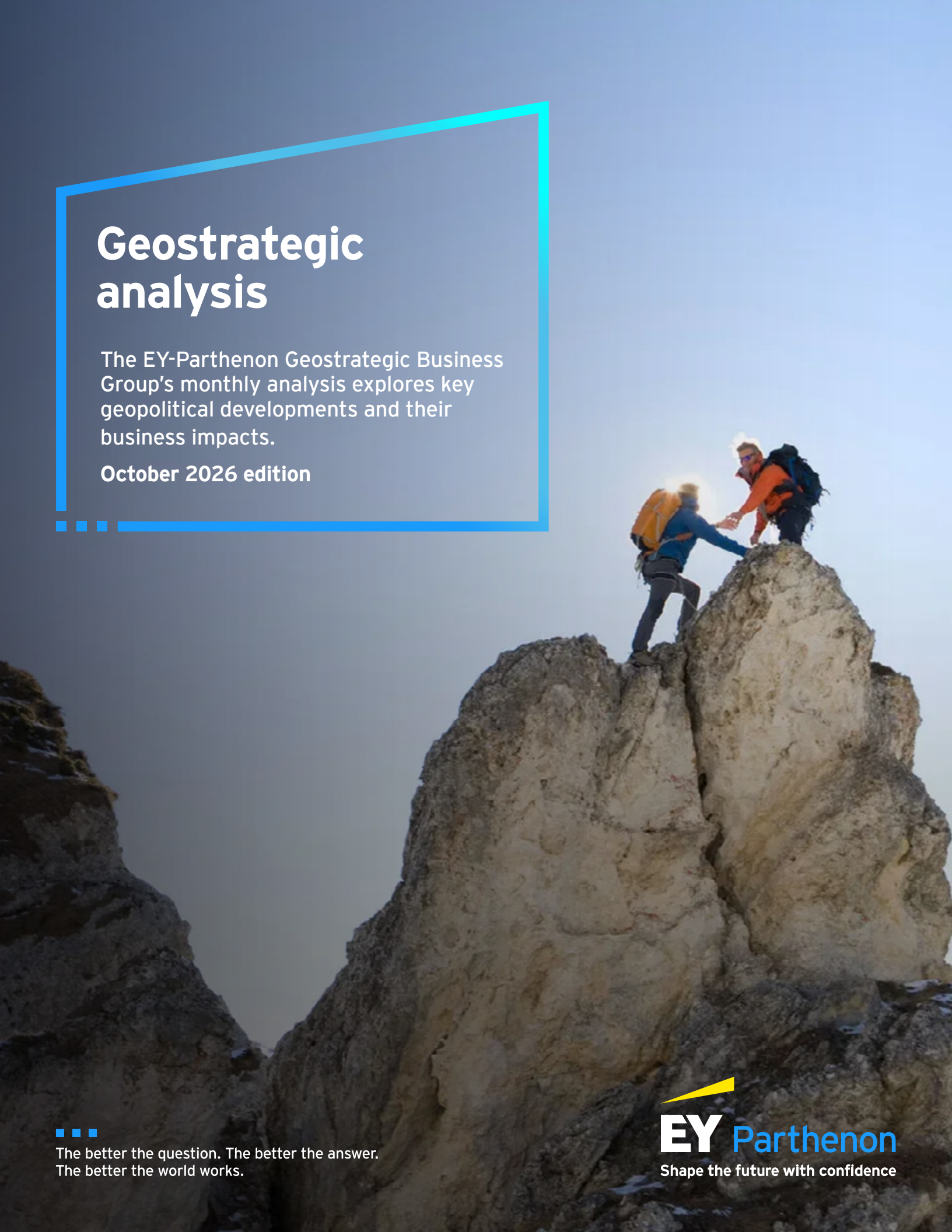
Geostrategic analysis

The EY-Parthenon Geostrategic Business Group's monthly analysis explores key geopolitical developments and their business impacts.

October 2026 edition



The better the question. The better the answer.
The better the world works.

