

Geostrategic analysis

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

April 2026 edition



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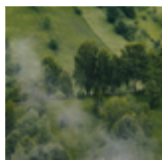
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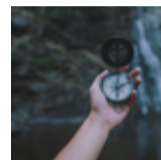
Four scenarios reveal a range of medium-term outcomes for the conflict in the Middle East.

**Sector in focus:**

Insurance

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US-China relations stable despite leaders' summit delay; Hungary's election at a crossroads; Canada's foreign policy repositioning gains momentum.

**Geostrategic indicator of the month:**

Conflict-related inflation risks are pushing markets to expect less easing and a higher-for-longer rate path.

EY-Parthenon Geostrategic Business Group (GBG)

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1 Top development

Four scenarios reveal a range of medium-term outcomes for the conflict in the Middle East.

What happened: The US and Israel launched a military campaign focused on air strikes against Iran on 28 February, targeting military assets and infrastructure, regime leadership and some energy infrastructure in the weeks since.

Iran and some of its proxies responded by launching missile and drone strikes against a number of countries throughout the region, including against Israel and members of the Gulf Cooperation Council (GCC). These responses included Hezbollah launching significant attacks against Israel from Lebanon (ending a 2025 local ceasefire), to which Israel responded with a major military campaign in Lebanon. Iranian attacks and threats against ships have also effectively closed the Strait of Hormuz – a vital shipping lane through which about one-fifth of the world's oil and gas supplies typically transits.

The conflict has led to widespread regional and global disruptions, including physical security concerns for millions, financial market volatility, and negative economic effects.

What's next: Despite the recent ceasefire announcement, the situation remains fluid and uncertain. The outlook for the Middle East in the medium term (one to two years) depends on whether both sides negotiate a lasting resolution to the conflict and underlying tensions. Topics under negotiation could include an end to the immediate conflict (i.e., longer-term ceasefire), commitments toward open transit through the Strait of Hormuz, limits on Iran's missile program, inspectors for Iran's nuclear program and sanctions relief. Depending on the willingness of both sides to reach agreement to end the current conflict, there are four scenarios to consider – high-level summaries of which are outlined below.

Scenario 1. If both sides are willing to negotiate a meaningful resolution, the current conflict would end with a negotiated settlement focused on reducing Iran's nuclear and missile capabilities and maintaining open transit in the Strait of Hormuz in exchange for sanctions relief. Global financial markets and macroeconomic conditions stabilize, easing pressure on monetary authorities and supporting global recovery, and Iran begins to reintegrate into the global economy.

Scenario 2. If the Iranian regime seeks to pursue diplomacy – including compromising on their military posture – but the US and Israel are not willing to reach durable agreements on this, then uncertainty would persist. This scenario would mean the end of current hostilities as both sides wind down operations but the risk of instability – both within an isolated Iran and in the broader region – would persist. Nevertheless, energy markets would gradually normalize, and supply chain pressures would ease.

Scenario 3. Alternatively, the US and Israel could cease hostilities and signal a willingness to meaningfully negotiate, but Iran could continue to invest in military capabilities and proxy forces throughout the region. This would lead to an asymmetric conflict scenario, in which Iranian forces and their proxies launch occasional attacks, including in the Strait of Hormuz, against Israel and in cyberspace. Such sporadic attacks would sustain an elevated geopolitical risk premium across energy, shipping and insurance markets.

Scenario 4. Finally, if neither side is willing to negotiate a lasting compromise, then the current conflict would continue on an ongoing or intermittent basis. This scenario could be characterized by the same level of conflict as exists today or could involve an escalation – in terms of expanded geographies or more significant targeting and destruction of economic and civilian infrastructure. This scenario would be most disruptive and damaging to regional stability and to global energy supplies, logistics, inflation and growth.

Business impact: All sectors could be affected, but the most direct impacts are likely for oil, gas and chemicals; power and utilities; insurance; aerospace, defense and mobility; technology; industrial products; consumer products; and infrastructure.

