

2026 Geostrategic Outlook

How to reimagine your strategy to fit new geopolitical realities

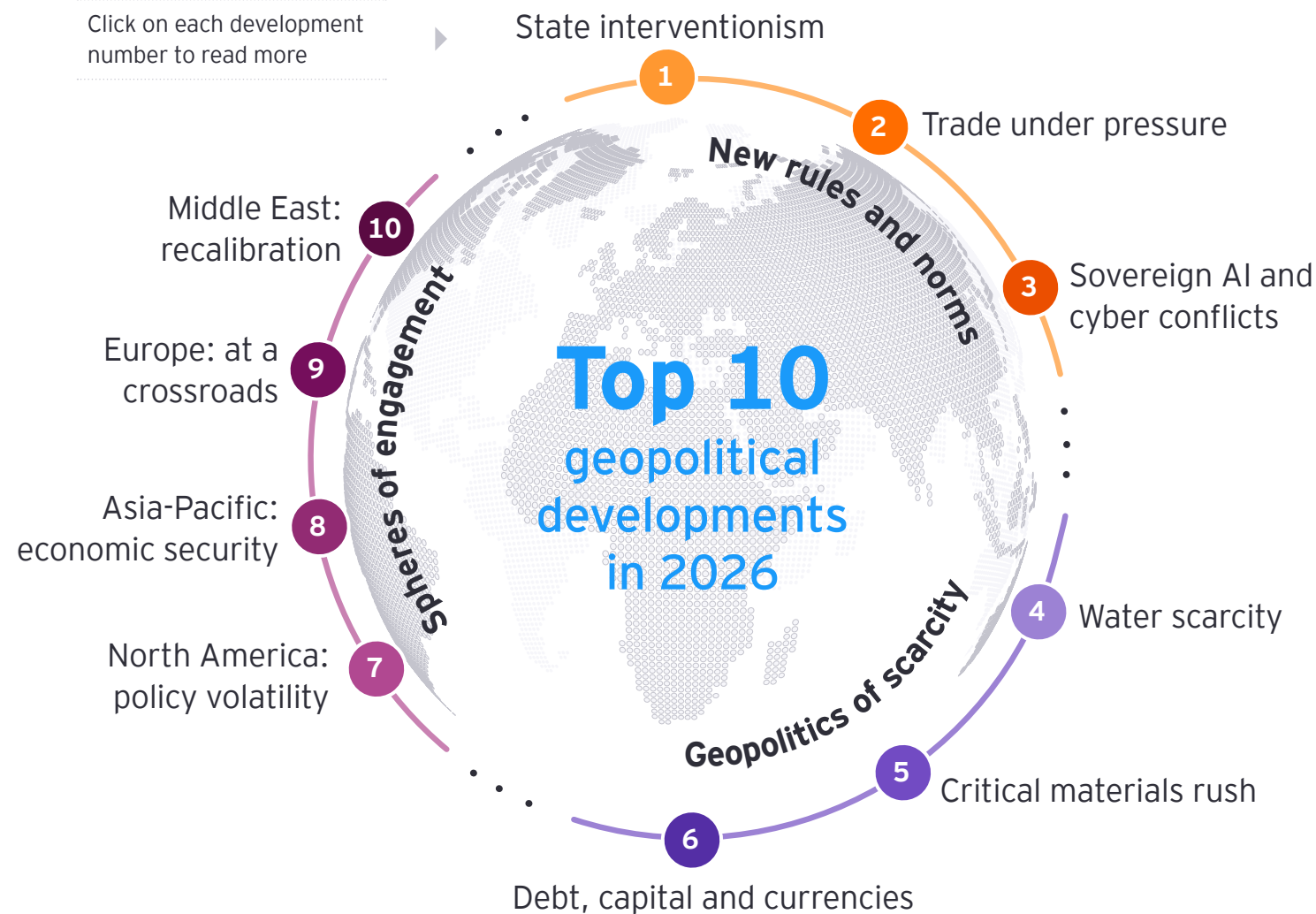
December 2025



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

The world in 2026

The world is entering 2026 amid a period of heightened uncertainty. The disruptive forces of transformation are increasingly non-linear, accelerated, volatile and interconnected – what the EY organization calls the [NAVI world](#).



There are multiple disruptive forces that executives should navigate, including technological innovation, demographic shifts and climate change. But arguably the most significant driver of the NAVI world in 2025 was geopolitics.

We expect that to hold true in 2026 as well. Geopolitical developments will continue to reshape the global operating environment in profound ways. Looking across all of the expected changes, we identify three core themes that we expect will define the geopolitical environment in the year ahead.

First, new rules and norms for doing business are expected to emerge – as old rules and norms are discarded. Policymakers will continue to deepen their efforts to direct economic activity, both within their borders and in terms of their cross-border economic relationships. This will be a continuation of the economic sovereignty trend in 2025, with the state playing a bigger role in markets. The degree to which this theme plays out will vary across sectors and countries, but one important through line that is expected is a focus on the artificial intelligence (AI) value chain and developing sovereign AI capabilities.

Second, the geopolitics of scarcity will likely solidify. Geopolitical competition to control or access scarce resources will intensify in 2026, building on geo-energy, commodity competition and related developments in recent years (see figure 1 on page 2). Geopolitics of scarcity marks a fundamental shift from the post-Cold War era of geopolitics in which countries and companies optimized supply chains for cost and efficiency.

Now optimization is about geopolitical de-risking and resilience. To achieve those goals, governments and industries will likely compete for control of or access to critical minerals, fresh water and capital (among other things).

The third theme is a recognition that there will be four key regions in which these geopolitical dynamics play out in 2026. We refer to this as spheres of engagement. Three of these regions are home to the world's great powers – North America, Asia-Pacific and Europe. The fourth region is the Middle East. For both economic and security reasons, this is expected to be an arena in which great powers continue to compete for influence. There will be significant geopolitical developments in other regions as well, including at least seven national elections in Latin America and the rising geopolitical and geoeconomic importance of both Latin America and Africa as critical minerals producers, and in countries around the world, domestic resilience and legitimacy challenges may arise due to polarization, protests and misinformation.

These three geopolitical themes will interact in various ways throughout the year. They will impact other trends that are unfolding around the world, with reverberating implications across geographies and sectors.

For instance, energy supply – including both sources of energy and transmission infrastructure – will likely be high on the agenda for many companies and governments. Scarcity geopolitics will affect access to energy supplies as well as the cost of capital for the required

capital expenditures associated with grid expansion. In some markets, new rules and norms could emerge regarding the government's role in acquiring and developing energy resources, as well as the speed and scope of the energy transition.

Similarly, geopolitical developments are expected to affect international migration and talent. Lack of sufficient economic opportunities, intensifying climate challenges and the heightened level of violent conflict in many regions around the world could push more people to become international migrants. But migration will likely remain a divisive domestic political issue in many traditional host markets, as countries such as the US put in place more restrictive immigration systems. These dynamics could exacerbate sociopolitical instability and access to talent in some markets.

There will be many underlying drivers of these and other developments, but the role of the US in reshaping the global operating environment in 2026 is expected to be highly significant. Under the current administration, rules and norms both within the US and in the broader global system are shifting rapidly. As China, the EU and other actors react and adapt to this new US posture throughout 2026, while continuing to shape their own agendas, the global operating environment will continue to evolve. This will pose both challenges and opportunities for organizations around the world, influencing how executives manage risks, govern their organizations and set strategy.

Proactive geostrategic priorities

Each of the developments explored in the 2026 Geostrategic Outlook will impact organizations in distinctive ways and will therefore necessitate specific geostrategic actions to capitalize on the opportunities they present while also mitigating the risks they pose. The type and level of impact will depend on an organization's sector and geographic footprint and the strategic choices that its executives make.

In the [EY-Parthenon Geostrategy in Practice 2025](#) study, we identified five habits of successful geostrategists. Highlighted here are three of those geostrategic priorities that are especially relevant for how organizations can proactively adapt to the new global operating environment that will be created by the top 10 geopolitical developments in 2026.

1 Build resilience by preparing for the unexpected

Executives increasingly face unexpected geopolitical risks, and geopolitics is driving strategic risks across many organizations. Potential disruptions across trade, capital markets and other aspects of the global economy require executives to anticipate potential scenarios and build resilience to them. Embedding scenario planning, risk assessments, risk appetite frameworks and hedging strategies into risk management and strategic planning can help enable continuity of operations and adaptability to future disruptions. Risk leaders should move away from relying solely on traditional controls and mitigation measures and toward a "risk strategist" approach of proactively addressing any vulnerabilities to strengthen operational and financial resilience.

