



R&R Weekly Column
By Brunello Rosa



Trump, Vance and Hegseth Reset US-EU Relationship After Decades of Cooperation

Last week, three speeches given by US Vice-President JD Vance and Secretary of Defense Pete Hegseth, along with a phone call made by US President Trump with Russian President Vladimir Putin, which was followed by a declaration by US Special Envoy to Ukraine Keith Kellog, have reset the US-EU relationship after decades of cooperation, taking it to one of the lowest points in recent history.

On 11th February, JD Vance spoke at the global summit [on AI organised by French President Macron](#), who had just announced a [EUR 109bn investment in artificial intelligence](#), matching the same GDP proportion as the US [investment in the Stargate Project](#). At the end of the summit, [the US refused to sign the joint declaration on “inclusive AI”](#), which was signed by all other participants, including the EU and China.

The main argument given as to why it did not sign the declaration was based on the usual “America First” approach, [which foresees a technological superiority \(both in semiconductors and software\) as well as a regulatory superiority by the US](#). The UK, in an act of clear confusion and likely self-harm, decided to follow its bigger but younger American “cousin”, and also refused to sign the joint declaration.

On February 12th, [Pete Hegseth also delivered an abrasive speech](#) to the Ukraine Defense Contact Group. During that speech, he wiped out three years of diplomatic and strategic advancements made by the US and EU over Ukraine, making the following points: (a) it is not realistic to think that Ukraine will ever return to its 2014 borders, before Russia’s illegal annexation of Ukrainian territory; (b) it is also not realistic to think about Ukraine’s accession to NATO; (c) once the new borders will be defined (which would likely not be far from the current de-facto borders, after Russia’s advancements into Ukraine’s territory), it will be up to European, rather than US or NATO troops, to patrol them; (d) those troops will NOT be covered by NATO’s Article 5 provisions; (e) European countries will have to spend 5%, not 2%, of their GDP on defense. This is akin to punching the Europeans in the face, while at the same time telling them “you cannot count on the US for your security anymore.”

Also on February 12th, Trump and Putin held a phone call, at the end of which Trump declared [that negotiations on the Russia-Ukraine war will begin “immediately,”](#) reiterating the points made, the same day, by his Secretary of Defense Hegseth, which de-fact conceded to Russian President Putin anything he could possibly ask for from a negotiation. It does not look like a wise strategy from the master of the Art of the Deal to concede to his counterparts all the negotiation points before the discussion has even started. On 15 February, Kellog reinforced the message by saying that [the Europeans will not be invited to the table of the negotiations regarding the future of Ukraine](#).

In between, on February 14th, JD Vance, speaking at the Munich Security Conference (MSC), reiterated all these previous messages, and added [that Europe has betrayed its own ideals and that freedom of expression is in danger in Europe](#).

All these events have plunged US-European relations to their lowest points since WWII, with the Americans saying to the Europeans that effectively they should not rely on the US anymore for their security, and that, if Putin made further attempts to invade European territories, the US would not intervene.

The European response has been timid so far: [Macron has announced an informal EU meeting on Ukraine, which still needs to be confirmed](#). Former ECB President Draghi wrote an article in the FT saying that it is Europe that has imposed the strongest barriers to further integration and success, rather than foreigners, [by effectively putting “tariffs on itself.”](#) The only stronger response came, once again, by [Italian President Mattarella, who said that Russia’s invasion of Ukraine followed the same spirit of Germany’s Third Reich, when it attempted to conquer Europe](#).

While it is unclear how this dispute will eventually evolve, it is clear that the only winner of this is China, which sees its strategic rival the West falling into abrasive and destructive infighting.

Our Recent Publications

🌀 [Crypto-Hype, Crypto Winter and the Relationship between Bitcoin and Global Liquidity](#), by Brunello Rosa and Nato Balavadze, 13 February 2025

🌀 [Nordic Economies in Focus: Uneven Recoveries](#), by Nato Balavadze, 11 February 2025

🌀 [Preview and Analysis of the 2025 German Parliamentary Elections: Polls, Candidates, and Possible Post-vote Coalitions](#), by Joel Crisetig, 12 February 2025

🌀 [Gulf Arab States Want Western Sanctions on Syria Fully Lifted](#), by Gulf State Analytics, 7 February 2025

Looking Ahead

The Week Ahead: Inflation To Rise in UK And Italy, While Falling In France; QoQ GDP Growth To Increase In Japan

In the EZ, in February, ZEW Economic Sentiment Index is seen edging up by 24.3 (*p*: 18). In January, largest EZ economies, headline inflation rate is expected to: *i*) fall by -0.1% y-o-y (*p*: 0.2%) in France; and *ii*) increase by 1.5% y-o-y (*p*: 1.3%) in Italy.