EY Parthenon
Shape the future with confidence

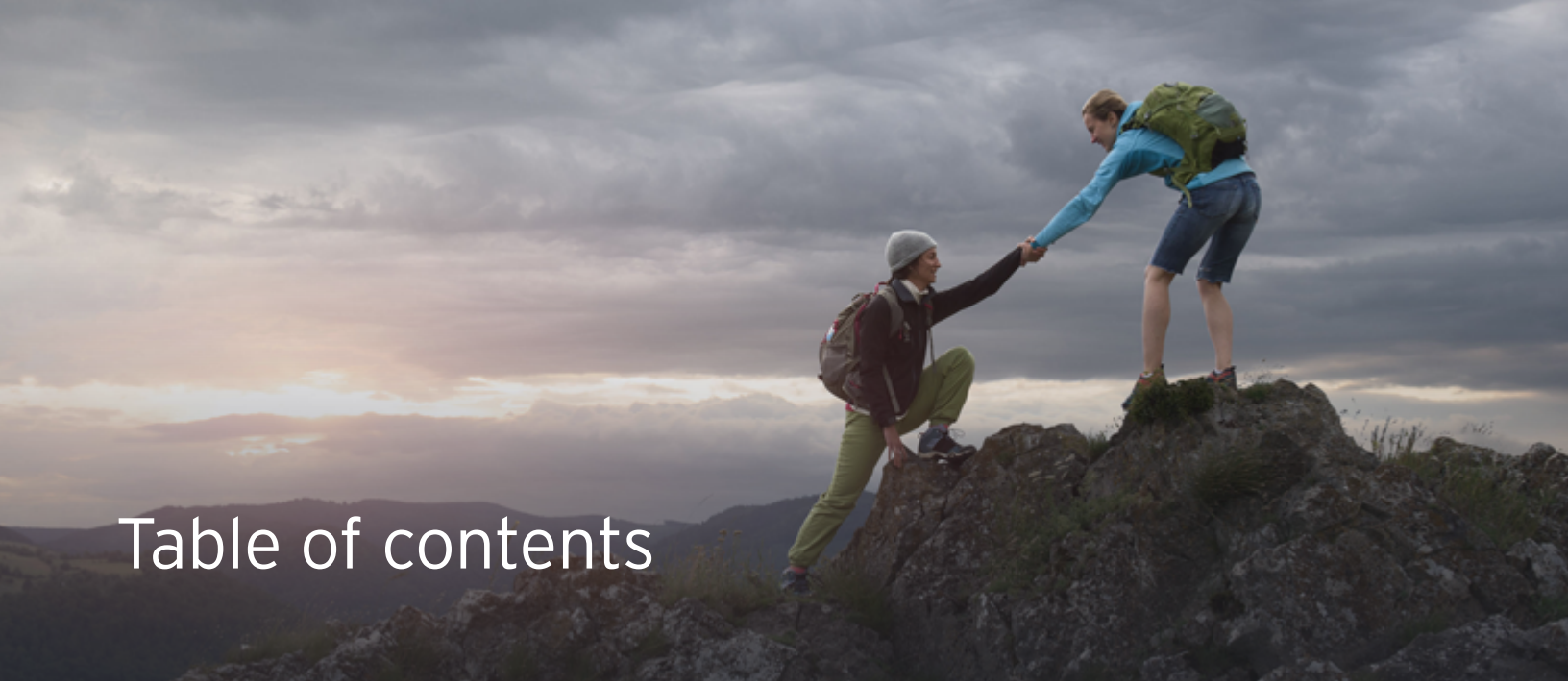


Table of contents

Top development:
An intensifying El Niño puts food, electricity and infrastructure at risk into 2027.

