



R&R Weekly Column
By Brunello Rosa



Growing Risks For NATO's Article 5 As The Cornerstone Of Post-WW2 Global Geopolitical Equilibria

In the middle of WW2, a series of international conferences posed the basis for the economic and geopolitical post-war period: [Tehran \(December 1943\)](#), [Bretton Woods \(July 1944\)](#), [Yalta \(February 1945\)](#) and [Potsdam \(July 1945\)](#). Less known, but equally important, are two treaties that delivered the international security architecture that has lasted until today. On 4 March 1947 France and the UK signed the Dunkirk treaty of mutual military assistance, for cases of aggression from external forces (with Germany or the Soviet Union being top of the list). And, crucially, the [Western Union treaty was signed in Brussels on 17 March 1948](#), between the UK, France, Belgium, the Netherlands and Luxembourg.

The Brussels treaty, scheduled to remain in force for 50 years, established cooperation amongst its five signatories in the military, economic, social and cultural spheres. The Brussels treaty is the embryo of the subsequent North Atlantic Treaty Organisation (NATO), of April 1949, with the [US joining the alliance](#) and its expansion to [other European countries as well as Canada](#). While the US has always had a predominant role in NATO, its embryonic form dates back to the Brussels treaty and its mastermind was Ernest Bevin, the UK foreign secretary, so one can credibly argue that the US in fact “joined” the organisation, which still today is based in Brussels and has [always been led by European leaders](#).

Following the birth of NATO, the global security equilibrium has been based on the credibility of its [“Article 5,” which stipulates that an aggression against any NATO country would entail the response of all the others](#), in particular the US (which had guaranteed its nuclear umbrella). Just as the US fought on two fronts during WW2, so NATO has “stabilised” the trans-Atlantic front, while [the nascent QUAD is replicating the same approach towards the Pacific](#). For this reason, the US has de-facto extended “Article 5” to the Pacific, with the promise that if China invaded Taiwan, this would trigger a US response (in spite of the official “One China Policy”).

This long background analysis is necessary in order to make two assertions. First, [the threat that the US may “leave” NATO is a credible one](#), if a US president were to decide to pursue it. Clearly, from a *practical* standpoint, if the US were to leave NATO, this would mark the end of the alliance, which would not have the means to support its aims, considering that [the US spends in defence as much as the next 10 largest-spending countries summed together](#), including China, Russia, India and Saudi Arabia. But from a *legal* standpoint, the US may leave NATO, thus forcing all the other countries to multiply by a large factor their military spending.

Second, the *credibility* of Article 5, even more than its *existence*, is the cornerstone of the global security equilibria, both in trans-Atlantic and trans-Pacific terms. If the US were no longer perceived as ready to intervene to defend a European country under attack, or to defend Taiwan in case of a Chinese invasion, then the geopolitical rivals of the US would easily “catch their prey.” There is even a cross-reading between the two sides: the US cannot credibly be said to be willing and able to defend Taiwan at any cost on the Pacific front if it does not demonstrate a willingness to defend a European country within its sphere of influence from Russian aggression, with Ukraine being the example at hand. Hence, [the inevitability of the approval of the latest USD 95bn military assistance package](#) deliberated by the US Congress, despite months of posturing.

In this way, isolationism in the US is not compatible with the responsibility of being the ultimate guarantor of the world's geopolitical equilibria.

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Looking Ahead

The Week Ahead: EZ QoQ And YoY GDP Growth To Advance; EZ Headline Inflation To Remain Unchanged; Fed To Stay On Hold

In the US, in April, S&P Global Manufacturing PMI is expected to decrease to 49.9 (*p*: 51.9).

In the EZ, in Q1, according to the flash estimates, the GDP growth rate is seen advancing by 0.2% q-o-q (*p*: 0.0%) and 0.2% y-o-y (*p*: 0.1%). In April, headline inflation is expected to stay unchanged at 2.4% y-o-y, while core inflation is likely to cool off to 2.8% y-o-y (*p*: 2.9%). In April, economic sentiment and consumer confidence are expected to edge up to 96.9 (*p*: 96.3) and -14.7 (*p*: -14.9).

