



# How macro and geopolitics became key drivers of business value and growth

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# Executive summary

- Macro issues – economics, geopolitics, national/regional politics and policy developments – are now increasingly dominant drivers of business value and performance, creating winners and losers among companies worldwide
- Over the past decade, macro issues can be linked to nearly 60% of aggregate equity returns for the FTSE 100
- Of 3,500 global businesses monitored, just one in 10 – the ‘10% club’ – managed to sustain top-performing EBITDA profit margins during macro shifts over the past decade
- One in four businesses experienced an EBITDA margin loss of 5% or more, translating into US\$320bn in lost profit across the businesses in our analysis
- Top-performing businesses took active steps to manage macro shifts, including diversifying their portfolios, managing cost bases, striking the right balance between resilience and cost, and instituting a culture of geopolitical situational awareness.

## Introduction

Over the last two decades, businesses grew accustomed to a global environment where money was cheap and geopolitics relatively stable. That world is gone, courtesy of a range of macro events and trends – from trade tensions to conflict escalation to rising interest rates. However, many businesses have struggled to adjust their operating models to reflect this shift – across growth plans, M&A, capital allocation and governance – and many of them have seen value or profit eroded as a result.

In this report, we analyse how macro drivers – economics, politics, geopolitics and policy developments – impact business performance and value, and what companies do better or worse during times of significant macro shifts. Critically, we also identify the actions businesses can take to be among the winners.

### What do we mean by macro?

In this report, we include four interrelated areas in the term ‘macro’:

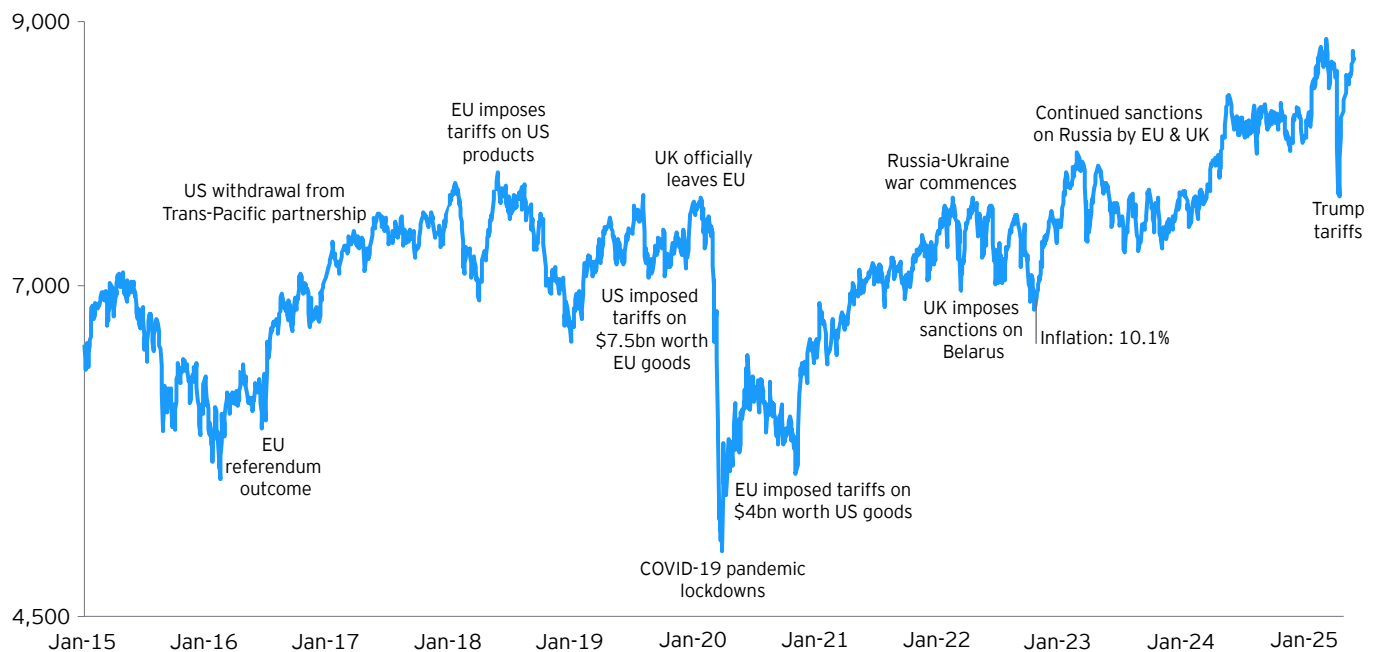
1. **Geopolitical drivers**, including conflict, trade tensions and de-coupling, sanctions, and re-militarisation/defence spending.
2. **Policy drivers** including shifts in regulation, targets and tax, for example around the energy transition.
3. **Political drivers** including elections and social shifts.
4. **Economic drivers** including inflation, interest rates and monetary policy, government debt, deficit and spending, and household economics.

