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A 2026 geopolitical guide to understanding today's global trade and investment landscape

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Introduction

Investors today face a challenging environment characterized by geopolitical tensions, greater government intervention, and rising protectionism, all of which play a critical role in shaping market dynamics. These factors can restrict market access, multiply regulatory hurdles, and drive up operating costs. This report examines these challenges in detail and explores their implications.

Protectionism in the United States

After significant tariff hikes were imposed on all trading partners in 2025, we expect Washington to adopt a less protectionist approach towards Canada and other allied nations in 2026. This shift would address mounting business and consumer concerns over rising costs and strengthen geopolitical alliances. We also anticipate that future administrations, whether Republican or Democrat, are likely to maintain this trend. However, a return to the previous era of broad, unhindered free trade is unlikely in the foreseeable future for the following reasons:

- While the Trump administration's use of tariffs marked a sharp break from post-World War II trade norms, support for protectionism is bipartisan. President Biden, a Democrat, expanded Trump's tariffs on China, and his Inflation Reduction Act introduced massive business subsidies.
- Industries that benefit from tariffs often lobby aggressively to maintain them. Because the benefits are concentrated within the protected industry while the costs are spread across millions of consumers, removing certain tariffs rarely becomes a political priority.
- A heavily indebted government is unlikely to completely forgo the lucrative revenue generated by tariffs. Additionally, tariffs are a more politically feasible way of raising revenue than other options, such as a national sales tax
- In a world marked by geopolitical tensions, nations will continue to use trade restrictions to protect their strategic industries.
- Even if the Supreme Court were to rule against Trump's use of broad tariffs, the president would still have other options to pursue his trade strategy. The decision would also not affect sector-specific tariffs on goods such as steel, aluminium and cars. However, if these tariffs were overturned, refunding the revenue already collected would be a highly bureaucratic and time-consuming process.

United States not alone in seeking to boost domestic production

Below are several prominent countries with the same plan

- EU: Strategic Autonomy and the European Green Deal Industrial Plan
- China: Made in China 2025 and China Standards 2035
- India: Make in India and Atmanirbhar Bharat (Self-Reliant India)
- Brazil: Nova Indústria Brasil (New Industry Brazil)

Like the United States, these countries are using a combination of tariffs and subsidies to attract investment.

In a world where the major countries and regions are seeking to reshore production, smaller countries must strive to maintain the best possible access to the larger nations most vital to their economies.

China-U.S. tensions

Growing tensions between the two countries are driven by a great power rivalry, radically different economic and governance models, increasingly separate communications and Internet systems, fraying supply chains and, above all, a lack of mutual trust.

Both nations are using trade restrictions and tariffs to gain strategic advantages, with a particular focus on exploiting vulnerabilities in the other's supply chains. To strengthen their positions, they are seeking not only compliance from their own companies, but also cooperation (forced or otherwise) from as many countries as possible.

Whether a trade truce is in place or not, economic decoupling in key sectors will continue as China and the United States strive to become less dependent on one another. What remains to be seen is whether the process will be gradual and orderly, or abrupt and chaotic.

All this means is that in sectors considered strategic, countries and their companies, especially in the West, will find it more and more difficult to maintain access to both the Chinese and the American markets. To varying degrees, this will force countries and companies to choose one or the other.

China and the United States are also competing to set standards in emerging key sectors, a role that has historically been dominated by the United States and other Western nations. When a country's companies succeed in setting the standards for a particular sector, their rivals are compelled to align with specifications tailored to their technologies, products, and services. This gives the winners a long-lasting competitive advantage.

The challenge of reconfiguring supply chains

The global economy that emerged after the fall of the Berlin Wall and China's entry into the WTO was built for a high-trust world, not the current low-trust landscape. Supply chains once considered efficient are now perceived as vulnerable. This is particularly the case with regard to the production of key components, which became increasingly concentrated in a smaller and smaller group of suppliers. For instance, the number of companies capable of producing cutting-edge semiconductors has plummeted from over 25 in 2000 to merely three today.[1] This leaves such sectors particularly vulnerable to disruption.