Sector in focus:
Private Equity (PE)

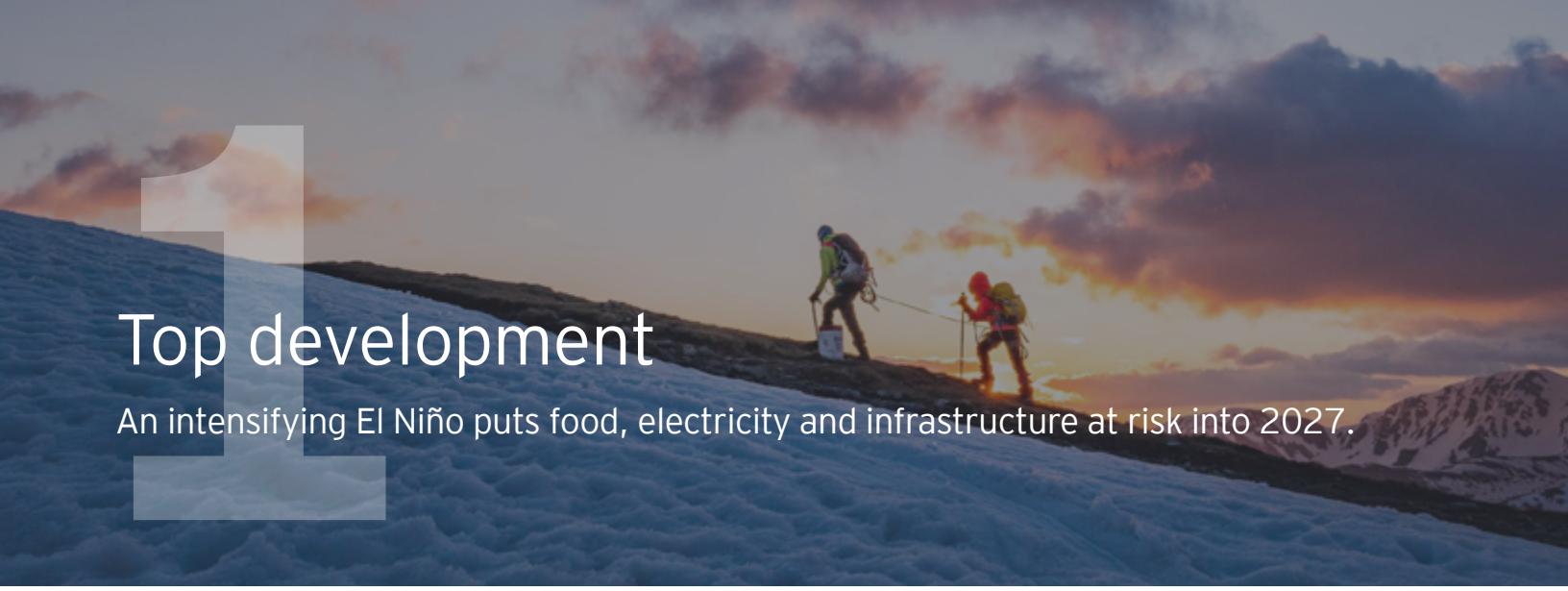
Other issues we are watching:
Elections in Israel, the US and South Africa highlight how political transitions, governance capacity and policy execution can shape business risk, investment and operations.

Geostrategic indicator of the month:
Global defense spending is accelerating, creating growth opportunities while raising fiscal pressures and elevating supply chain security as a strategic priority.

EY-Parthenon Geostrategic Business Group (GBG)
Translating geopolitical insights into business strategy

Read more.

This report is provided solely for educational purposes; it does not take into account any specific individual's or entity's facts and circumstances. It is not intended and should not be relied upon as tax, accounting or legal advice. The EY global organization expressly disclaims any liability in connection with the use of this report or its contents by any third party. Neither the EY global organization nor any member firm thereof shall bear any responsibility whatsoever for the content, accuracy or security of any third-party websites that are linked (by way of hyperlink or otherwise) in this presentation. The views expressed by the presenters are not necessarily those of the global EY organization or other members of the global EY organization or of any other company or organization.



1 Top development

An intensifying El Niño puts food, electricity and infrastructure at risk into 2027.

What happened

The climate phenomenon El Niño will intensify in the coming months, increasing risks to agricultural production, critical infrastructure, water availability and economic resilience across exposed regions. Forecasts indicate that El Niño will peak in late 2026 but continue to shape weather patterns and economic conditions well into 2027. National Oceanic and Atmospheric Administration (NOAA) cites a greater than 90% chance of a very strong event in the Northern Hemisphere fall and winter 2026-27[1].