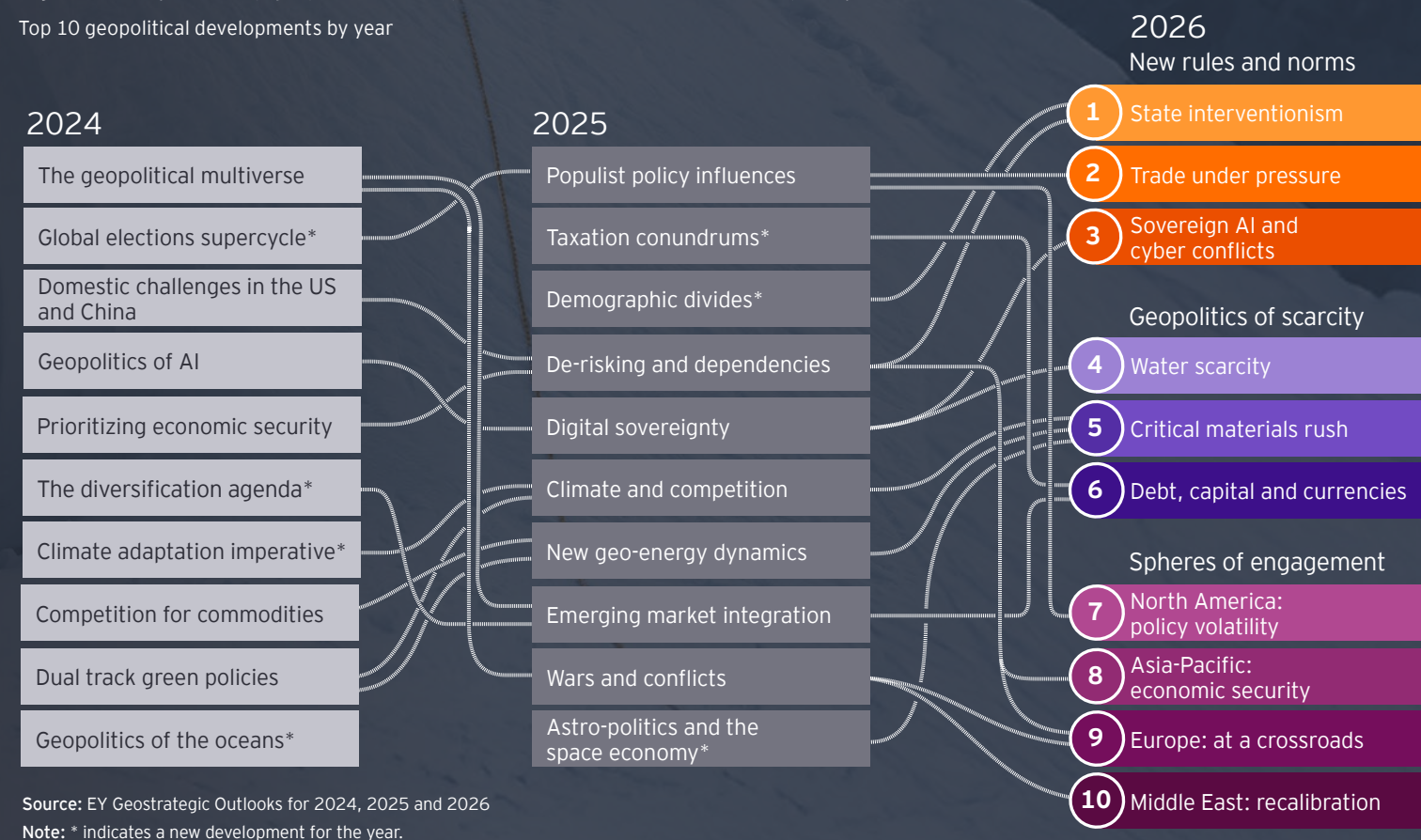
2 Reassess who should be involved in geostrategy governance

Geostrategic governance requires cross-functional collaboration, with partnerships across functions such as tax, trade, public policy, risk, general counsel, compliance, operations, strategy, finance and others, which would enable more effective political risk management. Technology functions within organizations will likely also need a seat at the geostrategy table, as data and AI regulations continue to shift. The complexity associated with effective geostrategy governance requires oversight from above that enables various teams to complement each other while supporting coordination across areas. The intention should be to confirm that the scan, focus and manage activities become more balanced, so that they can collectively inform and coordinate with strategy (see figure 13 on page 18).

3 Adapt global supply chains and strategy

Geopolitics is fundamentally changing the global operating environment, so organizations' strategies need to adjust accordingly. Localization and regionalization of operations, governance and organization, or ownership may be increasingly common strategies. Executives need to extract themselves from constant cycles of reaction to rethink their proactive strategic positioning. In our work with organizations around the world, we've found [geopolitical scenario analysis](#) to be an effective tool in setting strategies that are more resilient to geopolitical disruption. Adopting a corporate strategy that's attuned to geopolitics can help executives make consistent decisions on where to invest, where to exit and how to shape operations and partnerships in this environment.

Figure 1. Many of the top geopolitical developments in 2026 have evolved from prior years
Top 10 geopolitical developments by year



New rules and norms

1. State interventionism

Global crises from the 2008 financial crash to the COVID-19 pandemic and Europe’s energy shock following Russia’s invasion of Ukraine pushed many countries to [move away from free-market orthodoxy](#) and embrace greater state interventionism. Once extraordinary measures for many countries are now hardening into more structural state interventionism, in which governments use industrial subsidies, restrictive trade policies, ownership stakes in companies and local investment mandates to direct economic activity. **In 2026, state interventionism will flourish, with differences shaped by domestic fiscal pressures, political dynamics and institutional capacity.**

Established state interventionists will continue to use policy to shape their economies, but domestic dynamics such as demographic pressures and fiscal stress may reshape these models in 2026. For instance, China will likely build on momentum from 2025, when it launched a venture capital fund for advanced technology startups and emphasized improving “market-based allocation of productive forces” in the 15th Five-Year Plan. Egypt will likely move ahead with partial privatization of state-owned enterprises (SOEs) amid fiscal strain and International Monetary Fund (IMF) demands, and Russia plans

to sell minority stakes in energy and transport SOEs to raise funds to alleviate fiscal pressure.

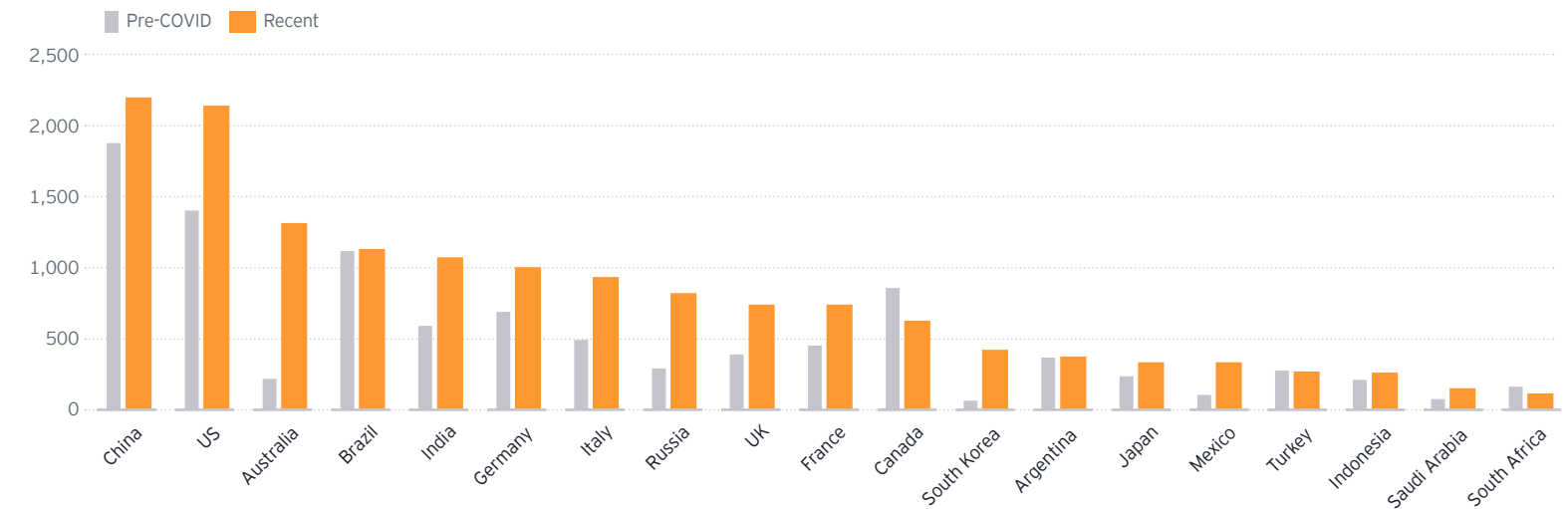
In contrast, Saudi Arabia plans to [localize half of its military procurement by 2030](#) and channel state capital and incentives to [boost growth in non-oil sectors](#) such as defense, logistics, mining and renewables. Vietnam plans to build 20 globally competitive “national champions” by 2030 in sectors such as critical infrastructure, energy, mining and logistics.