# Macro events are increasingly a driver of business value

There's a long-running debate around just how important macro drivers are for businesses, which this report does not set out to settle definitively. But it's clear that almost all the evidence – from rising uncertainty indexes to heightened geopolitics-linked credit risk – points to macro being a much greater driver of business performance now than it was in previous decades. And its significance appears to be increasing.<sup>1</sup>

In particular, it's apparent that economic and geopolitical cycles and events increasingly drive markets and share prices. EY-Parthenon research shows that over the past decade, the average 59 days a year when significant geopolitical and macro events took place delivered nearly 60% of aggregate equity premium for the FTSE 100.<sup>2</sup>

**Figure 1: Correlation between FTSE 100 swings and macro events**



Equity premium is defined as the return above and beyond risk-free rate, which is what an investor could get from investing in government bonds.<sup>3</sup>

At the same time, 40% of the market cap swing on the FTSE 100 post-pandemic (2022-2025) can be traced to days when significant macro and geopolitical events were taking place. The 'macro swing' is also increasing in magnitude and frequency.<sup>4</sup>

This dynamic alone should be enough for any CEO, CFO or board to incorporate macro into all aspects of business planning and strategy, including in shareholder and stakeholder engagement. But it's clearly just part of the story of how macro drives business performance.

1. See, for example, the ECB – Financial Stability Review (May 2025).

2. Our methodology and approach draws from Ai, Ravi Bansal and Hongye Guo (2023) and is consistent with Savor and Wilson (2013), Ai and Bansal (2018) and Ernst, Gilbert and Hrdlicka (2019) whose research looked at the impact of macro events on the S&P 500. In our approach, we add geopolitical events to the set of drivers and apply the analysis to the FTSE 100.

3. *ibid.*

4. For example, Ai, Ravi Bansal and Hongye Guo (2023) argue that "from January to August 2023, the average announcement premium was 16.33 basis points per announcement, higher than the full sample average 10.68 basis points."

# Creating winners and losers: impact on margin and profitability

To drill down further into the importance of macro drivers, we also analysed how they impact business profitability and day-to-day operations, in particular with respect to EBITDA margin. After all, markets often bounce back – starkly illustrated by the S&P being back near record levels (at time of writing), despite losing around US\$6 trillion in value following President Trump's tariff announcements on 6 April 2025. But individual businesses can still fare very differently.

While EBITDA is only one of several business metrics, it's interesting to focus on it as this is where macro pressures and trade-offs between resilience and efficiency tend to show up. One example? The combination of higher inflation, interest rates and trade costs has struck deep into many companies' EBITDA margins, significantly undercutting their profitability.