Historically, severe El Niño events have strained government resources, contributed to food and energy inflation, disrupted business operations in certain sectors and slowed economic growth in vulnerable markets. These pressures can amplify social unrest, complicate policymaking and create operational challenges for businesses through supply chain disruptions, resource constraints and market volatility[2].

What's next

El Niño is expected to increase climate volatility through 2027, intensifying weather-related disruptions. Some regions are at higher risk. Drought conditions are likely in Central America and the Caribbean, Southern Africa, South Asia, Australia and Southeast Asia. Extreme heat associated with El Niño would also impact labor productivity and energy systems. Conversely, other regions should expect higher rainfall, such as East Africa, southern South America and parts of China and the US.

Food production is likely to be affected. Rice harvests have dropped 1.0%-1.5% in past El Niño events. Food price increases or shortages may pressure policymakers to expand subsidies and seek emergency imports, testing government capacity in climate-exposed economies where fiscal resources and social safety nets are strained. This would heighten the risk of social unrest, political instability and policy uncertainty.

Logistics routes may face challenges due to reduced water availability impacting inland waterways and creating trade bottlenecks. The Panama Canal is already operating at a lower volume due to water shortages, for instance. Increased supply chain volatility would continue to raise operating costs and incentivize supplier diversification and strategic inventories[3].

Business impact

Food and agriculture companies will likely face heightened production volatility as El Niño-driven weather disrupts crop yields and livestock production across key growing regions. These pressures will impact food prices, tighten global commodity supplies and likely prompt governments to intervene in food markets, creating additional uncertainty across agricultural value chains[4].

Infrastructure and logistics firms will face heightened physical asset risks as El Niño increases the frequency and severity of flooding, droughts and other extreme weather events. These disruptions threaten transportation networks, energy systems and critical facilities, increasing maintenance costs. Companies may respond by diversifying logistics networks, increasing inventory buffers and investing in resiliency measures.

El Niño-related impacts could increase claims, prompting insurers and reinsurers to reprice and tighten exposure or reduce capacity in higher-risk locations. Companies facing a higher chance of disruption should include plans for increasing costs of resilience.

Power and utility providers will likely face rising demand as higher temperatures increase cooling needs. At the same time, drought conditions constrain hydropower generation. This combination would tighten electricity supply, heighten grid reliability risks and increase power costs. Utilities and large energy consumers may accelerate investments in generation capacity, grid resilience and demand-management measures.

Companies in all sectors should stress-test their 2027 operational plans against El Niño scenarios, including water and power availability, logistics and workforce disruption. Firms with higher exposure to hydro-dependent markets (for energy and/or transport) should assess alternate sourcing and routing, backup energy preparation and business continuity plans.

For more information, contact Charlie Smith.

Additional reading: What makes today's climate leaders tomorrow's business leaders?

1. ENSO Diagnostic Discussion of 10 September 2026 | Climate Prediction Center, National Centers for Environmental Prediction, National Weather Service https://www.cpc.ncep.noaa.gov/products/analysis_monitoring/enso_advisory/ensodisc.shtml
2. El Niño–Southern Oscillation and geopolitical risk | Peterson Institute for International Economics; https://www.piie.com/publications/working-papers/2024/el-nino-southern-oscillation-and-geopolitical-risk
3. The coming El Niño is more than a climate event – it is a systemic shock | World Economic Forum; https://www.weforum.org/stories/climate-action/the-coming-el-nino-is-more-than-a-climate-event-it-is-a-systemic-shock/
4. Strong El Niño could trigger a hunger crisis | World Economic Forum; https://www.weforum.org/stories/climate-action/strong-el-nino-hunger-crisis-climate-nature-news-august-2026/

2 Sector in focus: Private Equity (PE)

AI disruptions and geopolitical demands are rotating PE capital toward resilient sectors.