Selective state interventionists will continue using industrial policies – and in some cases, expanded tools – to steer activity in strategic sectors, although fiscal pressures will force trade-offs between priorities. The European Union (EU) will likely seek to implement proposed rules to force foreign investors to transfer their technology and use local inputs and labor. In 2026, the EU [plans to start issuing €150 billion in joint debt](#) to support “made-in-EU” defense manufacturing via the Security Action for Europe (SAFE) program. Some African governments, like [Zambia and the DRC](#), may narrow industrial policies to green and digital sectors, while others such as Ghana and Mali could seek to deepen state control of lucrative industries such as mining. Governments in South Korea

and Japan may continue or expand subsidies, while Brazil may expand local content rules and India seeks to increase domestic manufacturing. Other countries like Turkey are increasingly turning to tools such as sovereign wealth funds to sustain intervention amid fiscal pressures.

Emerging state interventionists will continue their shift from a tradition of free-market systems to state interventionist tools in strategic sectors, mostly justified by national security concerns (see figure 2). The US leads this trend. For example, building on several years of growing state intervention driven by national security concerns, the US government acquired stakes in [technology](#) and [rare earths](#) companies in 2025, with similar moves expected in defense and [nuclear energy](#) in 2026. Its statist economic agenda also extends to [stricter immigration and visa rules](#) and trade protectionism. Other historically free-market-oriented governments are expanding the role of the state in the economy. For example, Canada’s [new “Buy Canadian Policy”](#) will cover all nondefense sectors in 2026, while Australia’s [first-ever definition of “Australian business”](#) in 2025 will steer more government procurement to domestic firms.

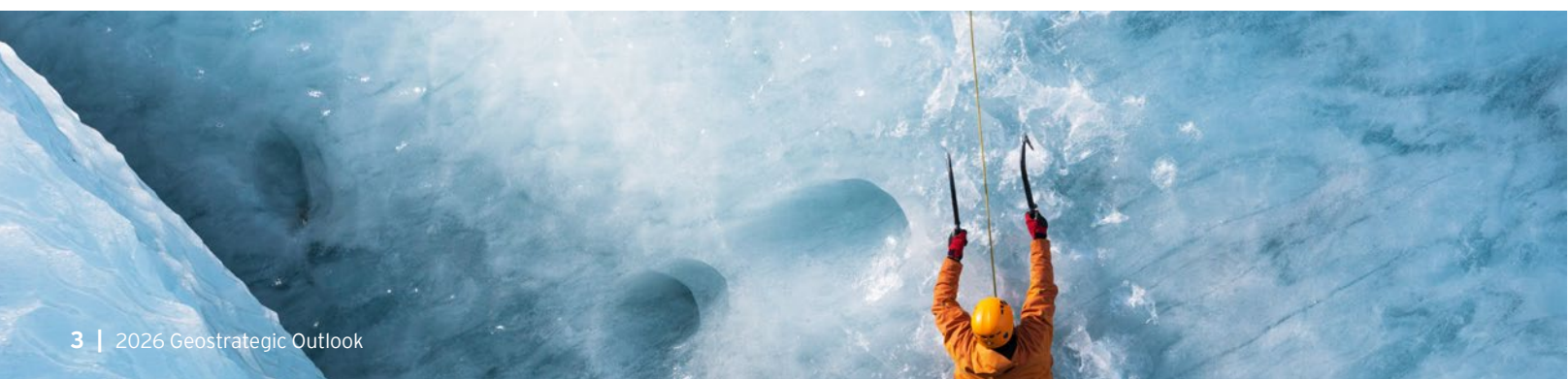
Figure 2. Government interventions are rising across many large economies, which could further strain government finances
Average government interventions in select time periods (number of interventions)

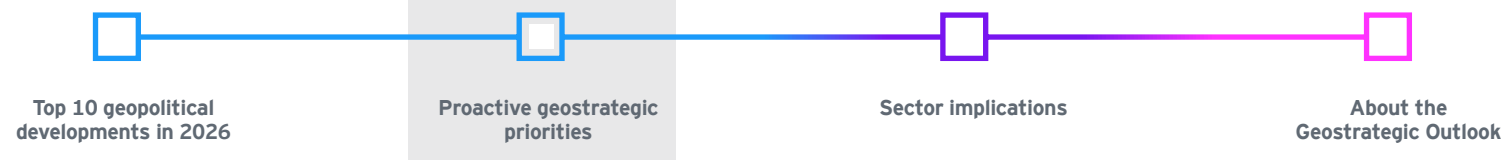


Source: Global Trade Alert; EY-Parthenon analysis.
Notes: Pre-COVID data reflects the average number of interventions per country during the years 2017, 2018 and 2019. Recent data reflects the average number of interventions by country during the years 2023, 2024 and year-to-date in 2025.

Geostrategic actions

- Integrate changing market norms into strategies.** EY-Parthenon teams recently supported a European consumer company in assessing the impact of evolving state interventionist policies to inform long-term strategy. Companies in strategic sectors – such as energy, critical infrastructure, life sciences and technology – should conduct similar analyses to anticipate shifting rules and incentives that increasingly favor national champions and domestic firms. For instance, the September 2025 edition of the [CEO Outlook](#) found that more than 70% of companies were in the process of adopting or have already adopted localization strategies in response to such policy pressures. Executives should integrate state interventionism scenarios into strategic, [financial](#) and [operational planning](#) to avoid blind spots and [identify opportunities](#).
- Engage with government stakeholders.** As governments continue to announce ambitious interventions that may later be diluted, executives should distinguish between signaling and delivery. In addition, companies should develop communications strategies to handle sensitive political issues and mitigate any operational and reputational risks arising from state interventionist policies. [Executives should develop targeted government engagement strategies](#) to better anticipate incentives, mitigate reputational risk and align with significant policy shifts. For instance, a global life sciences public affairs team recently worked with EY-Parthenon teams to deepen their understanding of government priorities at both global and local levels and tailored their engagement accordingly.
- Target government interventions.** Industrial policy offers powerful tools to strengthen resilience and competitiveness. Counterbalancing these benefits are risks that excessive intervention produces fiscal strain and economic inefficiencies. Competing priorities may also intensify trade-offs across defense, sovereign AI, energy policy and social spending. Trade-offs should be assessed and consideration given to [targeting interventions](#) where they add the most strategic value. Governments and businesses could also explore ways to more closely involve the private sector in achieving economic security goals, as [82% of CEOs globally](#) express willingness to support national resilience initiatives according to a recent EY-Parthenon CEO Outlook study.





2. Trade under pressure

Related to state interventionism, governments have increasingly mandated or incentivized companies to modify existing supply chains and trade patterns. Policy choices by the US and China to reduce trade deficits or maintain surpluses mean that the world's two largest economies will continue to be the source of much of this trade system rebalancing (see figure 3). **In 2026, tariffs, export controls and local content requirements will continue to pose supply chain challenges – although efforts to secure new trading blocs may offer limited opportunities.**

The US is expected to continue to use [historically high tariffs](#) as a tool to seek to reduce bilateral trade deficits and incentivize domestic production in strategic sectors. If the legal basis for some of the tariffs is overturned by the courts, the Trump administration is expected to implement similar tariffs via alternative authorities, and it will likely announce additional tariffs on products, such as critical minerals and truck parts, that are identified as essential to economic security.

Most other countries are unlikely to raise tariffs in tandem, although there will be continued uncertainty surrounding the

terms and implementation of the bilateral trade deals several countries agreed with the US in 2025. The renegotiation of the United States-Mexico-Canada (USMCA) will also heighten uncertainty. The Trump administration is likely to announce or implement country-specific tariffs in response to geopolitical disagreements, such as the 50% tariffs imposed on Brazil in August 2025.

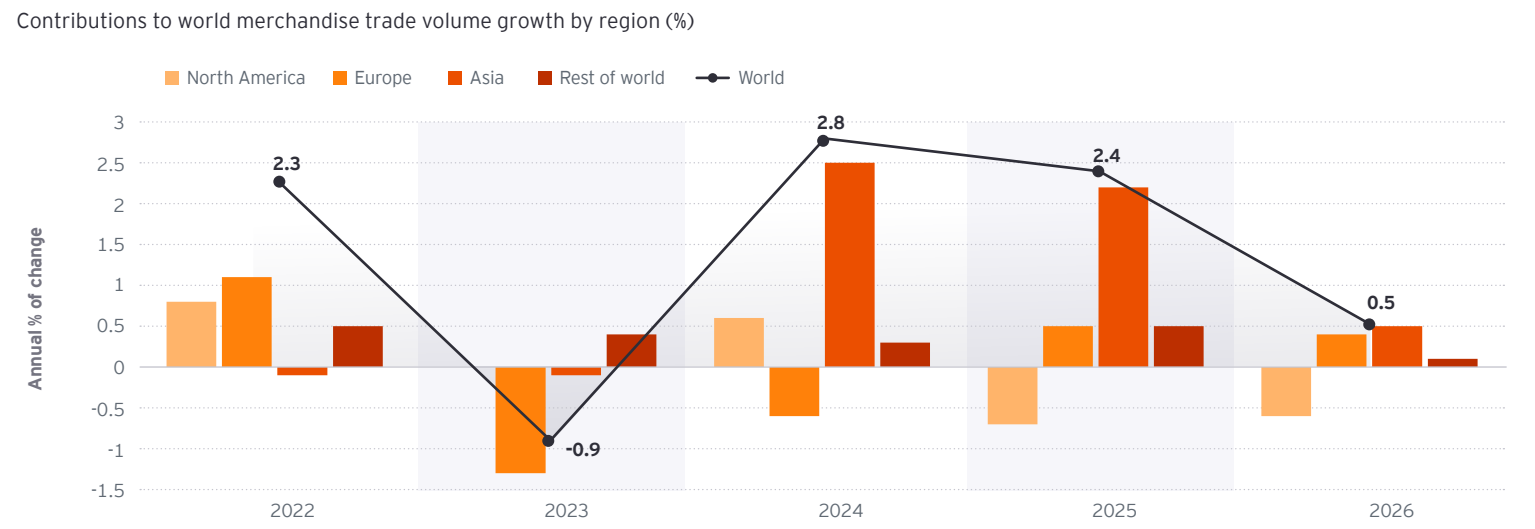
Export controls may also lead to ongoing uncertainty and trade distortions, driven by national security and competitiveness concerns in key sectors like AI. China will likely remain at the forefront of the consideration and use of global export controls, with a focus on its exports of rare earths and other critical minerals. The use of export controls by the US and other countries may also expand. The European Commission is expected to further consolidate power on export controls at EU level, and countries such as Indonesia are using export controls on raw materials to move up the value chain.

