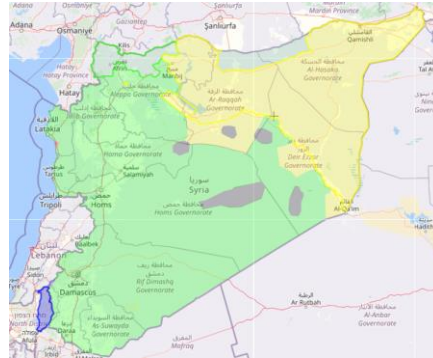




R&R Weekly Column
By Brunello Rosa



The Collapse of Assad's Regime in Syria: Another Domino Falls In the Middle East

The fall of the Assad regime in Syria, which we predicted in our recent analysis of the conflicts in the Middle East, marks a monumental shift in the political and strategic dynamics of the region. There are many causes behind this regime change, which has been led by Abu Mohammad al-Jolani, the leader of Hayat Tahrir al-Sham (HTS), an Islamist group once affiliated to al-Qaeda. Assad's removal will result in far-reaching consequences for the region.

Starting with the causes: at the heart of the Assad regime's downfall lies the Syrian civil war's enduring brutality. Beginning in 2011 – at the time of the so-called “Arab Spring” – the conflict stemmed from widespread protests against authoritarian rule, corruption, and economic stagnation. Over time, the opposition evolved into a fragmented collection of rebel groups, further complicating any resolution. While Assad's government initially managed to retain power through the cynical use of military force, the support of Russia, and a lack of unified opposition leadership, the prolonged war severely weakened the country's institutions and economy.

International involvement has played a dual role in both sustaining and undermining Assad's rule. Russia and Iran have provided critical military and economic support, allowing the regime to push back against opposition forces. Conversely, Western nations, Turkey, and Gulf states have backed various opposition factions. This proxy-war dynamic has prolonged the conflict, while periodic shifts in alliances have kept the regime on an unstable footing.

Adding to this is the critical role of public discontent within Syria. Years of war have devastated infrastructure, displaced millions, and left a once-vibrant middle class impoverished. The erosion of the state's legitimacy among its own people, including segments of Assad's Alawite base, has further undermined the rule of the Assad family.

A critical factor that has led to the collapse of the regime has been Israel's recent military actions against Hezbollah in Lebanon. Hezbollah, a Shia militant group and political party backed by Iran, has been a critical ally to Assad throughout the civil war. Thousands of Hezbollah fighters have fought alongside Syrian government forces, playing a pivotal role in key battles.

Israel, viewing Hezbollah as a primary threat, has carried out numerous strikes in Lebanon and Syria targeting the group's infrastructure, supply chains, and leadership. Indeed Hezbollah's leadership was decapitated with the killing of its secretary-general Hassan Nasrallah. While these operations were ostensibly aimed at neutralizing Hezbollah's growing capabilities, they also strained the resources and focus of both Hezbollah and Iran, indirectly weakening Assad's position.

The collapse of the Assad regime now risks unleashing a cascade of consequences. Internally, Syria could fragment into rival factions and territories dominated by militias and extremist groups, similar to post-Gaddafi Libya. The power vacuum might embolden terrorist organizations like ISIS to resurge, threatening regional stability.

Regionally, Assad's fall is likely to further weaken Iran's strategic foothold in the Levant, disrupting its "Shia Crescent" ambitions as well as its "Axis of Resistance." This could embolden Gulf states and Israel, potentially escalating sectarian tensions and proxy conflicts. For Russia, the loss of a key ally would mark a blow to its influence in the Middle East.

For the West, Assad's collapse presents a double-edged sword. While it would signify the end of a brutal dictatorship, managing Syria's post-Assad chaos would require significant diplomatic and humanitarian resources, a task Western powers have historically struggled with in similar contexts.

Our Recent Publications

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Looking Ahead

The Week Ahead: EZ QoQ GDP To Advance; Unemployment Rate To Stay Unchanged In US And EZ; PMIs To Fall In UK And EZ
In the US, in November, headline inflation rate is likely to increase to 2.7% y-o-y (*p*: 2.6%), whereas core inflation rate is seen staying unchanged at 3.3% y-o-y.