What happened

PE deployment has remained selective in 2026 as sponsors reassess sectors exposed to AI disruption. The value of technology-focused PE acquisitions globally fell 50% in the first half of 2026. In contrast, non-technology deal value increased by 9%, according to Dealogic, suggesting capital is rotating rather than retreating from the market.

The recent EY PE Pulse survey reveals sponsors are increasingly directing capital toward sectors with durable demand, visibility and stronger resilience characteristics, including healthcare services, digital infrastructure, power systems, and aerospace and defense. The trend reflects a broader shift toward resilience-oriented investment themes amid geopolitical uncertainty and rapid technological change.

What's next

Capital rotation is happening amid expansion, with 72% of general partners expecting deployment to increase over the next 12 months and 56% expecting exits to accelerate, per the PE Pulse survey. PE firms are expected to increasingly align this deployment with government priorities around national security, industrial competitiveness and strategic supply chains. Advanced manufacturing, robotics and industrial materials linked to supply chain reshoring may receive greater investor attention as governments seek to improve strategic autonomy and reduce dependence on external suppliers.

AI will continue to be a focus for both governments and PE funds. Capital is likely to continue flowing toward semiconductors, power generation and AI infrastructure. Additionally, AI infrastructure investment[5] is likely to broaden beyond data centers into the wider ecosystem supporting compute demand as technology investment and critical infrastructure converge. Power transmission infrastructure, cooling systems and energy storage are attractive opportunities associated with AI adoption.

Geopolitical instability is likely to influence PE deployment as well, strengthening investment interest in defense technology, munitions, autonomous systems and related supply chains.

Business impact

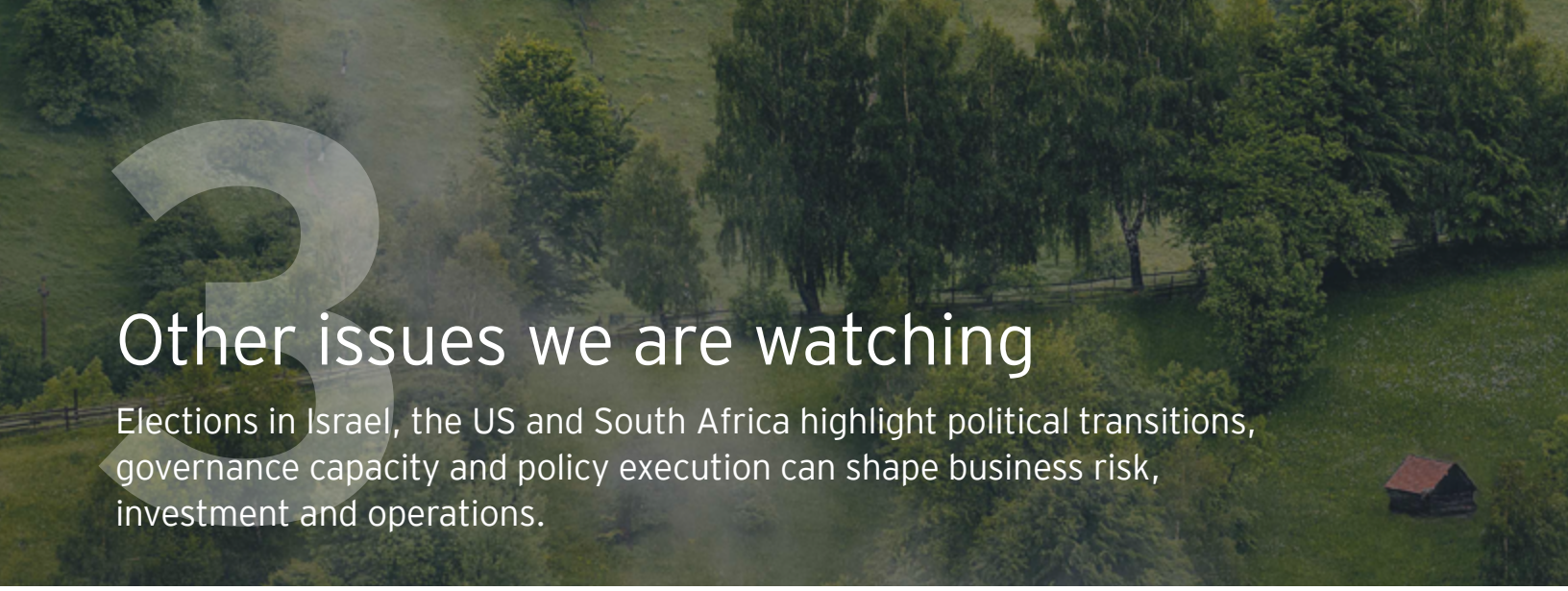
Companies operating in defense, energy, digital infrastructure and industrial manufacturing should consider whether to position themselves to attract greater sponsor interest as investors seek exposure to sectors benefiting from long-term policy support, resilient demand and favorable market positioning.