Some governments – likely led by the EU – will explore more local content requirements and other non-tariff barriers to put conditions on or restrict foreign investments and reduce imports in strategic sectors. These actions

will in many cases be a response to the perception that China's industrial subsidies have led to overcapacity that is being exported. The pressure this puts on other countries' domestic markets is likely to rise if Chinese exports are diverted from the US market. Antidumping measures may also be introduced, especially in areas of existing overcapacity like autos, steel and aluminum.

A partial counterbalance to these trends will be smaller groupings of countries pursuing trade liberalization without the US or China. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) brought on the UK as a new member in 2025 and more countries are seeking admission. The EU and Mercosur concluded their FTA after 25 years of negotiations – although ratification is not yet assured. These developments point to a “friendshoring” or “mini-lateralism” trade system that will start to emerge, in which governments around the world engage in new or expanded bilateral, regional or plurilateral [trade agreements](#).

Figure 3. World trade growth is forecast to slow significantly in 2026, with North America's contribution expected to be negative for the second year in a row



Source: World Trade Organization, https://www.wto.org/english/news_e/news25_e/stat_07oct25_e.pdf
 Note: Trade refers to average of exports and imports. Figures for 2025 and 2026 are projections.

Geostrategic actions

- Build endemic trade uncertainty into planning.** Although some deals and agreements have been made, a stable tariff regime is unlikely to materialize in 2026. The US will likely impose new tariffs based on national security concerns, geopolitical dynamics and unresolved issues with existing tariff agreements. Efforts by governments to protect domestic markets from Chinese competition will further complicate market access and trade flows. As countries respond dynamically, new obstacles to trade routes are likely to arise quickly. Similarly, trade agreements will likely continue to be reached faster than in the past. Incorporating strategic and geopolitical ambiguity into [planning exercises](#) will be critical, including building out [supply chain scenarios](#), planning for shocks and developing optionality.
- Assemble a broad-based team on trade.** The expansive use of governments' trade policy toolkits will continue to challenge companies in a variety of ways. It will continue to be important for executives to separate the signal from the noise. Procurement, supply chain, legal, finance, tax, product design and pricing are among the functions within companies that need to adapt to enduring trade policy pressures. Executives need to confirm that all affected functions are collaborating on their tactical and strategic responses. In particular, companies need to integrate their [trade and tax policy functions](#) with one another to more efficiently comply with new tariffs (and indirect tax) and more effectively plan for the future.
- Consider whether localization is a viable strategy.** Nearly 75% of CEOs are either in the process of localizing or have localized some part of their production within the country of sale, according to the September 2025 edition of the [EY-Parthenon CEO Outlook](#). Many CEOs seem to be beginning to view localization of their US operations as a strategic imperative, drawing lessons from the widely adopted “in China, for China” approach. However, such a strategy is not a one-size-fits-all approach to supply chains and global footprints. Executives should continue to reevaluate [where and how they operate](#) and consider whether localization is an appropriate strategy for their company across a variety of [globalization scenarios](#).



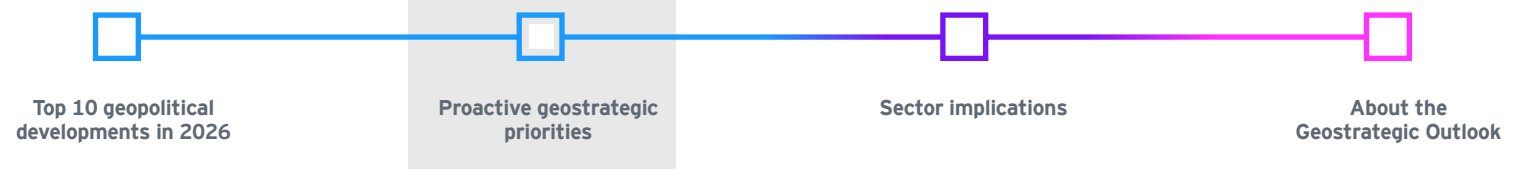


Figure 4. Critical infrastructure is targeted by almost half of politically-motivated cyber attacks, creating a ripple of business disruptions
Cyber incidents with political dimension by top sectors targeted and by type of initiator between 01-10-2024 and 09-30-2025

3. Sovereign AI and cyber conflicts

Digital and cyber conflicts have surged in recent years, driven by escalating geopolitical tensions and intensifying competition over control of critical technologies. In response, governments have expanded digital sovereignty measures, with a focus on their domestic AI systems and the hardware and software that power them. Despite these efforts, gaps in sovereignty continue to present risks for cyber operations and for countering hybrid tactics aimed at disrupting critical infrastructure and acquiring sensitive IP. **In 2026, AI will serve as a force multiplier of cyber conflicts, as it continues to be the primary technology of geopolitical competition.**

Governments are expected to increasingly treat AI assets – foundation models, training data and compute infrastructure – as a national security priority and an increasingly important piece of critical infrastructure. The [EU's AI Continent Action Plan](#), including the proposed [Cloud and AI Development Act](#), may help to accelerate investment in European AI gigafactories to expand compute and model capacity. In parallel, the [US AI Action Plan](#) seeks to channel government investment into domestic AI infrastructure, while promoting global

uptake of its AI systems – exemplified by the [American AI Exports Program](#). China's 15th Five-Year Plan (2026–30) will also deepen this digital sovereignty push, reinforcing technology self-reliance as a strategic priority, and the Association of Southeast Asian Nations (ASEAN) plans to sign its [Digital Economy pact in 2026](#), which aims to double its digital economy.

As sovereign AI frameworks take shape, the strategic value of IP is rising. This will likely drive a continued surge in industrial espionage, such as those instances documented by the [EU Agency for Cybersecurity](#), with the systematic targeting of governments, technology firms and innovation ecosystems. While the goal of such activities is geopolitical advantage, the private sector may be at the front line of this conflict. [CEOs cite IP theft as a top cyber risk](#), with small and medium-sized enterprises that operate in global supply chains likely to face disproportionate exposure. [Strategic sectors](#) such as AI, energy, biotech, defense and automotives will likely remain primary targets. These threats are prompting consideration of sharper counterespionage measures, such as the proposed [US Economic Espionage Prevention Act](#) and Brazil's new [national cybersecurity strategy](#).

State-sponsored cyber attacks and hybrid operations are expected to escalate (see figure 4). The multiyear ["Salt Typhoon" campaign](#) that infiltrated US telecom networks is a prime example. Risks will continue to extend beyond digital systems to physical assets like seabed data cables and embedded kill switches in electronic hardware. Cyber attacks and hybrid operations may also continue to evolve as part of broader conflict zones, as seen in the [Russia-Ukraine war](#) and the [Israel-Iran](#) confrontation. Policy responses – including [NATO's Baltic Sentry initiative](#) to protect undersea infrastructure – highlight the growing urgency around hybrid and cyber threats.

Advances in AI will likely escalate the risks by enabling both state-linked groups and proxies to launch [more frequent and sophisticated intrusions](#) against critical infrastructure. Organized crime could increasingly [exploit AI](#) to scale fraud, influence operations and proxy attacks, while a [widening global divide](#) may expose nations that lag behind in cyber defenses to greater risk.