There are three primary transmission channels through which the conflict in the Middle East is affecting the global economy: oil and gas supplies, global supply chain disruptions and the financial markets. These transmission channels will persist more strongly and over a longer time horizon if one of the more antagonistic scenarios materializes. Business leaders should assess how various scenarios would affect their company and identify operational and strategic actions that could be taken now to build resilience.

The longer the conflict persists and the more disruptive the scenario that emerges in the Middle East, the more significant will be the impact on global energy – in terms of both prices and supplies. Energy shortages in import-dependent countries could lead to social unrest. In the medium to long term, significant downside energy impacts would likely lead to greater investment across the energy value chain – including resource extraction, alternative energy sources and power generation and transmission infrastructure – across a variety of markets. Policymakers could explore how to increase the resilience of their energy supplies and infrastructure, while business leaders should explore investment opportunities that would align with these public policy goals.

In scenarios involving continued conflict – either in its current form or via asymmetric warfare – the risks to logistics and supply chains dependent upon the Middle East would likely rise. If the Yemen-based Houthis resume their attacks against maritime traffic in the Red Sea or Gulf of Aden, these challenges would become more acute. Given that almost one-third of urea – a crucial fertilizer component – typically transits via the Strait of Hormuz, the agricultural and food sectors could be particularly negatively affected. If there are food shortages or dramatic price increases, the risk of social unrest would rise. Companies should explore mitigation and resilience strategies, including identifying alternative suppliers, hedging them against price increases and building inventories.

The conflict has already affected prices for commodities, equities, government bonds and insurance coverage, as well as impacting foreign exchange rates and interest rate expectations. These impacts, especially the disruption in the oil and gas markets, are expected to persist for many months even under a negotiated ceasefire scenario. Going forward, the more conflictive scenarios with heightened geopolitical risks are likely to have more persistent and significant impacts on financial markets. Investors and market participants should incorporate different scenario assumption sets for the conflict into their valuations and capital allocation decisions, while seeking to diversify their financial investments. And, where relevant, legal teams should review force majeure parameters.

Regardless of how the conflict ends, recent events in the Middle East will likely provide lessons for policymakers, military leaders and the defense sector regarding national security investments. For instance, countries in the Middle East are likely to accelerate investments into defense systems including missile defense, anti-drone technologies and AI-backed systems. The proven effectiveness of various military weaponry products could also lead to increased investment in advanced defense technologies and systems in countries around the world.

For more information, contact [Courtney Rickert McCaffrey](#), [Oliver Jones](#) and [Ben-Ari Boukai](#).

Additional reading: [How to optimize your global strategy amid asymmetric globalization](#)



Sector in focus: Insurance

Insurers and brokers adjust policies to maintain continuity of cover during conflict in the Middle East.

What happened

The conflict in the Middle East is prompting insurers and brokers to review and adjust underwriting approaches, in particular across marine, energy, aviation and political risk lines.

Key shipping corridors, including the Strait of Hormuz, have been designated high-risk by the London Market Association Joint War Committee (JWC). This has resulted in higher war-risk premiums (up 25-50%) as cover is repriced to reflect the escalating threat landscape, including vessel seizure or potential cyberattacks.

Disruption to trade routes and supply chains is also increasing insurers' exposure to business interruption and delay-related claims.

Coverage limitations have become more visible, particularly where standard policies exclude war and hostilities (e.g., retail travel insurance and property), alongside growing claims complexity in areas such as contingent business interruption.

What's next

Insurance firms have emphasized that insurance coverage is still available for customers operating in or throughout the region. The US government has also announced a maritime insurance facility, led by the US International Development Finance Corporation (DFC), with Chubb as the lead underwriter, which will provide war coverage for vessels transiting the Strait of Hormuz.

Insurers are expected to strengthen underwriting discipline at upcoming renewal cycles to adapt to persistent geopolitical uncertainty, with closer scrutiny of war exclusions, policy wordings and aggregation exposures.