Management teams should expect PE investors to place greater emphasis on geopolitical resilience, supply chain security, energy availability, AI readiness and national-security considerations during transaction diligence and capital allocation decisions. Companies in these sectors should prepare diligence materials on these issues ahead of sponsor approaches.

For more information, contact Pete Witte.

Additional reading: How data readiness can improve private equity exit value

[5] Global energy demands within the AI regulatory landscape | Brookings Institution; https://www.brookings.edu/articles/global-energy-demands-within-the-ai-regulatory-landscape/



3 Other issues we are watching

Elections in Israel, the US and South Africa highlight political transitions, governance capacity and policy execution can shape business risk, investment and operations.

Israeli elections may reset policy direction

Israel's upcoming national elections[6] — the first since the 7 October 2023 attacks and ensuing regional conflict — could reset the country's political direction and its global relations. Responses to the security environment and the strategic direction of the country are defining features of the campaign. Other top issues for voters include cost-of-living challenges and military conscription rules. With an estimated 38 parties contending for seats in the national legislature, preliminary polls do not point to any one coalition with a clear advantage.

Business impact: Election results may create more variable domestic policy than foreign policy. Domestically, uncertainty around judicial reform and fiscal policy will depend on whether there is a decisive win for one coalition, versus a more mixed outcome that leads to prolonged coalition negotiations. The speed of coalition formation would be a signal of greater certainty around policymaking. Finance teams should **model various electoral outcomes** and economic implications. Externally, the country's national security objectives are expected to remain consistent, although the policy tools and methods could shift. Sectors such as defense, cybersecurity and frontier technologies will remain strategic national priorities, regardless of outcome.

For more information, contact Courtney Rickert McCaffrey.

US midterms may drive policy change at the state level, while executive action sets federal direction

The US midterm elections on 3 November will have implications at both the federal and the state and local levels. At the federal level, 35 of 100 Senate seats and all 435 seats in the House of Representatives are being contested, while state-level elections include 36 of 50 governorships. Key issues influencing the decisions of undecided voters center on cost-of-living challenges, data center expansion and the broader role of AI in society. These issues are prevalent at the state and local level: voters will face at least 38 local data center measures this cycle[7].

Business impact: A divided federal government is a distinct possibility, with Democrats seen as increasingly likely to take control of the House and possibly the Senate. Regardless of the outcome, though, the executive branch will continue to actively lead on regulation and foreign policy via rulemaking and executive actions. If Democrats take control of the House, oversight of executive agencies is expected to intensify. Bipartisan interest in scrutinizing AI and data centers suggests there could be congressional activity on these issues, as well. Yet state elections may prove more impactful in terms of policy changes, as state governments seek to expand housing construction and power generation, while adding oversight to data center development. **Utilities could face pressure** to expand capacity and protect residential ratepayers, while technology companies may see fragmenting regulations with divergent state-level approaches to infrastructure permitting, energy sourcing and incentives.

For more information, contact John Hallmark (EY US) and Adam Barbina.