These factors are gradually pushing companies in key sectors to bring supply chains and manufacturing back home and to produce components in multiple locations. While these measures may improve supply security during crises, producing key products in several locations reduces economies of scale and increases costs significantly.

Furthermore, many supply chains in countries such as China have taken decades to reach their current level of development. The rare earth extraction and processing industry is a prime example of this. Moving these operations to new regions will likely result in higher costs owing to stricter regulations, higher wages, and the need to retrain and educate workers. This is why assessing just how willing governments are to support key sectors has become a critical part of investment analysis in today's global geopolitical landscape.

Iran-Israel-U.S. conflict

Despite the recent conflict between Iran and Israel, oil prices remained stable because Israel refrained from striking Iran's oil export facilities. However, renewed hostilities could once again endanger critical energy trade through the Strait of Hormuz, the route where about 20% of the world's oil and LNG passes.

The geopolitical fault line of Taiwan

If Taiwan were to be invaded or blockaded, the U.S. would be faced with two bad options. Defending Taiwan would be extremely costly in terms of lives and resources, particularly given China's ability to concentrate its forces while the US military is spread across the globe. However, failing to defend Taiwan would undermine U.S. credibility and cause Asian allies to question the value of American security guarantees. The dilemma is further complicated by the risk of China gaining control of Taiwan's semiconductor industry, which would give it a decisive advantage in the race for technological supremacy.

For its part, China knows that a conflict with the United States over Taiwan would devastate its economy by further cutting off access to important markets in the U.S., Europe and Japan, and by disrupting global shipping. Furthermore, there is a risk that Taiwan's semiconductor facilities could be sabotaged to prevent them from falling into Chinese hands, which would cause worldwide disruption to semiconductor supplies. The broader consequences of such a conflict—even if brief—would be heightened geopolitical tensions lasting for years

For these reasons, a large-scale invasion or blockade of Taiwan seems unlikely over the next few years, even though the longer term risk cannot be ruled out. In the meantime, China is expected to maintain pressure through military manoeuvres and economic coercion, while Washington and its allies continue to put pressure on Taiwan to diversify its semiconductor production overseas.

Europe's many challenges

Europe is facing major challenges, including some of the world's highest electricity costs, sluggish growth, deindustrialization, and a fragmented political landscape that hinders reform. On top of this, many heavily indebted countries must increase defence spending while reducing social safety nets, all without provoking political backlash—an almost impossible balancing act.

These challenges are exacerbated by the ongoing conflict in Ukraine. Even if the war were to end, the distrust between Europe and Russia would persist, and both sides would continue to reduce economic ties. The best-case scenario would still be a cold peace combined with a heavily militarized border between NATO members and Russia.

In terms of trade, deteriorating U.S.–EU relations do not necessarily indicate an improvement in relations between China and Europe. This is because limited access to US consumers has prompted Chinese firms to increase exports to the EU, thereby exacerbating trade friction between the two regions. This trade imbalance had been an issue even before the start of Trump's second term. In 2024, the EU posted a €304.5 billion merchandise trade deficit with China, compared to a €198.2 billion surplus with the United States. Consequently, Europe is caught between U.S. tariffs on the one hand and an increasing trade deficit with China on the other.

Bottom line

Geopolitical tensions, protectionism, and supply chain realignment are increasingly reshaping global trade and investment strategies. Nations are prioritizing security and resilience over efficiency, pushing up operating costs and compelling firms to navigate more complex political terrain. For investors, this means not only assessing balance sheets, but also a company's geopolitical exposure and alignment with the national priorities of key countries. This includes the risk of a company investing in regions that are influenced by major powers, whose geopolitical goals often conflict with those of the company's home country.

This shift does not only affect corporate behaviour—it also has macro-financial consequences. Rising defence outlays, industrial policy spending, and onshoring initiatives are likely to elevate the cost of capital and widen the term premium on government debt, in a way reminiscent of Cold War episodes, when sustained geopolitical rivalry imposed a higher floor under long-term interest rates.

1 "Chipmaking is being redesigned. Effects will be far-reaching," The Economist, January 23, 2021

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