Regulators and supervisors may increase focus on contract clarity and customer outcomes, particularly regarding the application of war exclusions and non-coverage scenarios. These additionally present reputation risk to the industry.

For more information, contact [Benedict Reid](#) and [Patricia Davies](#).

Broader government interventions to stabilize energy and trade flows may help contain secondary impacts, although insurers will continue to monitor indirect exposure through supply chain disruption and business interruption risks.

Business impact

Rates for specialty insurance coverages have been generally falling for the last two years, with a softening market driven by excess capital and relatively benign environment for catastrophe claims. While the conflict could stabilize rates in certain insurance classes and markets, this is in the context of a potentially unprecedented claims environment with reduced opportunities for organic growth.

It is critical for insurers and brokers to work proactively with their customers on how to best mitigate the risks associated with changes to their business operations as the impact on trading and global markets plays out.

For insurers, while overall loss levels remain contained, the potential for complex, multi-trigger claims are increasing. This could place pressure on claims handling, legal interpretation and broker-client engagement models. Scenarios should be updated and rehearsed across functions and trading partnerships.

To deal with volatility in asset values and potential earnings pressure, insurers should [reassess capital allocation](#), reinsurance strategies and geographic exposure, while balancing growth opportunities against risk concentration in affected regions.

Additional reading: [Five priorities for insurers: converting uncertainty into opportunity](#)

Other issues we are watching

US-China relations stable despite leaders' summit delay; Hungary's election at a crossroads; Canada's middle-power strategy gains momentum.

US-China relations stable despite delay in leaders' summit

The scheduled summit between US President Donald Trump and Chinese President Xi Jinping, originally set to begin on 31 March, has been delayed at President Trump's request, so that he can focus on the conflict in the Middle East. The leaders are expected to meet in the coming months. The White House announced it has been rescheduled for 14-15 May. The Trump administration's use of Section 301 investigations to maintain [tariff optionality](#) remains a primary concern for Beijing, which likely seeks a more stable trade environment to insulate its economy from further volatility. This was highlighted by China's recently released 15th Five Year Plan, which has a continued focus on industrial modernization and technological independence. Despite mutual interests in stability, US efforts to reduce trade imbalances with China are at odds with China's export-led growth, creating a structural challenge that is difficult to overcome.

Business impact: The trade truce agreed between the US and China in October 2025 is providing near-term stability for bilateral economic relations and commercial interests. The delay of the summit prolongs the uncertainty about what the US and China will put in place around ongoing structural challenges for the future, however. Key points of leverage could include China's purchases of US agricultural exports and control of critical minerals exports, and US national security policies for high-tech sectors (e.g., export controls). Companies should continue monitoring US-China relations closely and conduct scenario planning to prepare for multiple potential outcomes from the upcoming leaders' summits.

For more information, contact [Adam Barbina](#) and [Douglas Bell](#) and [David Li](#).

Hungary's pivotal election for Europe at a crossroads

As highlighted in the [2026 Geostrategic Outlook](#), Hungary's 12 April election will be a pivotal event for Europe at a moment when the region is at a major crossroads regarding its security and competitiveness. This election presents the most serious challenge yet to Prime Minister Viktor Orbán's 16-year premiership. Opposition leader Péter Magyar's center-right Tisza party has consistently led most independent polls amid a cost-of-living crisis that has fueled dissatisfaction with the governing Fidesz party. The stakes extend far beyond Hungary: An Orbán victory would support Europe's nationalist populist forces and would accelerate fractures within the EU on sensitive topics such as aid to Ukraine and Russia sanctions, weakening bloc cohesion at a time of mounting geopolitical pressure. A Tisza-led government, by contrast, would likely seek to repair EU relations, unlock frozen EU funds¹ and reset regional relations.