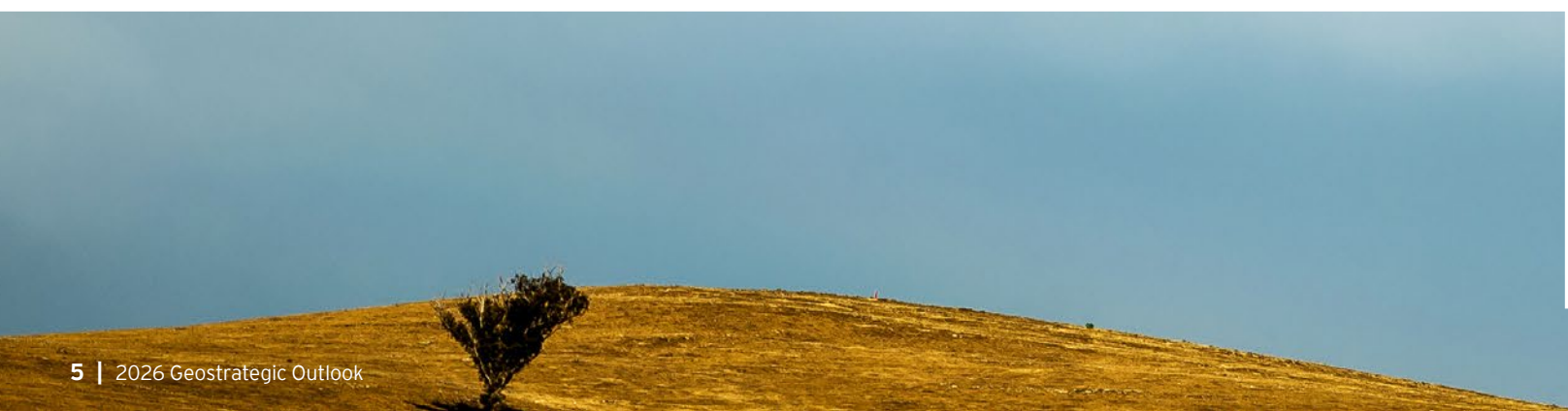
Top sectors targeted by cyber incidents

Critical infrastructure	Transportation 6%		Telecomms 5%		State institutions/political system				Other 6%
	Finance 9%	Critical manufacturing 4%	Other 2%	Research 2%	Civil service/administration 22%				Education 5%
Health 8%					Digital provider 4%	Food 2%	Energy 2%	Defense 2%	Government/ministries 7%
	Police 2%	Military 1%	Political parties 1%						

Source: European Repository of Cyber Incidents
Note: Cyber incidents are included in the EuRepoC database if they violate the CIA triad of information security and are publicly reported. Moreover, only cyber incidents that have a political dimension are included. This means cyber incidents that a) have affected political or state actors/institutions, b) have been associated with state-actors as the actual "masterminds" or exhibit a political motivation, or c) have been "publicly politicized, regardless of the affected target". Cyber incident initiator types include non-state groups, state-affiliated actors, state actors, individual hackers, 'unknown' and 'not attributed'.

Geostrategic actions

- **Reinforce security of critical data and infrastructure.** As AI intensifies cyber threats, control over cloud, computing and telecom infrastructure is becoming a strategic imperative. Companies in sensitive sectors – such as defense, biotech and advanced manufacturing – face mounting pressure to localize data and align with national or allied jurisdictions. Chief Information Officers (CIOs), Chief Information Security Officers (CISOs), legal teams and supply chain leaders should [assess exposure](#) to foreign data laws and develop jurisdiction-aware data governance strategies. Within this evolving threat landscape, cybersecurity will not only be a defensive necessity but increasingly a strategic enabler – expected to contribute up to 20% of the value in enterprise-wide initiatives and positioning companies that become ["secure creators"](#) to unlock resilience.
- **Adapt hyperscaler strategy to account for geopolitical and operational considerations.** In this geopolitical environment, organizations need to expand beyond only assessing cost and performance when selecting hyperscalers – large-scale cloud service providers that offer significant computing resources – by incorporating sovereignty, legal exposure and resilience into their evaluation as well. Risks tied to vendor lock-in, extraterritorial laws (e.g., the US CLOUD Act and EU Data Act), and geopolitical disruptions are driving a shift toward hybrid and multi-cloud models. Diversification, modular deployments and clear exit strategies are now essential components of hyperscaler governance. Executives should consider how to [redesign cloud strategies](#) to balance performance with sovereignty.
- **Align reputation and compliance strategies with sovereign AI mandates.** Governments are embedding national security priorities into AI and cloud regulation, creating new compliance baselines and reputational risks for firms handling sensitive IP or dual-use technologies. This is reshaping expectations for R&D governance, export controls and public-private collaboration. Firms are increasingly expected to align innovation and operations with national security priorities and engage more closely with governments. As general counsels, chief compliance officers and heads of public policy are becoming increasingly [responsible for geostrategy](#), executives should [integrate geopolitical risk](#) into compliance planning to navigate this complex and dynamic regulatory environment.



Geopolitics of scarcity

4. Water scarcity

Nearly 4 billion people already experience severe water scarcity for at least one month each year, a [figure expected to rise in 2026](#) due to rising demand and more frequent droughts. While there are many drivers of the trend of growing global water demand, public debate will likely focus on the resource needs of data centers and semiconductor manufacturing – leading to conflicts over water resources both within and between states. **In 2026, water rights and usage will both cause and exacerbate political conflicts, leading to trade-offs in resource allocation across industries.**

Geopolitical competition for digital sovereignty across the entire AI value chain is accelerating water scarcity challenges (see figure 5). Mining and processing critical minerals, manufacturing semiconductors and cooling data centers all require significant water supplies. As countries race to secure technological advantage, these water-intensive investments may impact more geographies. For instance, the arid southwest region of the US faces rising water challenges intensified by the region's growing semiconductor industry, in which a single manufacturing facility can use [millions of gallons of water](#) daily.

Climate change is also intensifying water scarcity and increasing the frequency

of water-related hazards, such as floods and droughts, as rising temperatures disrupt precipitation patterns and the water cycle. Europe, for instance, is [projected to face increasing water stress](#). Southern Europe could see summer river flows drop [by up to 40% under warming scenarios](#), raising political risks tied to agriculture, energy and regional water tension, and as severe water events occur, domestic pressure could grow regarding disaster preparedness and water management policies.

Rising water scarcity could lead to more political instability. The potential reduction of crop yields and decreasing agricultural output, for instance, would lead to higher food prices and food scarcity – [key predictors of social unrest](#). The [Middle East](#) and North Africa, already among the most water-stressed regions globally, could experience sharper spikes in food insecurity and localized conflict, particularly in areas with weaker governance systems. Water scarcity may also drive additional [international migration](#), including in current conflict areas such as Gaza, Ukraine, Sudan and Myanmar.

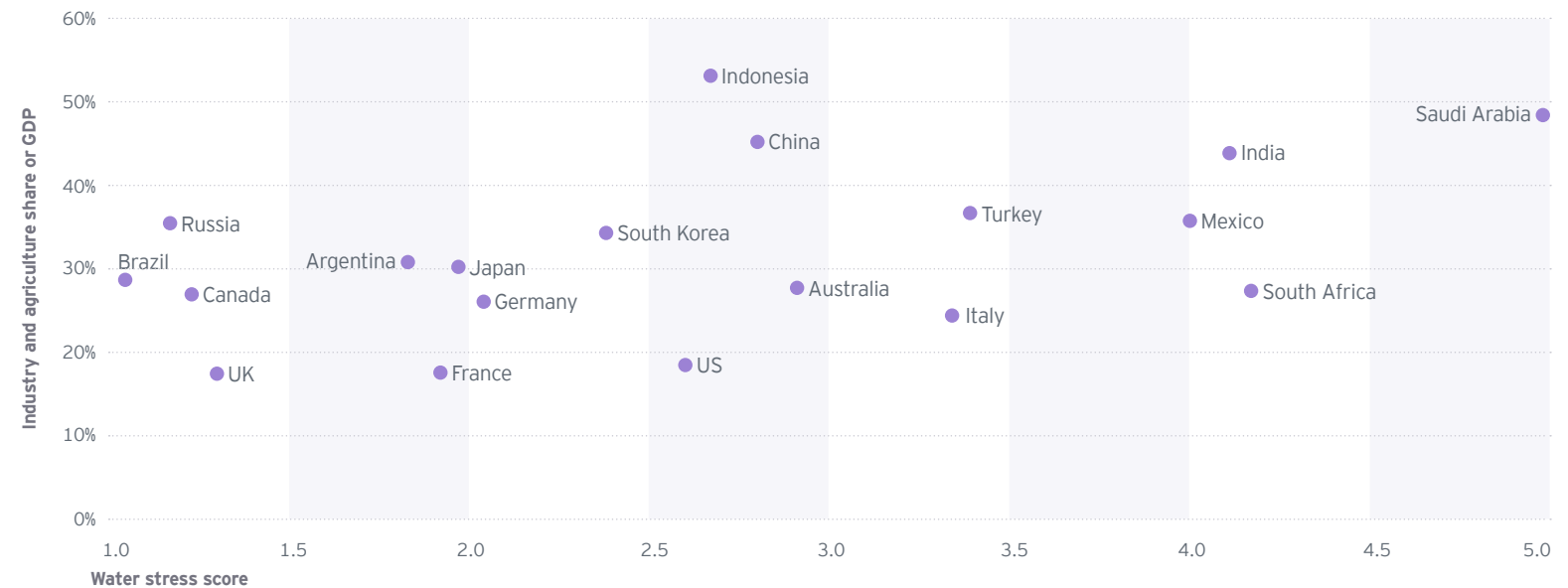
Governments will likely seek to invest in infrastructure to address the growing geostrategic importance of water systems. Some regions will explore

[desalination](#), with Middle Eastern governments already making significant investment in the industry despite its energy intensity and cost challenges. Governments will also weigh trade-offs in water allocation to balance sectoral needs, potentially placing restrictions around agriculture and [AI data centers](#), and cybersecurity may become a critical focus as countries work to protect their water infrastructure from threats, with [cyber attacks on water utilities](#) on the rise.