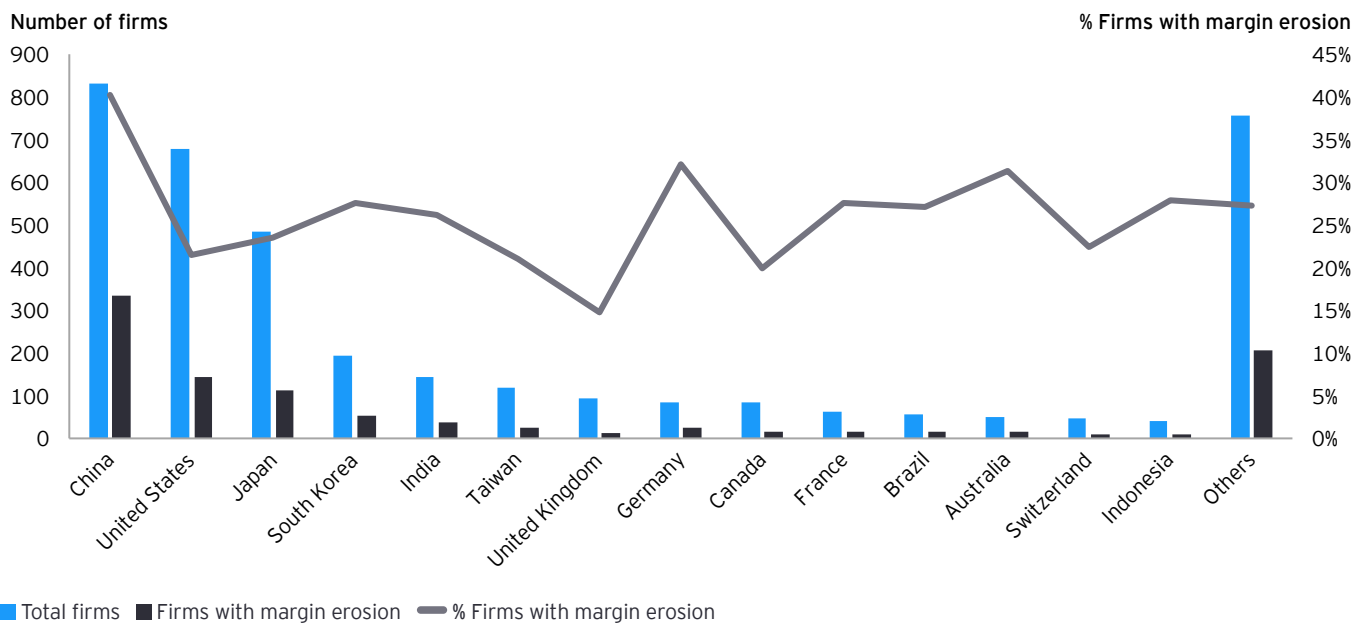
We analysed the performance over the last decade of 3,475 publicly listed businesses globally with revenues of above US\$1bn across 49 different sectors,<sup>5</sup> including oil & gas, chemicals, industrials, aerospace & defence, automotive, transportation and minerals.

## What is EBITDA and why does it matter for macro?

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) measures a company's performance by focusing on core business activities. It's often used as a proxy for operational efficiency, competitive positioning and cash generation. While EBITDA is only one of a number of business metrics, this is where macro pressures often tend to show up. Likewise, EBITDA is often where trade-offs between resilience (e.g., duplicating supply chains to avoid trade barriers or tariffs) and cost become very noticeable – an area where some businesses perform better than others.

The greatest numbers of businesses analysed are in China (833), the US (678), Japan (484) and South Korea (195) (Figure 2).

**Figure 2: Businesses under analysis are distributed across geographies and identified for margin erosion**



5. Company selection criteria: public companies with >US\$1bn in revenue for financial year 2024, initially resulting in 6,907 companies. We removed companies with incomplete EBITDA data. This resulted in a final count of 3,745 companies for analysis (c.4,000 companies) across 49 sectors. A country in this study represents the stock exchange, within the country, in which the company is listed. See 'Annex' for details.

## Not all margin is created equal

What constitutes strong margin differs significantly across sectors. For example, of the businesses analysed, the top-performing telecoms business had a margin of 43% compared to top-performers in defence (15%) and food retail (7%).

To account for this type of sector-specific variation, we identified distinct EBITDA margin thresholds for each of the 49 sectors.