Business impact: The election outcome will shape operating conditions in Hungary's energy and manufacturing sectors. In energy, a Tisza-led government could accelerate diversification away from Russian

supply and expand renewables. It would also be positioned to unlock EU funding for green transition and [infrastructure projects](#), increasing predictability for utilities, grid operators and major industrial investors. Under Fidesz, continued reliance on Russian oil and gas would sustain exposure to energy price volatility, especially if the temporary US sanctions waiver is not renewed. In manufacturing, a Tisza victory could restore access to EU funds and improve regulatory predictability, enabling more industrial investment. Yet, at the broader level, without a two-thirds majority in the legislature, the government would likely be unable to implement deeper cross-sector reforms. Another Fidesz-led government, in contrast, would likely further entrench interventionist policies, sector specific taxes and subsidies, across multiple sectors.

For more information, contact [Famke Krumbmüller](#).

Canada's foreign policy repositioning gains momentum

Canada is entering a new phase in its foreign policy as Prime Minister Mark Carney advances the diversification strategy set out in his 2026 World Economic Forum (WEF) address, positioning the country as a proactive middle power in a more fragmented world. Canada's new Comprehensive Strategic Partnership with Japan² will deepen cooperation on economic security, critical minerals, technology, defense and resilient supply chains. Canada's strategic reset with China³ in January and Ottawa's parallel outreach to India⁴ and Australia⁵ demonstrates the acceleration of Canada's engagement in the Indo-Pacific. With North American policy uncertainty set to rise during the 2026 review of the US-Mexico-Canada (USMCA) trade agreement, Canada is likely to continue advancing this foreign policy diversification.

Business impact: Canada's foreign policy repositioning will generate distinct impacts across key sectors. The government's fall (Autumn) budget included a substantial increase in defense spending, which could provide opportunities for aerospace and defense companies. Energy and critical minerals firms are likely to have an expanded set of potential collaboration partners as Canada deepens partnerships on LNG, clean energy technologies and mineral security. Investment opportunities are likely across batteries, EV supply chains and low-carbon infrastructure. Companies in the advanced manufacturing sector may benefit from closer technology cooperation, while automotive companies, closely integrated with US supply chains, face short- and medium-term risks from policy uncertainty. Technology firms may face stricter cybersecurity, data governance and interoperability requirements as Canada deepens digital partnerships with other countries. For exporters in agriculture, industrial goods and other high-value sectors, any diversification in end markets would require new compliance and logistics approaches. For all sectors, rising North American policy volatility ahead of the 2026 USMCA review underscores the need for robust geopolitical risk management and resilient supply chains.

For more information, contact [Maxim Hofer](#).

¹ Press corner (Q&A) | European Commission (ec.europa.eu) https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_6466

² Joint statement on Canada-Japan Comprehensive Strategic Partnership | Prime Minister of Canada (pm.gc.ca) <https://www.pm.gc.ca/en/news/statements/2026/03/06/joint-statement-canada-japan-comprehensive-strategic-partnership>

³ Prime Minister Carney forges new strategic partnership with the People's Republic of China | Prime Minister of Canada (pm.gc.ca) <https://www.pm.gc.ca/en/news/news-releases/2026/01/16/prime-minister-carney-forges-new-strategic-partnership-peoples>

⁴ Joint statement by Prime Minister Carney and Prime Minister Modi | Prime Minister of Canada (pm.gc.ca) <https://www.pm.gc.ca/en/news/statements/2026/03/02/joint-statement-prime-minister-carney-and-prime-minister-modi>

⁵ Prime Minister Carney elevates partnership with Australia in critical minerals, defence, and AI | Prime Minister of Canada (pm.gc.ca) <https://www.pm.gc.ca/en/news/news-releases/2026/03/05/prime-minister-carney-elevates-partnership-australia-critical>