Among the largest EZ economies, according to preliminary estimates, in Q1, GDP is likely to: *i*) advance by 0.2% q-o-q (*p*: 0.1%) in France; *ii*) rise by 0.2% q-o-q (*p*: 0.2%) and decelerate to 0.4% y-o-y (*p*: 0.6%) in Italy. In April, the headline inflation rate is seen: *i*) easing off to 2.1% y-o-y (*p*: 2.3%) in France; *ii*) edging down to 1.0% y-o-y (*p*: 1.2%) in Italy.

In the UK, in April, S&P Global Manufacturing PMI is expected to decrease to 48.7 (*p*: 50.3).

Fed to stay on hold. In the US, the Fed is expected to maintain its Fed funds range at 5.25% - 5.50%

The Quarter Ahead: Xi Warns Against Competition As Blinken Cautions China On Aid To Russia; Netanyahu on ICC

Blinken's visit to China. President Xi Jinping warned US Secretary of State Blinken against "vicious competition" amid tense bilateral relations over issues like the South China Sea, Taiwan, and Beijing's support for Russia in Ukraine's war. Blinken cautioned that Washington will intervene if China continues supplying Russia with items used in its assault on Ukraine.

Middle East crisis. Israeli Prime Minister Netanyahu said the International Criminal Court's decisions on Hamas' attacks and Israel's actions in Gaza won't change Israel's stance but could set a risky precedent. Hamas is considering a new ceasefire proposal from Israel. Egypt is intensifying efforts to broker a deal between the two sides to halt the conflict and prevent an Israeli ground incursion into Rafah, in southern Gaza.

Last Week's Review

Real Economy: QoQ GDP Decelerated in US; PCE Price Index Decreased In US; PMIs Edged Up In UK And EZ

In the US, in Q1, according to advance estimates, GDP growth rate decelerated to 1.6% q-o-q (*c*: 2.5%; *p*: 3.4%). In March, the PCE price index increased to 2.7% y-o-y (*c*: 2.6%; *p*: 2.5%), whereas the core PCE price index stood at 2.8% y-o-y (*p*: 2.8%). In April, Michigan Consumer Sentiment declined to 77.2 (*c*: 77.8; *p*: 79.4). In April, according to the flash estimates, S&P Global Manufacturing and Services PMIs decreased to 49.9 (*c*: 52; *p*: 51.9) and 50.9 (*c*: 52.0; *p*: 51.7). Composite PMI edged down to 50.9 (*p*: 52.1).

In the EZ, in April, according to the flash estimates, HCOB Manufacturing PMI decreased to 45.6 (*c*: 45.6; *p*: 46.1), while Service PMIs increased to 52.9 (*c*: 51.8; *p*: 51.5). HCOB composite PMI rose to 51.4 (*c*: 50.8; *p*: 50.3). In April consumer confidence fell to -14.7 (*c*: -14.7; *p*: -14.9).

In the UK, in April, according to the flash estimates, S&P Global Manufacturing PMI decreased to 48.7 (*c*: 50.3; *p*: 50.3), whereas Services PMI edged up to 54.9 (*c*: 53.0; *p*: 53.1). Composite PMI edged up to 54 (*p*: 52.8)

Financial Markets: Stock Prices Rose; Bond Yields Increased; Dollar And Gold Prices Declined, While Oil Prices Edged Up

Market Drivers: US stocks surged fueled by Big Tech's robust earnings and fresh U.S. inflation data scrutiny. Middle East tension relief and positive corporate earnings boosted sentiment in Europe too.

Global Equities: Increased w-o-w (MSCI ACWI, +2.6%, to 762.39). The US S&P 500 index edged up (+2.6% w-o-w, to 5,099.96). In the EZ, share prices rose (Eurostoxx 50, +1.8% w-o-w, to 5,006.65). In EMs, equity prices increased (MSCI EMs, +3.7%, to 1,041.52). Volatility fell to 15.45 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

Fixed Income: w-o-w, the 10-year US Treasury increased (+5 bps to 4.67%). The 2-year US Treasury yields increased (+1 bps to 5.00%). The German 10-year bund yields increased (+8 bps to 2.58%).

FX: w-o-w, the US Dollar Index decreased (DXY, -0.0%, to 106.09; EUR/USD +0.4%, to 1.07). In EMs, currencies edged up (MSCI EM Currency Index, +0.3% w-o-w, to 1,715.80).

Commodities: w-o-w, oil prices increased (Brent, +2.4% to 89.38 USD/b). Gold prices declined w-o-w (-2.6% to 2,349.6 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



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