In the UK, in January, headline and core inflation are seen rising by 2.8% y-o-y (*p*: 2.5%) and 3.7% y-o-y (*p*: 3.2%). In December, unemployment rate is likely to rise by 4.5% (*p*: 4.4%). In January, Retail Price Index is likely to increase by 3.7% y-o-y (*p*: 3.5%). In February, Gfk Consumer Confidence is likely to remain at -22.

In Japan, GDP growth rate is expected to increase by 0.3% q-o-q (*p*: 0.2%) and by 1.0% y-o-y (*p*: 1.2%).

The Quarter Ahead: Munich Security Conference 2025; Ukraine Peace Meetings in Saudi Arabia To Include Russia, US And Ukraine

Munich Security Conference 2025. US VP JD Vance delivered a scathing attack on Europe and Britain, over misinformation, disinformation, and free speech. Zelenskyy affirmed NATO membership remains on the table but called for the creation of “an armed forces of Europe” amid fears of reduction in US support.

Ukraine Peace Meeting in Saudi Arabia. US Secretary of State Marco Rubio will meet Russian officials in Saudi Arabia to discuss ending the war in Ukraine, joined by National Security Adviser Mike Waltz and envoy Steve Witkoff. Envoy Keith Kellogg said the talks include the U.S., Russia, and Ukraine but exclude Europe. Zelensky confirmed Kyiv wasn't invited. Trump's Ukraine envoy later stated Europe had no seat at the table after Washington sought input on security guarantees for Kyiv.

Last Week's Review

Real Economy: QoQ GDP Growth Rate Advanced Marginally In EZ And UK; Headline Inflation Rate Increased in US

In the US, in January, headline and core inflation rose to 2.9% y-o-y (*c*: 2.9%; *p*: 3.0%) and 3.3% y-o-y (*c*: 3.1%; *p*: 3.2%). In January, retail sales decelerated to 4.2% y-o-y (*p*: 4.4%).

In the EZ, in Q4, according to the second estimate, the economy advanced marginally by 0.1% q-o-q (*c*: 0.0%; *p*: 0.4%) and advanced by 0.9% y-o-y (*p*: 0.9%) as expected. In December, IP contracted by 2.0% y-o-y (*c*: -3.1%; *p*: -1.8%).

In the UK, in Q4, according to preliminary estimates, the GDP growth rate increased by 0.1% q-o-q (*c*: -0.1%; *p*: 0.0%) and by 1.4% y-o-y (*c*: 1.1%; *p*: 1.0%). In December, IP rose by -1.9% y-o-y (*c*: 2.1%; *p*: -2.0%). Manufacturing production shrank by -1.4% y-o-y (*c*: -1.9%; *p*: -1.1%).

Financial Markets: Stock Prices Rose; UST Yields Fell; Dollar Decreased, While Oil And Gold Prices Increased

Market Drivers: US Stocks surged after Trump delayed new global tariffs, opting for a case-by-case approach by April 1. The move eased uncertainty, hinting at possible negotiations. In Europe, stocks also increased driven by hopes for a Ukraine-Russia resolution and strong earnings. The dollar hit a year-low as weak retail sales and tariff uncertainty fueled Fed rate-cut bets.

Global Equities: Increased w-o-w (MSCI ACWI, +1.7%, to 884.24). The US S&P 500 index decreased (+1.5% w-o-w, to 6,025.99). In the EZ, share prices increased (Eurostoxx 50, +3.1% w-o-w, to 5,491.25). In EMs, equity edged up (MSCI EMs, +1.5%, to 1,125.23). Volatility fell to 16.01 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: w-o-w, the 10-year US Treasury yields fell (-1 bps to 4.48%). The 2-year US Treasury yields decreased (-3 bps to 4.26%). The German 10-year bund yields edged up (+4 bp to 2.42%).

FX: w-o-w, the US Dollar Index decreased (DXY, -1.2%, to 106.71; EUR/USD +1.6%, to 1.05). In EMs, currencies increased (MSCI EM Currency Index, +0.4% w-o-w, to 1,749.71).

Commodities: w-o-w, oil prices increased (Brent, +0.1% to 74.74 USD/b). Gold prices increased w-o-w (+0.5% to 2,900.80 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year