

# President Trump opens discussion with President Putin on Ukraine What's next?



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## US-Russia negotiations on Ukraine signal potential for market relief

After nearly three years of conflict, recent reports indicating the beginning of serious discussions aimed at ending the war offer a glimmer of hope for financial markets. This new initiative, spearheaded by the US, has the potential to provide a crucial shift in geopolitical dynamics and market sentiment. However, the path to resolution remains fraught with complexities, particularly regarding the role of Ukraine and Europe in the negotiations.

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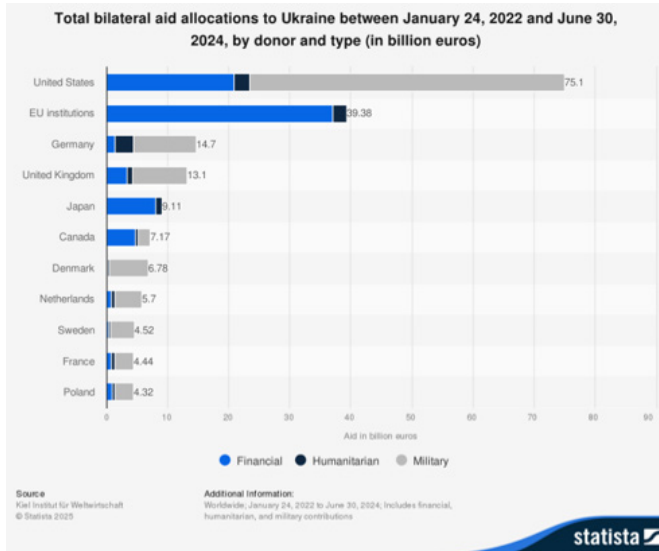
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## A US-led initiative with limited European involvement

For the time being, the negotiations are being led by the United States, which has been the largest supporter of Ukraine throughout the conflict. President Trump's apparent strategy is to negotiate a deal directly with Russian President Vladimir Putin, with little to no involvement from European nations. This approach raises questions regarding the scope and potential long-term benefits of any agreement, particularly for Europe, which has been directly impacted by the conflict's economic consequences.



Source: Statista

While the US is undoubtedly in a legitimate position to lead the discussions given its extensive support for Ukraine, both Ukraine and European nations also hold legitimate claims to a role in the negotiations. Their involvement will be crucial in determining whether any potential deal will be final and long-lasting.

## Ceasefire or comprehensive peace

One of the central issues that will determine the ultimate impact of these discussions on financial markets is the nature of the agreement. Specifically, will it be a temporary ceasefire or a full peace agreement?

- **Ceasefire:** A ceasefire would offer short-term relief but may fail to resolve the underlying issues, particularly around territorial boundaries. While such an agreement could reduce the immediate risks of escalation, the lack of clarity on borders could leave significant uncertainties in place, preventing full market normalisation. The potential for renewed conflict would remain contingent on subjective interpretations of any ceasefire terms.
- **Comprehensive peace agreement:** Conversely, a full peace agreement would provide far greater visibility and stability, potentially opening the door to a normalisation of economic relations with Russia. This could include the lifting of sanctions and the restoration of energy flows to Europe, both of which would likely benefit European economies and global financial markets.

## The challenge of a US-Russia deal without European or Ukrainian support

While a US-Russia deal could bring immediate relief to the conflict's primary stakeholders, striking an agreement without the support and endorsement of Ukraine or European countries could significantly limit the broader economic benefits.

- **Risks of excluding Europe and Ukraine:** A deal between the US and Russia that bypasses Europe or Ukraine could result in a partial lifting of US sanctions on Russia, potentially allowing for a degree of economic normalisation between the US and Russia. However, if Europe does not endorse the agreement, it is likely to maintain its sanctions, particularly on trade and financial transactions, which would diminish the broader positive economic impact.
- **Impact on Ukraine:** The absence of Ukraine's genuine endorsement could also prove to be unstable and unsustainable. If the agreement is imposed without Ukrainian approval, it could lead to internal unrest and further uncertainty, dampening the potential for a lasting positive economic scenario.

## Two potential scenarios for the negotiations

As the discussions unfold, two primary scenarios could emerge, each with distinct financial implications:

- **Scenario 1:**  
**US-Russia deal without European or Ukrainian endorsement**  
In this scenario, the US and Russia reach an agreement, but Ukraine and European countries do not genuinely endorse the terms. The US may begin lifting sanctions on Russia, leading to some economic normalisation and the unfreezing of Russian assets. However, European sanctions would likely remain in place in such scenario, restricting trade and financial flows with Russia. Consequently, the economic benefits for Europe would be limited, and the broader market impact may be modest, with little change in financial market conditions.
- **Scenario 2:**  
**US-Russia deal with Ukrainian and European endorsement**  
The second scenario involves a scenario where the US and Russia reach an agreement, but Ukraine and European countries are subsequently "convinced" to endorse the terms. This could be achieved through a combination of US pressure and incentives, such as financial support for Ukraine's reconstruction, the level and scope of trade tariffs, or reassurances about Eastern European security. Should this happen, the economic implications would be far more positive. Sanctions on Russia could be gradually lifted, leading to a potential resuming of Russian energy exports to Europe, easing supply strains, and lower energy costs. The reconstruction of Ukraine could also provide a significant economic stimulus to European economies.