Internationally, countries may seek to engage in [water rights negotiations](#) to manage shared resources and prevent conflicts – although success is likely to be limited. The suspension of the Indus Waters Treaty during the 2025 India-Pakistan conflict highlights water's potential as a geopolitical tool. Additionally, hydropower is expected to continue to create geopolitical tensions where rivers cross national boundaries. The [Grand Ethiopian Renaissance Dam \(GERD\)](#) may continue to raise concerns over reduced Nile water supply in Egypt and Sudan. Similarly, China's dams on the Brahmaputra and Mekong rivers could elevate tensions with downstream countries.

Figure 5. Many countries experience high levels of water stress alongside reliance on water-intensive industries

Global water stress score; Industry and agriculture value added (% of GDP)

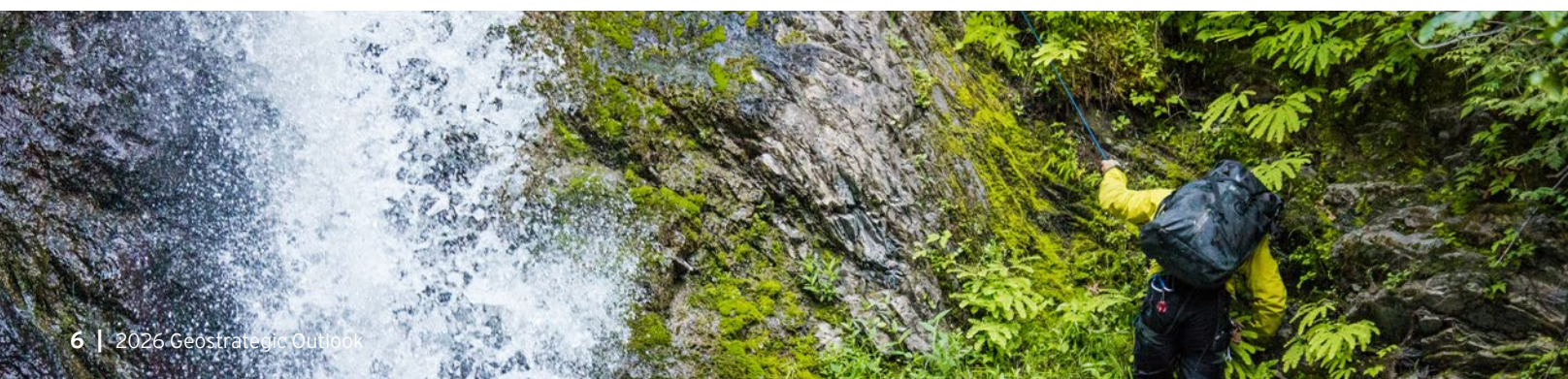


Sources: World Population Review, World Bank, EY Insights analysis.

Notes: "Industry" includes water-intensive activities such as mining, manufacturing (including high tech manufacturing), construction, electricity, water, and gas industries. "Agriculture" also includes forestry and fishing. Water stress scores range from 0.00 (least stressed) to 5.00 (most stressed) and measure the ratio of total water withdrawals to available renewable water supplies. Higher water stress values indicate more competition among users.

Geostrategic actions

- Incorporate water risk into operational and strategic planning.** Water scarcity can disrupt supply chains and impact production, making it crucial to identify vulnerable regions and alternative water sources. Companies' social license to operate could be called into question if households' access to water or its affordability is considered to be at risk, and governments may introduce restrictions on how water resources can be used, requiring regulatory risk assessments. A proactive approach can help businesses mitigate potential disruptions, improve continuity of operations and prevent reputational challenges. Executives should [integrate water risk assessments into their strategic planning and operational location decisions](#) to build resilience.
- Explore alliances and innovation to reduce water needs.** With cross-sector water demands rising, there is an opportunity for companies to [explore innovative practices to reduce water dependency](#). Investing in water-efficient technologies and recycling processes can significantly lower water usage, particularly if done at scale in collaboration with suppliers, customers and other companies. On digital technologies in particular, companies should explore alternative cooling methods for data centers and AI-powered solutions to optimize water usage. Such innovations can reduce operational costs, boost resilience and enhance sustainability.
- Consider water infrastructure as a driver of economic growth.** Considerations for governments include [how to address](#) water scarcity and support local populations and industries. Upgrading aging pipelines and expanding water storage facilities, alongside enforcing regulations that limit water waste and encourage efficient usage, are steps toward sustainable water management. Utilities can explore investments in technological innovations that increase operational efficiencies. Exploring desalination technologies can also be part of a broader water management strategy.



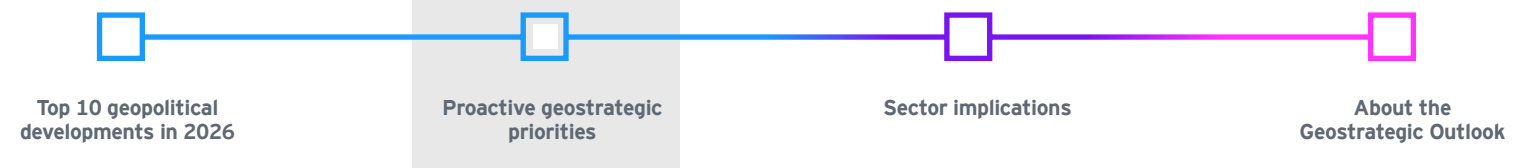
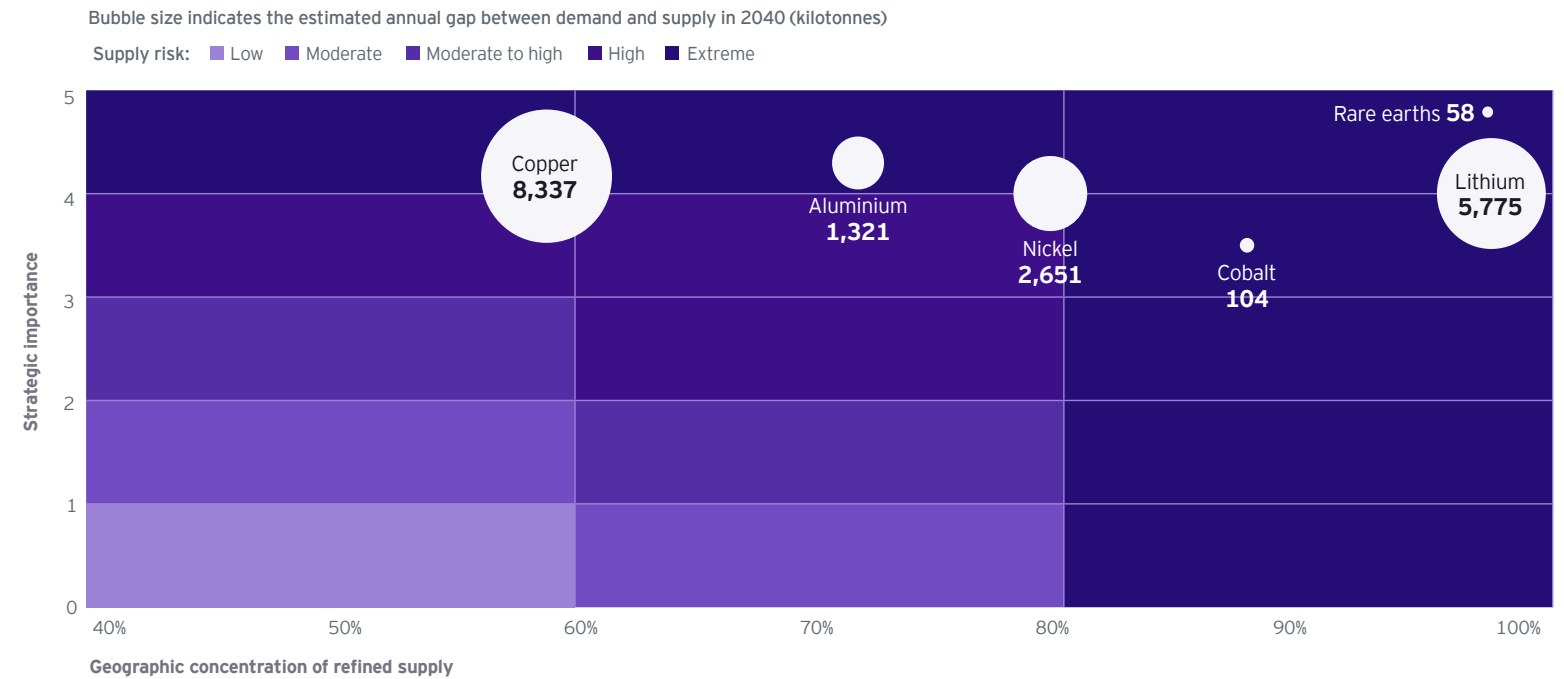


Figure 6. The high geographic concentration of refined critical mineral supply creates risks for the technology, energy and defense sectors



Sources: US DOE; IEA (NZE Scenario); HSBC; International Aluminum Association; USGS; Australian Aluminum Council; S&P Global; BHP; EY Insights analysis.
Notes: Strategic importance based on needs for energy, defense, technology and electric vehicle sectors. Rare earths include NdPr, Dysprosium, Terbium.