EBITDA thresholds are used to categorise companies in key sectors as follows:

- **Top-performing:** EBITDA %  $\geq$  75th percentile
- **Middle of the pack:** 50th  $\leq$  EBITDA %  $<$  75th percentile
- **Underperforming:** 25th  $\leq$  EBITDA %  $<$  50th percentile
- **Distressed:** EBITDA %  $<$  25th percentile

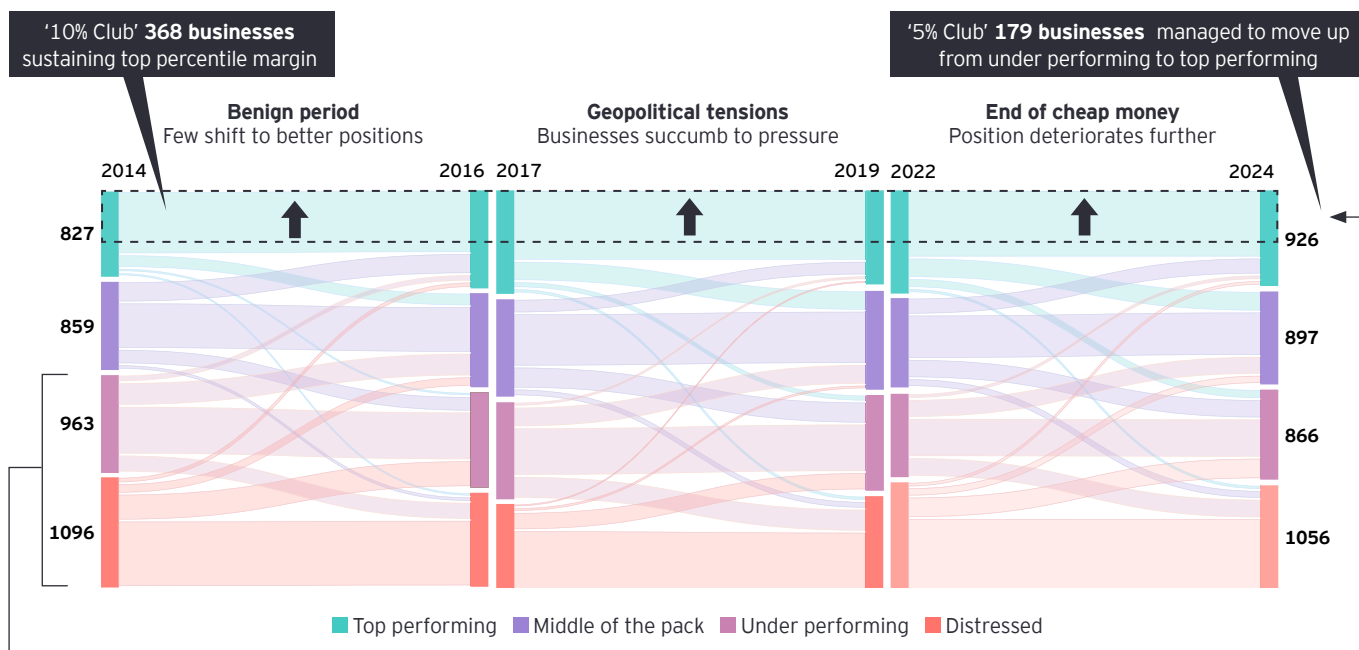
Sector	25th percentile	50th percentile	75th percentile
Pharmaceuticals	16.3	22.5	29.2
Construction machinery	6.5	9.0	12.0
Semiconductors	14.6	24.7	35.9
Aerospace & Defence	8.8	11.7	15.0
Passenger airlines	8.5	12.3	16.5
Oil & Gas (exploration and production)	37.3	54.5	65.7
Technology (hardware)	5.0	10.0	15.1

We looked at the performance of these businesses in 2014-16 – a period of low interest rates and relative geopolitical stability. This was compared to two periods characterised by significant macro shifts: the first flare-up in US-China trade relations in 2017-18, and the end of ‘cheap money’ and outbreak of war in Ukraine in 2022-23.