South Africa's local elections highlight municipal infrastructure and service delivery challenges

South Africa's local government elections on 4 November will take place amid mounting financial, infrastructure and service delivery pressures among municipalities and at a time of heightened unemployment nationally. Johannesburg has become emblematic of this trend, with public complaints of poor infrastructure and basic services. In FY 2025-26, the city spent only 49% of its capital budget[8] against a 70% target, leading to concerns about governing capacity. The national audit office's FY 2024-25 analysis[9] confirmed that metro areas, which account for roughly 54% of local government expenditure, have regressed on financial health and service delivery. Johannesburg's coalition instability and related administrative turnover have driven service delivery shortfalls. Stable governing arrangements will be critical to stabilizing finances and infrastructure.

Business impact: Coalitions, the prevalent governance model in South African municipalities, are a near-certain outcome of the elections. The durability of each coalition is the variable to watch; fewer coalition partners point to greater stability. Effective coalitions would likely restore maintenance spending, impacting **utility reliability** and operating expenses for energy-intensive industries, such as manufacturing and mining. Better **infrastructure planning** and maintenance benefits logistics operators that depend on efficient urban transport networks. Companies with energy- or transport-dependent operations in South African metros should plan for multiple scenarios, with municipal government execution capacity as a key planning variable.

For more information, contact Angelika Goliger.

6. Knesset elections 2026 | Government of Israel; https://www.gov.il/en/pages/knesset-elections-2026
7. Data center-related ballot measures, 2026 | Ballotpedia; https://ballotpedia.org/Data_center-related_ballot_measures,_2026
8. City of Johannesburg expenditure report | Parliament of South Africa; https://static.pmg.org.za/260609SCOPA_CoJ_02June2026_final_revised_v4.pdf
9. 2024-25 consolidated report on local government audit outcomes | Auditor-General South Africa; https://mfma-2025.agsa.co.za/

4 Geostrategic indicator of the month

Global defense spending is accelerating, creating growth opportunities while raising fiscal pressures and elevating supply chain security as a strategic priority.