5. Critical materials rush

Commodity cycles have become more volatile and intense in recent years, [according to the World Bank](#), driven in part by geopolitical competition and fragmentation as well as the energy transition. Governments are increasingly treating [critical minerals](#) – a diverse and growing set of minerals, which are essential for a range of strategic technologies and sectors – as elements of national power, in terms of both economic competitiveness and national security (see figure 6). **In 2026, the race to gain or retain access to critical minerals for digital technologies, high-capacity batteries and defense systems will lead to new production and trade patterns.**

Minerals and metals are expected to be in particularly high demand in 2026 for three reasons. Geopolitical competition in AI development will likely remain robust, driving demand for tech metals. Thanks to the proliferation of AI data centers, growth in the electric vehicle fleet and other factors, the [IEA expects](#) electricity demand to grow 3.7% in 2026 – much higher than the average over the past decade. Battery metals and other metals needed for electricity infrastructure build-out will also be seen by governments as increasingly strategic resources. Finally, the acceleration in defense spending will

increase demand for the metals needed for military equipment and systems.

Leading critical minerals producers, especially in Latin America and Africa, and refiners – namely, China – are expected to enact policies to preserve resource value, leverage geopolitical influence and build financial resilience. Some governments will seek to move up the value chain, following the example of Indonesia’s export ban on raw nickel in 2020. It is now the world’s largest [nickel refiner](#). Some governments will seek to fully or partially nationalize the mining sector, such as [Mexico’s LitoMx](#) state-owned enterprise for lithium. Others may create or expand sovereign wealth funds, including [Ghana’s Minerals Income Investment Fund](#), to capture more economic value, and China is likely to continue some export controls on certain rare earth elements – for which the [IEA expects](#) China to account for 76% of refining in the coming years – and related equipment and technology.

Other countries will try to scale up their own production and processing capacity to increase resiliency. More than 30 new processing assets are expected to come online through 2026, focused on Australia, China, Democratic Republic

of Congo, Indonesia and the US. The EU will seek to coordinate investments to accelerate [dozens of critical minerals projects](#) coming online across its member states. Bilateral agreements and joint ventures, such as the [Quad Critical Minerals Initiative](#), and state-backed financing policies are likely to continue to proliferate. More permissive regulations are also likely to be introduced, such as the [US Interior Department’s expedited permitting](#) and [expanded critical minerals list](#).

Governments will also try to secure critical minerals supplies in other ways. The IEA estimates recycling [could bring new mining pressures down by 25%-40%](#) by mid-century. More than 30 new policy measures related to critical mineral recycling have been introduced since 2022. Material substitution, such as magnets with reduced rare earths content, aluminum or silicon anodes replacing graphite in batteries, and sodium-ion batteries as alternatives to lithium-ion, will likely gain more traction as well, and researchers may continue to explore bio-based polymers and ceramic matrix composites to replace critical metals in certain applications.

Geostrategic actions

- Explore business opportunities driven by industrial policies.** As governments introduce industrial policies that prioritize critical materials as strategic assets, mining and metals companies will have a wider [array of opportunities](#), ranging from exploration to extraction and refining. Executives should also explore preferential financing or state-backed investments for research and development across the minerals and metals industrial ecosystem. Executives in the sector should seek to leverage incentives for domestic production, participate in cofinanced infrastructure projects and engage in policy dialogues to shape regulatory environments.
- Strengthen supply and processing partnerships.** As governments shift away from globalized trade flows toward onshoring or friendshoring critical minerals production and refining, companies will have new investment and divestment opportunities. Critical minerals producers, refiners and end-user companies in other sectors should explore partnerships, joint ventures and acquisitions that strengthen their critical materials value chain. Executives should incorporate geopolitical dynamics into [diligence activities around such transactions](#), including how to navigate regulatory environments.
- Accelerate recycling and material innovation.** To mitigate exposure to volatile commodity cycles and supply constraints, companies that rely on critical minerals as inputs should consider investing in advanced recycling capacity and materials substitution and innovation. Embedding circular economy principles into product design, manufacturing and sourcing strategies could be a source of [value creation](#) and competitive advantage. Collaborating with startups, research institutions and innovation labs can accelerate the development and deployment of scalable, less resource-intensive alternatives.





6. Debt, capital and currencies

The global financial system is entering a more fragile and politically charged phase. Global debt remains above 235% of world GDP, according to [the IMF](#), reflecting only a modest post-pandemic correction. Persistently high borrowing costs are straining both fiscal and financial stability, amplifying sensitivity to interest rate changes and global capital market volatility. **Geopolitical competition and the growing politicization of capital allocation are set to intensify in 2026, reshaping the contours of the global financial system.**

Governments are continuing to prioritize spending on defense, industrial policy and social protection – even as debt-servicing costs rise faster than any other major budget category. [The OECD](#) expects record-high sovereign bond issuance of nearly \$17 trillion in 2025. This fiscal trajectory risks crowding out private investment and keeping long-term rates structurally higher. [Fitch Ratings' downgrade](#) of its 2025 global sovereign outlook to “deteriorating” highlights the growing risk of debt distress, especially among economies with weak institutional credibility or high external financing needs.

The persistence of large fiscal deficits amid slowing growth is reviving concerns over fiscal dominance – in which

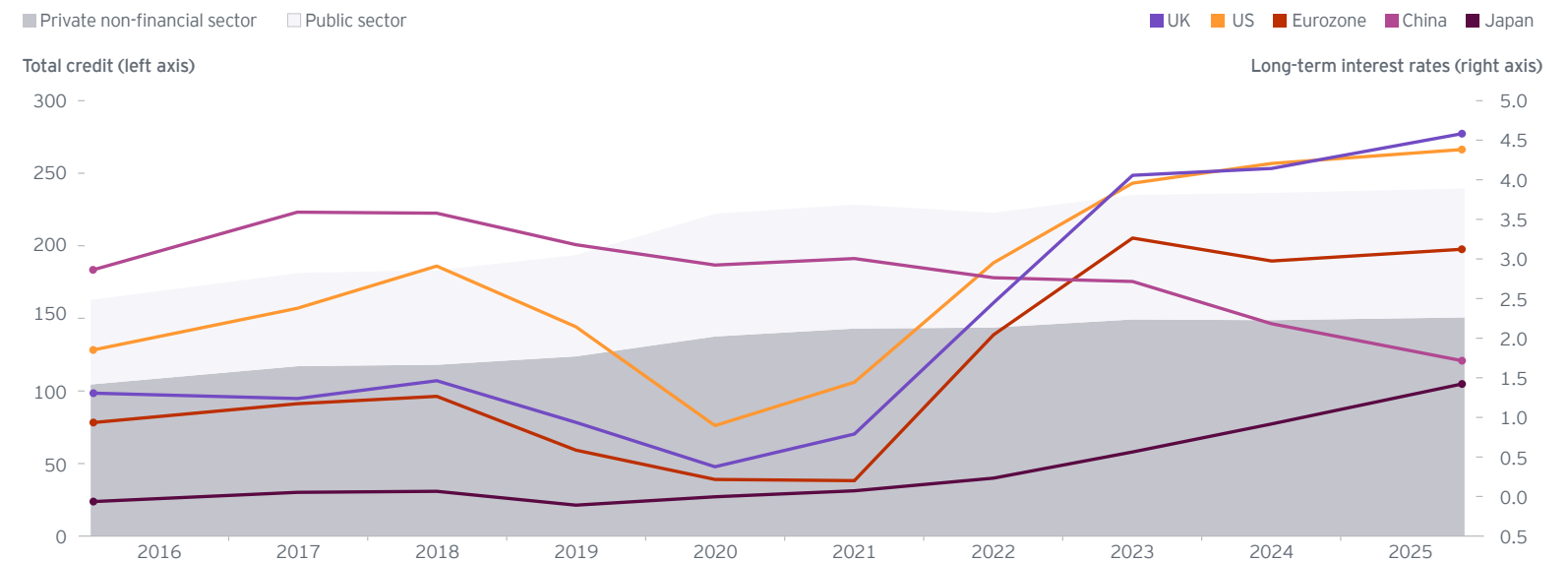
governments' debt burdens constrain central banks' ability to set policy independently of fiscal imperatives (see figure 7). While inflation has receded globally – from 8.7% in 2022 to an estimated 3.5% in 2025 per IMF data – it remains above targets in many economies, putting central banks in a bind. A premature shift toward lower policy rates could ease short-term refinancing pressures but risks reigniting inflation, which remains the second-highest concern among citizens globally according to [Ipsos](#).

