s Grey Zone escalation and the broader economic fallout of the Ukraine War are reshaping global capital allocation. Energy disruption, inflationary pressure, trade fragmentation, and rising defense spending create both immediate market risks and long-term structural opportunities.

Investors should assess portfolio exposure to geopolitical shocks, energy-price volatility, interest-rate risk, and credit deterioration while identifying opportunities in defense, cybersecurity, and energy-security technologies. Prolonged geopolitical tension can materially influence asset valuations, corporate earnings, and investment returns.

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