4 Geostrategic indicator of the month

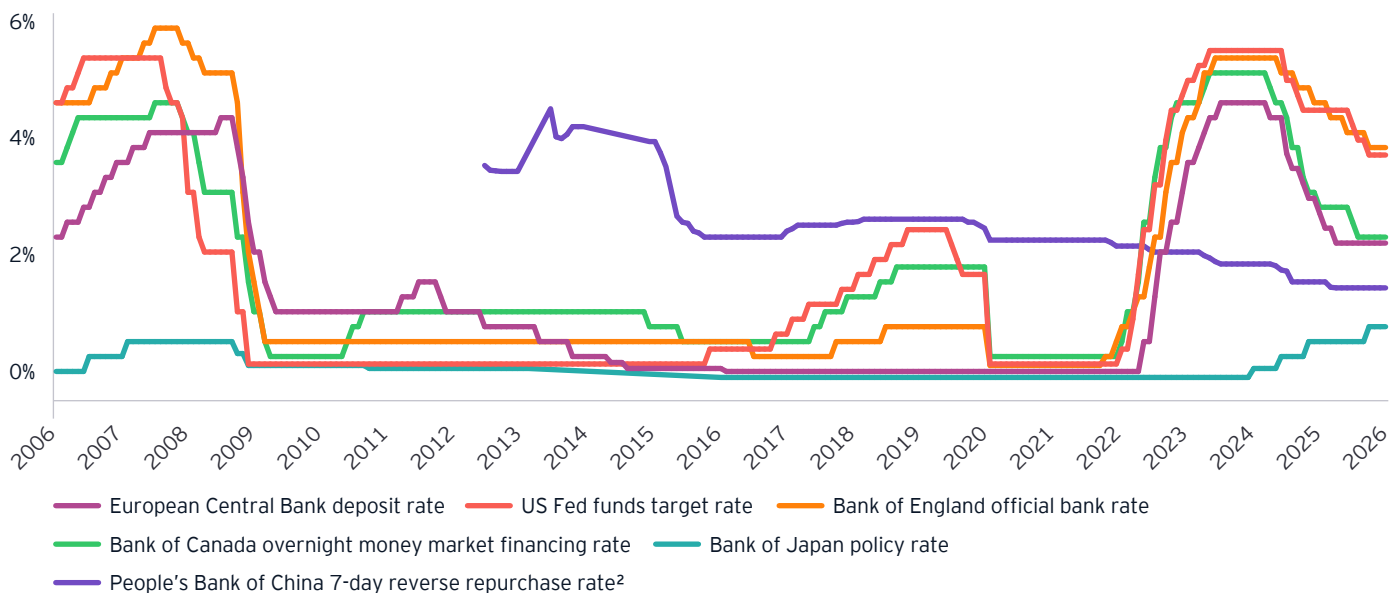
Conflict-related inflation risks are pushing markets to expect less easing and a higher-for-longer rate path.

The indicator

The conflict in the Middle East is complicating the global monetary policy outlook and leading markets to anticipate less easing than had previously been expected and a prolonged higher-for-longer interest rate environment. The rise in geopolitical uncertainty and surge in energy prices is pushing inflation risks higher as growth remains fragile. This presents a complicated dilemma for central banks: easing preemptively could reignite inflation – especially as economies were already contending with supply shocks stemming from recent trade disruptions – while keeping rates elevated for too long may undermine economic growth. Given the recent inflationary backdrop, most central banks are likely to err on the side of caution and adopt a wait-and-see posture to ensure inflation pressures do not become entrenched.

Most central bank interest rates have declined in recent years, but the monetary policy environment is becoming more challenging

Central bank rates (percent)¹



1. Most recently available data points shown for all central banks.

2. Data starts in 2015.

Source: Respective country or jurisdiction central banks; EY-Parthenon

Business impact: For businesses, increased monetary policy uncertainty translates into volatile financial market conditions, exchange rate swings, and tighter credit conditions. Firms operating across different regions may face desynchronized policy path and diverging interest rate trends, complicating capital allocation, pricing strategies, and investment planning. Higher-for-longer rates in some economies could weigh on credit conditions and asset valuations, while delayed easing could also pressure margins and dampen consumer demand. Executives should [stress test](#) balance sheets against different interest rate scenarios, reassess currency and interest rate hedging strategies, and prioritize operational flexibility amid elevated uncertainty.

Additional reading: [How do CEOs reimagine enterprises for a future that keeps rewriting itself?](#)

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