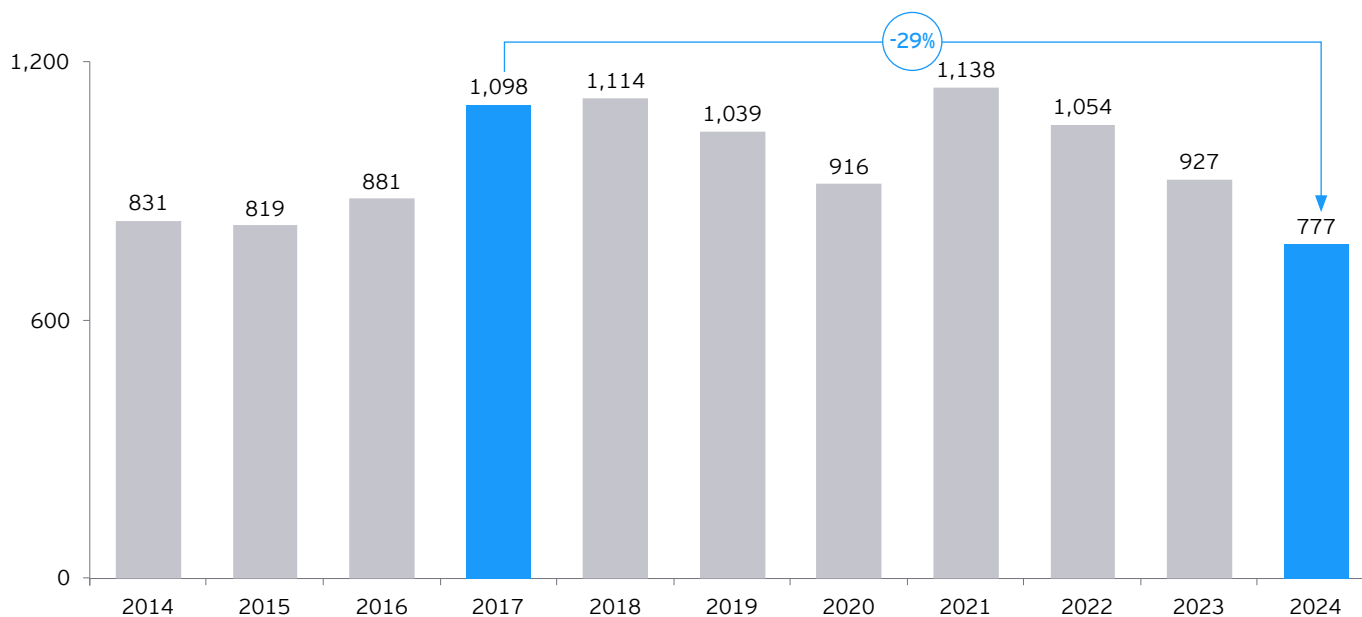
Based on this analysis, macro appears to be a significant and growing driver of margin. But, crucially, businesses with similar geography and sector exposures also appear to have different EBITDA performances, suggesting variation based on their level of preparedness and the actions they took before and during these shifts:

- Most starkly, just one in 10 global businesses (368) managed to sustain and protect a top-quartile EBITDA margin during 2014-2024 (Figure3).
- One in every four businesses experienced EBITDA margin decline of 5.6%, translating to an estimated US\$320bn lost profit across the ~3,500 companies analysed (Figure 4). This means that with around 1,000 businesses lost an average of US\$305mn in profit during this time period.
- The rate at which top-performing businesses fell to ‘underperforming’ and ‘distressed’ within 24 months nearly doubled to 11.1% in 2022-24 compared to 2014-16.
- One in four businesses were underperforming or distressed at one point or another.
- However, 5% of businesses (179) went from underperforming or distressed to top-performing during 2014-24, including in exposed sectors like chemicals, industrial machinery and automotive.
- Companies based in China seem to have experienced the most EBITDA erosion, with 335 out of 833 losing a total of US\$73bn in profit.
- UK companies did relatively well, with 14 out of 94 experiencing EBITDA erosion of US\$2.5bn.

**Figure 3: Firms increasingly move between performance categories**



**Figure 4: Total EBITDA (US\$bn) for businesses experiencing margin erosion between 2017 and 2024**



There are, of course, many reasons for this EBITDA movement, and the fundamentals of a business will always be key, from supply chain efficiency to financial management.

That said, EBITDA erosion tends to be most profound in sectors that cross more geopolitically complicated borders or in sectors with strong macro exposure such as construction (where 33% of companies faced margin erosion), steel (50%), chemicals (46%), automotive (37%), and real estate (64%, mostly China- and Hong Kong-listed companies).

The analysis supports the conclusion that EBITDA volatility increases significantly during macro shifts. So while it's impossible to fully isolate macro from other factors, this strongly suggests that it is now a major driver of performance that CEOs, CFOs and boards cannot afford to ignore.