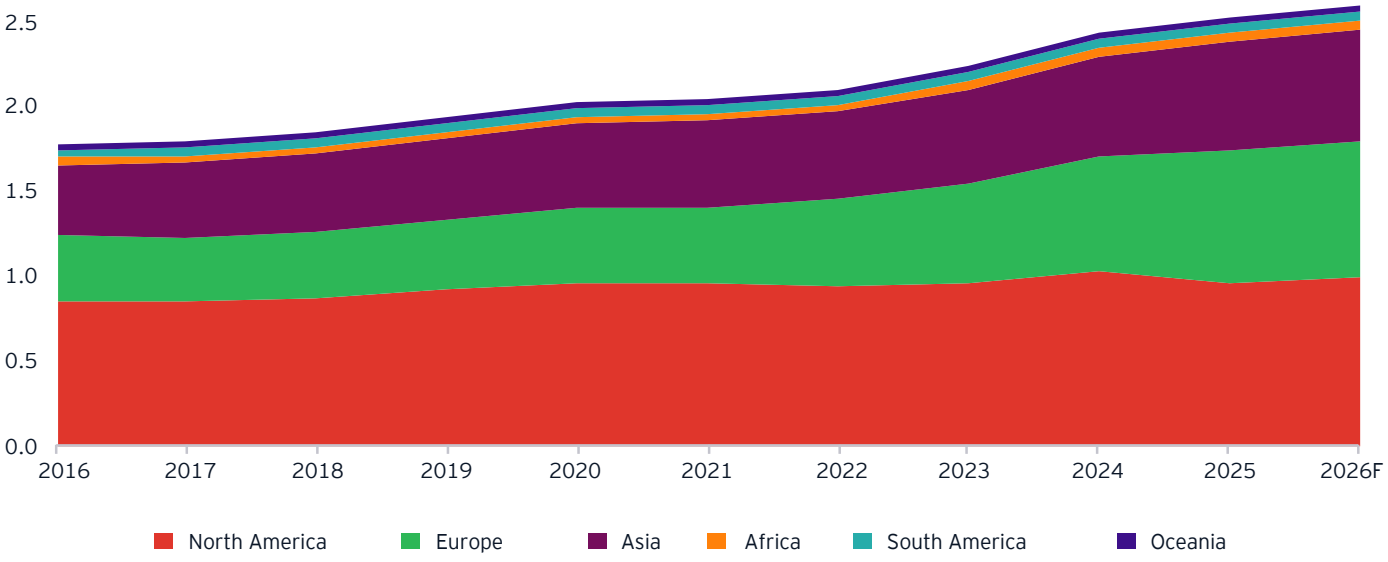
The indicator

The Stockholm International Peace Research Institute's military expenditure database[10] indicates that defense spending is growing worldwide. While North America remains the largest single defense spending market, its growth since 2016 is only 13%, lagging far behind Europe (102% growth) and Asia (50% growth). Recent IMF analysis[11] finds that large defense spending buildups are more frequent, with defense outlays typically increasing by almost 2.7% points of GDP. Roughly two-thirds of this spending is financed through fiscal deficits.

Business impact

While government spending on defense can stimulate short-term economic activity, it also contributes to rising public debt, inflationary pressures and weaker external balances over time. These outlays also redirect funds from other policy demands, risking shortfalls and lower growth for non-defense sectors. Rising defense spending creates opportunities not only for aerospace and defense companies, but also for organizations in sectors such as advanced manufacturing, technology and cybersecurity. Governments are placing greater emphasis on where companies source, produce and invest to promote domestic economies and secure supply chains from disruptions and foreign adversary inputs. Executives should prioritize supply chain transparency and their sourcing footprint to align with national-security-driven procurement preferences.

Global defense spending growth driven by Europe and Asia
Military spending by continent, US$ trillion



Source: SIPRI Military Expenditure Database
Note: Values for 2026 are forecasted by applying the IMF's 3.1% global real-GDP growth assumption uniformly to each region's 2025 military spending.

Additional reading: National security defense

[10] SIPRI Military Expenditure Database | Stockholm International Peace Research Institute; https://www.sipri.org/databases/milex
[11] World Economic Outlook, April 2026, Chapter 2: Defense spending: Macroeconomic consequences and trade-offs | International Monetary Fund; https://www.imf.org/-/media/files/publications/weo/2026/april/english/ch2.pdf

Contacts

Oliver Jones
London
oliver.jones@uk.ey.com

Angelika Goliger
Johannesburg
angelika.s.goliger@za.ey.com

Mary Karol Cline
Washington DC
mary.k.cline@ey.com

Courtney Rickert McCaffrey
Washington DC
courtney.r.mccaffrey@ey.com

Adam Barbina
New York
adam.l.barbina@parthenon.ey.com

Ari B. Saks Gonzalez
Mexico City
ari.b.saks.gonzalez@mx.ey.com

Ben-Ari Boukai
Washington DC
ben-ari.boukai@parthenon.ey.com

Jay Young
Dallas
jay.young1@parthenon.ey.com

Famke Krumbmüller
Paris
famke.krumbmuller@parthenon.ey.com

Jan Kallmorgen
Berlin
jan.kallmorgen@parthenon.ey.com

Nobuko Kobayashi
Tokyo
nobuko.kobayashi@parthenon.ey.com

Alessandro Faini
Paris
alessandro.faini@parthenon.ey.com

Charlie Smith
Baltimore
charlie.smith2@ey.com

Mats Persson
United Kingdom
mpersson@parthenon.ey.com

Simon MacAllister
Dublin
simon.macallister@parthenon.ey.com

Tahir Khan
United Arab Emirates
tahir.khan@parthenon.ey.com

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

About EY-Parthenon

Our unique combination of transformative strategy, transactions and corporate finance delivers real-world value — solutions that work in practice, not just on paper. Benefiting from EY's full spectrum of services, we've reimagined strategic consulting to work in a world of increasing complexity. With deep functional and sector expertise, paired with innovative AI-powered technology and an investor mindset, we partner with CEOs, boards, private equity and governments every step of the way — enabling you to shape your future with confidence. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

© 2026 EYGM Limited.
All Rights Reserved.

SCORE 115419-26-GBL
2408-15893-CS
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com