In the EZ, in October, IP is seen rising to 2.0% y-o-y (*p*: -2.8%). Among the largest EZ economies, in November, headline inflation rate is expected to: *i*) increase to 2.2% y-o-y (*p*: 2.0%) in Germany; and *ii*) rise to 1.3% y-o-y (*p*: 1.2%) in France.

CBs to stay dovish. In the EZ, the ECB is expected to cut rates by 25 bps.

The Quarter Ahead: Rebels Take Over Syria and Force Assad to Flee; South Korea Into Political Crisis

Syrian rebels entered Damascus, forcing Assad to flee the country. The rebels, led by Abu Mohammad al-Jolani, the leader of Hayat Tahrir al-Sham (HTS), an Islamist group once affiliated to al-Qaeda have taken control of the capital and are establishing a new rule.

South Korea plunged into chaos after President Yoon's failed martial law declaration, sparking impeachment efforts, union strikes, and resignations of top officials. Lawmakers overturned his decree in a dramatic overnight standoff. Protesters push MPs to impeach South Korean president as loyalists boycott the vote.

Last Week's Review

Real Economy: EZ QoQ GDP Advanced; Unemployment Rate Rose In US And Was Unchanged EZ; PMIs Fell In UK And EZ

In the US, in November, the unemployment rate increased to 4.2% (*c*: 4.2%; *p*: 4.1%). NFPs rose by 227K (*c*: 200K; *p*: 36K). In November, S&P Global Manufacturing and Services PMIs increased to 49.7 (*c*: 48.8; *p*: 48.5) and 56.1 (*c*: 57.0; *p*: 55.;0). Composite PMI also edged up to 54.9 (*c*: 55.3; *p*: 54.1). In December, Michigan Consumer Sentiment increased to 74.0 (*c*: 73.0; *p*: 71.8).

In the EZ, in Q3, according to third estimate, GDP growth rate advanced by 0.4% q-o-q (*p*: 0.2%) and 0.9% y-o-y (*p*: 0.5%) as expected. Among the largest EZ economies, in Q3, GDP growth stalled q-o-q (*p*: 0.2%) and decelerate to 0.4% y-o-y (*p*: 0.6%) as expected in Italy. In October, the unemployment rate remained unchanged at 6.3%. In November, HCOB Manufacturing and Services PMIs declined to 45.2 (*c*: 45.2; *p*: 46.0) and 49.5 (*c*: 49.2; *p*: 51.6). Composite PMI also edged down to 48.3 (*c*: 48.1; *p*: 50.0). In October, retail sales decelerated to 1.9% y-o-y (*c*: 1.7%; *p*: 3.0%).

In the UK, in November, S&P Global Manufacturing and Services PMI decreased to 48.0 (*c*: 48.6; *p*: 49.9) and 50.8 (*c*: 50.0; *p*: 52.0) respectively. Composite PMI is edged down to 50.5 (*c*: 49.9; *p*: 51.8).

Financial Markets: Stock Prices Increased; UST Yields Declined; Dollar Increased; Oil And Gold Prices Decreased

Market Drivers: In the US, the S&P 500 and Nasdaq hit record highs, as November jobs data exceeded forecasts but stayed mild enough for further rate cuts. UST yields also fell after NFP data. In Europe, stocks rose, with easing concerns over French politics and hopes for quicker ECB policy easing.

Global Equities: Increased *w-o-w* (MSCI ACWI, +1.3%, to 873.73). The US S&P 500 index increased (+1.0% *w-o-w*, to 6,090.27). In the EZ, share prices increased (Eurostoxx 50, +3.6% *w-o-w*, to 4,977.35). In EMs, equity edged up (MSCI EMs, +2.5%, to 1,1105.08). Volatility declined to 14.29 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: *w-o-w*, the 10-year US Treasury yields fell (-3 bps to 4.15%). The 2-year US Treasury yields decreased (-6 bps to 4.10%). The German 10-year bund yields edged up (+3 bp to 2.11%).

FX: *w-o-w*, the US Dollar Index increased (DXY, +0.3%, to 105.7; EUR/USD -0.1%, to 1.06). In EMs, currencies decreased (MSCI EM Currency Index, -0.2% *w-o-w*, to 1,745.29).

Commodities: *w-o-w*, oil prices decreased (Brent, -2.5% to 71.12 USD/b). Gold prices declined *w-o-w* (-0.8% to 2,659.60 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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