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# What characterises winners and losers?

Our analysis reveals that businesses with, on the face of it, very similar exposures can perform very differently during macro changes. Two cohorts stand out from the rest:

- The '10% club', the one in 10 businesses that managed to sustain a top-percentile margin during a period of exceptional macro uncertainty.
- The '5% club' that managed to go from underperforming to top-performing in that same period.

What's particularly interesting is that many of these businesses operate in sectors with strong geopolitical downside exposures, such as automotive or industrials. They also cut across a number of regions and countries, including China and US, which have seen significant cross-border policy volatility in recent years.

This suggests that, while these developments are externally driven, how business anticipate them, position themselves and, crucially, take actions to manage them, can have a huge impact on profitability and performance.

Looking at these businesses and drawing from the best practice we see in the market, a few characteristics stand out that separate high-performers:

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## 1

### **Incorporating macro into strategy-setting processes.**

Successful businesses formally incorporate macroeconomic and geostrategic analysis into broader strategy-setting to inform their market, footprint and portfolio choices. This is particularly important where capital investment decisions are sensitive to de facto policy bets. For example, in the UK, many businesses have struggled to adequately map the policy dependencies around substantial capital allocation decisions in the energy transition, from EV targets to heat pumps.

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## 2

### **Portfolio diversification.**

Successful companies alleviate risk by diversifying, including with respect to geographies and customers. They avoid too much concentrated policy exposure, such as a growth strategy dependent on an individual policy surviving volatile elections (prevalent, once again, where the energy transition is concerned).

# 3

## Actionable scenario planning.

For many CEOs, scenario planning has become a rather unappealing concept. Typically, because it tends not to be anchored in clear actions and can get lost in endless risk monitoring exercises. Companies that succeed will identify a limited number of distinct KPIs, with clearly defined indicators – supported by robust financial modelling and quantitative analysis. This is combined with a limited number of pre-agreed actions associated with specific triggers (e.g., shifting voting weight in the EU Council of Ministers or signals around trade deals). The underperformers really struggle here. For example, even though for almost four years there was a 50% or higher probability of President Trump's re-election, many businesses were still caught off-guard.

# 4

## Alignment of macro and micro drivers.

Successful businesses align macro and micro change drivers, especially where mutually reinforcing. They translate analysis into business decisions – from assessing trade-flow, financing and inflationary impacts on CAPEX decisions and debt-to-equity ratios to offsetting OPEX exposure through cost-focused initiatives, cash-flow levers and broader operating model changes that strengthen operating margins. They are particularly good at identifying areas like the optimal trade-off point between cost, efficiency and resilience during periods of macro uncertainty.

# 5

## Strong governance and stakeholder engagement.

They tend to have a culture of geostrategic situational awareness at both board and CEO level, coupled with active engagement with key stakeholders, including customers and suppliers. This enables them to understand broader value-chain impacts and formulate strategic plans in partnerships that will mitigate risk.



## How EY can help

EY-Parthenon's Macro and Geostrategy practice helps businesses navigate the most complex global challenges, turning macro trends into actionable strategies that protect and enhance business value across growth strategy, capital allocation, transactions, supply chain strategy and strategic risk.

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# Assessing the impact of macroeconomic announcements and geopolitical events on FTSE 100 equity returns (2015-2025)

## 1. Study period and context

The selected timeframe captures a broad economic and geopolitical spectrum – from the era of ‘cheap money’ beginning in 2015 to heightened geopolitical uncertainty in 2025. Notably, the Bank of England reduced the Bank Rate from 0.5% (held steady since 5 March 2009) to 0.25% on 4 August 2016, exemplifying the accommodative monetary policy of the earlier years.

## 2. Return metric

- The primary metric under analysis is the annualised premium (%), representing the excess return over the risk-free rate.
- Daily returns are calculated using the percentage change in the FTSE 100 closing index relative to the previous trading day.
- These daily returns are then expressed in basis points (bps).
- To derive the daily premium (bps), the daily risk-free rate is subtracted from the daily return.
- The daily premium (bps) is annualised to obtain the premium per annum (%), which serves as the core metric for this study.