## Market implications and outlook

The initiation of talks between the US and Russia has been viewed positively by financial markets, as it signals the potential for a reduction in geopolitical risks and the end of a costly and bloody conflict. However, the market's reaction in the weeks ahead will largely depend on the nature of the agreement and the degree to which Ukraine and Europe are included in the final terms.

- ▶ **Ceasefire impact:** Even if only a ceasefire is reached, markets are likely to respond positively in the short term, as the immediate risk of escalation would be reduced. However, the broader economic benefits may be limited if European sanctions remain in place and trade with Russia continues to be restricted.
- ▶ **Comprehensive peace agreement:** If a comprehensive peace agreement is reached and endorsed by all parties, the financial benefits would be noticeable. The lifting of sanctions, particularly those affecting energy and trade, would provide a boost to European economies. Additionally, a potential normalisation of relations with Russia could support global commodity prices, ease energy supply constraints, and improve sentiment toward European financial assets.

## An ongoing situation with wide-ranging implications

This is a constantly evolving situation, with a wide range of potential outcomes still in play. While significant uncertainties remain, the initiation of peace talks is an encouraging development. If and when a resolution is reached, it would likely lead to the gradual lifting of sanctions, improved energy flows, and increased reconstruction efforts—providing much-needed support to Europe's struggling economy. From an investment perspective, the possibility of a meaningful and lasting resolution should not be overlooked.

## The potential impact for equity markets

The ongoing developments can prove to be positive for European equity markets, in a context that had already become more favourable since the beginning of the year. Indeed, after a challenging second half of 2024, Europe's macroeconomic backdrop has stopped deteriorating recently, with reassuring PMI indices and positive economic surprises in early 2025. Short-term recession risks are dissipating, and growth is stabilising, even if it remains very weak in "core" economies. Sentiment could further improve following Germany's elections and the prospect of additional fiscal support. One of the key uncertainties heading into the elections is whether fringe parties will be able to block a reform of the constitutional debt brake by gathering one-third of the Bundestag's seats. If they do, prospects of fiscal support might be lowered but the increasingly likely option of excluding defence spendings from deficit limits would still allow for some positive impulse from government policy. Meanwhile, while uncertainty over US tariffs on European goods remains, the threat of sharp tariff hikes has diminished, as they seemed to serve President Trump as a bargaining tool for extracting concessions from other countries.

In parallel, despite the recent re-rating, European equity valuations remain attractive compared to the US market, and equity earnings growth is projected to accelerate, with the stabilising macro environment reducing downside risks to these expectations.

## The potential impact for bond markets

The picture may be more complex when it comes to the impact on European interest rates, as European long-term rates may experience upward pressures from a positive evolution in the Ukraine situation. The combination of potentially improved growth prospects in Europe, and of higher public debt to finance defence spendings, might reduce the appeal of EUR long-term government bonds. This could be especially true for Germany, which stands out among European peers as a country with low public debt (62% of GDP, well below the 87% average level of the Eurozone) and the weakest growth of the monetary union over the past two years. Potentially rising public debt and improved growth prospects could push German government yields upward, especially if it comes along with the introduction of joint European borrowings to finance the rise in defence spendings. A steepening of the EUR yield curve could therefore be expected and warrant to position on short-to medium term maturity bonds.

However, better economic growth prospects for Europe would likely be supportive for some corporate bonds. A potential peace agreement would largely impact the European gas market, as renewed access to Russian gas imports could lower cost of energy and electricity feedstock, directly benefiting utilities and indirectly supporting energy-intensive industries. Currently, the energy costs in neighbouring countries remain elevated comparing to pre-war levels. By sector, European utilities that previously relied on low-cost Russian gas for electricity generation would be direct beneficiaries if Russian gas flows resume, reducing imports of expensive LNG (liquefied natural gas) overseas. Energy and gas transmission companies in neighbouring countries would also benefit from more stable pricing and increased energy exports to Ukraine for reconstruction. Additionally, defence companies in Europe, particularly those with strong government backing, could see higher demand for military aircraft, helicopters, armoured vehicles, and naval systems. Specific cases on banks and corporates that have maintained their Russian exposure may also see asset revaluations. Finally, a ceasefire would provide Ukraine with an opportunity to attract foreign investment, and Ukrainian corporates with viable business to resume access to capital market.

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