## 3. Risk-free rate estimation

The daily risk-free rate is proxied using the yield on the 1-month UK Treasury Bill. As publicly available data for this instrument is annualised, it is converted to a daily rate (in bps) by dividing by the number of trading days in a year, consistent with standard financial practice.

## 4. Event mapping and impact assessment

To assess the influence of macroeconomic and geopolitical events:

- **Macroeconomic events:** The analysis incorporates key announcements including Consumer Price Index (CPI) or Producer Price Index (PPI) – whichever is released earlier, Gross Domestic Product (GDP), Purchasing Managers’ Index (PMI), and Bank Rate decisions.
- **Geopolitical events:** A comprehensive scan identifies major geopolitical developments such as tariffs, sanctions, Brexit-related milestones, and events linked to the Russia-Ukraine conflict.
- Each event is mapped to its corresponding trading day. The aggregate daily premium (%) for all event days is then computed across the study period.

## 5. Attribution analysis

The proportion of the total market premium attributable to event days is calculated by dividing the event-day premium by the overall market premium. This ratio indicates the share of market performance explained by the combined effect of macroeconomic and geopolitical events.

## 6. Market capitalisation swing analysis

A parallel analysis evaluates market capitalisation swings:

- **Daily swing:** Defined as the difference between closing and opening market capitalisation for each trading day.
- **Annual swing:** Aggregated daily swings across all trading days in a year.
- **Event-day swing:** Aggregated swings for all event days within a given year.



# Global profitability under pressure: a cross-sectional and longitudinal analysis of public companies during geopolitical and macroeconomic shifts (2014-2024)

## 1. Scope and sample selection

The analysis is global in scope and focuses on publicly listed companies with revenue exceeding US\$1bn in the financial year 2024, yielding an initial sample of 6,907 companies. The study period spans 2014 to 2024, capturing key shifts in the global economic and geopolitical landscape during this period.

## 2. Periodisation and context

The selected timeframe is segmented into distinct phases based on prevailing macroeconomic and geopolitical conditions:

- **2014-2016:** Characterised by ultra-low interest rates and early geopolitical tensions (e.g., Crimea annexation).
- **2017-2019:** A transitional phase with fading monetary accommodation and rising geopolitical friction (e.g., U.S. tariffs under the Trump administration).
- **2022-2024:** Post-COVID period marked by the end of cheap money and unprecedented geopolitical uncertainty.

By focusing on 2017-18 and then 2022-24, we've sought to strip out as much distortion from COVID-19 anomalies as possible. That said, particularly during 2022 there will have been a series of corrections taking place (ramp-down in demand for some sectors, ramp-up for others). It's also important to underline that although the pandemic was a random event, not macro-driven, there was, of course, a significant policy response to it.

## 3. Data refinement

To ensure data integrity:

- Companies with missing EBITDA data (due to late listings or sector-specific reporting practices, particularly in financials) are excluded, reducing the sample to 5,600 companies.

- To ensure sectoral representation, only sectors with a minimum of 40 companies are retained, resulting in a final sample of 3,745 companies across 49 sectors.

## 4. Profitability benchmarking

To assess company performance meaningfully across sectors with inherently different profitability profiles, sector-specific EBITDA margin thresholds are established:

- A historical dataset (2000-2019) of public companies with >US\$1bn in revenue is used to calculate the 75th, 50th, and 25th percentiles of EBITDA margins for each sector.
- These thresholds are then applied to classify each of the 3,745 companies in the sample for each of the years 2014, 2016, 2017, 2019, 2022, and 2024 into four performance categories:
  1. Top-performing:  $\text{EBITDA \%} \geq 75\text{th percentile}$ .
  2. Middle of the pack:  $50\text{th} \leq \text{EBITDA \%} < 75\text{th percentile}$ .
  3. Underperforming:  $25\text{th} \leq \text{EBITDA \%} < 50\text{th percentile}$ .
  4. Distressed:  $\text{EBITDA \%} < 25\text{th percentile}$ .

## 5. Analytical approach

With companies categorised across discrete time points, the analysis explores:

- Mobility across performance categories over time.
- Identification of persistent top-performers regardless of external conditions.
- Margin erosion patterns among companies that transitioned from higher- to lower-performance tiers.

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