In the US, this tension is compounded by an increasingly charged debate over Federal Reserve independence. The dollar's dominance continues to rest on structural foundations such as deep and liquid capital markets and institutional credibility. But even the perception of political interference has contributed to wider risk premia and a reassessment of the dollar's durability as the world's anchor currency, with the dollar falling about 10% relative to its 2024 peak. The US dollar still accounts for about 56% of global foreign exchange reserves, according to [the IMF](#), but its share has modestly eroded over the past two decades as global investors diversify toward gold, other currencies and select digital assets to hedge geopolitical risk.

China continues to expand the Cross-Border Interbank Payment System (CIPS), facilitating greater use of the [renminbi](#) in trade and finance. Some members of the BRICS+ group will likely continue to pilot local currency settlements and explore mechanisms to reduce exposure to dollar-denominated sanctions risk. Parallel initiatives such as ASEAN's [Regional Payment Connectivity](#) and the [Pan-African Payment and Settlement System](#) are deepening regional financial linkages, collectively signaling a slow drift toward a more multipolar financial order.

Amid this evolution, capital protectionism is gaining traction. Emerging markets facing external funding strains may introduce or tighten capital flow management measures to stabilize currencies and preserve reserves. Developed markets may continue to tighten [outbound investment screening](#) to limit technology transfer and reduce geopolitical exposure – moves that could fragment global capital flows further. Meanwhile, more than 130 central banks, according to the IMF, are developing or piloting central bank digital currencies (CBDCs) as tools to enhance financial sovereignty and payment resilience. The US, in contrast, is pursuing stablecoins as a digital currency.

Figure 7. Debt levels continue to rise even as higher long-term interest rates make it more costly to service
Total credit to the non-financial sector (USD trillions); Long-term interest rates (% per annum)



Sources: Bank for International Settlements, OECD; EY Insights analysis.

Note: Total credit includes all reporting countries globally. The countries for which interest rate data is included align with the currencies included in the IMF Special Drawing Rights international reserve asset. Long-term interest rates data reflects 10-year government debt. The 2025 data on interest rates is an average of the monthly interest rates through August 2025.

Geostrategic actions

- Assess the geopolitical resilience of capital allocation strategies.**
 Governments will likely continue to tighten controls on investments and other financial flows to geopolitical rivals, particularly in strategic sectors and critical technologies. The imposition of capital controls could also constrain companies' ability to invest in foreign markets or repatriate foreign earnings. Chief Financial Officers (CFOs) and chief strategy officers should determine how to [allocate capital](#) to optimize agility, resilience and value creation in this environment.
- Incorporate government debt dynamics into financial planning.**
 Reductions in sovereign creditworthiness can quickly lead to crowding out through higher borrowing costs and reduced access to capital for the private sector, especially in emerging markets where sovereign and corporate risk are more closely linked. CFOs should [assess the potential impact](#) on their cost of capital if government borrowing crowds out the private sector. In extreme cases, unsustainable government finances could lead to sovereign debt crises. Executives should engage in scenario or contingency planning for securing working capital in case financing challenges arise.
- Adapt corporate treasury strategies.**
 Structurally higher term premia, greater currency volatility and more regionally differentiated capital markets signal the end of an era of financial homogeneity and the emergence of a more fragmented, politically influenced global financial order. Governments are expected to continue to pursue alternative international transactions and payments options outside of the US dollar-led system. Digital currencies could further complicate this situation. The cost of capital may also differ across markets. [Corporate treasurers](#) need to take these evolving foreign exchange dynamics into account when planning treasury holdings and managing exchange rate risk.



Spheres of engagement

7. North America: Policy volatility

North America was a source of significant political and policy volatility in 2025. The US's "Liberation Day" tariff announcements in April and subsequent modifications to them are a leading example of this volatility, which affected markets around the world, and Canada's federal election in April delivered a result that was seen as highly unlikely [by pollsters](#) just four months earlier. **In 2026, the North American operating environment will continue to be volatile, as Canada and Mexico respond to changes emanating from the US and confront their own domestic challenges.**

Building on the efforts made in 2025, [deregulation](#) will likely continue to be at the top of the agenda in the US in the coming year, including for the financial, health sciences and technology sectors. There may also be a broader deregulatory trend across North America in the energy sector. In the US, the reinstatement of 100% bonus depreciation on eligible oil and gas assets and tax credits for carbon capture are likely to promote energy production. Canada plans to enable greater petroleum extraction in Western Canada. Mexico moved toward more state control of the energy industry with its

2024-25 reforms but may implement regulations to seek private investment in certain aspects of energy, such as generation capacity.

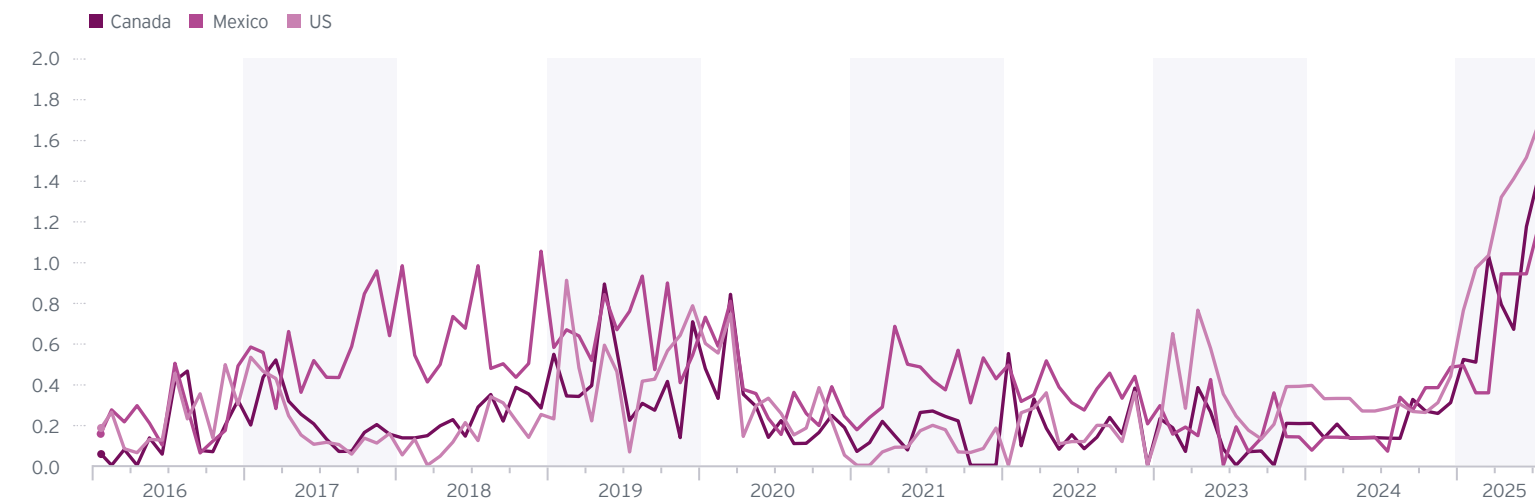
Another pivotal regional development in 2026 will be the review of the US-Mexico-Canada (USMCA) trade agreement, which was initially signed during the first Trump administration. Likely changes include a greater linkage to national security issues such as drug trafficking and the transshipment of Chinese products. Canada is likely to make some concessions on agricultural issues, following its removal of digital service taxes under US pressure. During USMCA negotiations, Mexico will likely be under continued pressure from the US to make further commitments on restricting immigration into the US, allow for a greater role for the US in Mexico on counter-cartel operations and further rules of origin restrictions that impose higher local value-added requirements.

The policy changes initiated in the US in 2025 are also expected to continue to reverberate in 2026 (see figure 8). Historically high tariffs are likely to continue to influence inflation rates and

could create hardships in more sectors. The impacts on the business climate of the government's direct engagement in the private sector through ownership arrangements may also become clearer. This also applies to the implications of the Trump administration challenging long-standing governing norms and institutions. These include enhancing presidential authority over traditionally independent agencies and entities such as the Securities and Exchange Commission and the National Labor Relations Board; using the National Guard for domestic law enforcement; and government pressure on universities, law firms and media organizations.

A key political test in North America in 2026 will be the US midterm elections in November. If Republicans retain control of Congress, the administration's policy agenda would proceed or even intensify. If the Democrats regain control of one or both chambers, policy and regulatory change may accelerate at the end of 2026 ahead of the new Democratic majority taking office in January 2027. In either election scenario, high levels of policy and regulatory uncertainty would persist.

Figure 8. Policy volatility is likely to contribute to high levels of uncertainty in North America
World Uncertainty Index, select countries



Source: World Uncertainty Index

Note: All indices have been computed by counting the frequency of the word "uncertainty" (or its variant) in EIU country reports. The indices are normalized by total number of words and rescaled by multiplying by 1,000. A higher number means higher uncertainty and vice versa.

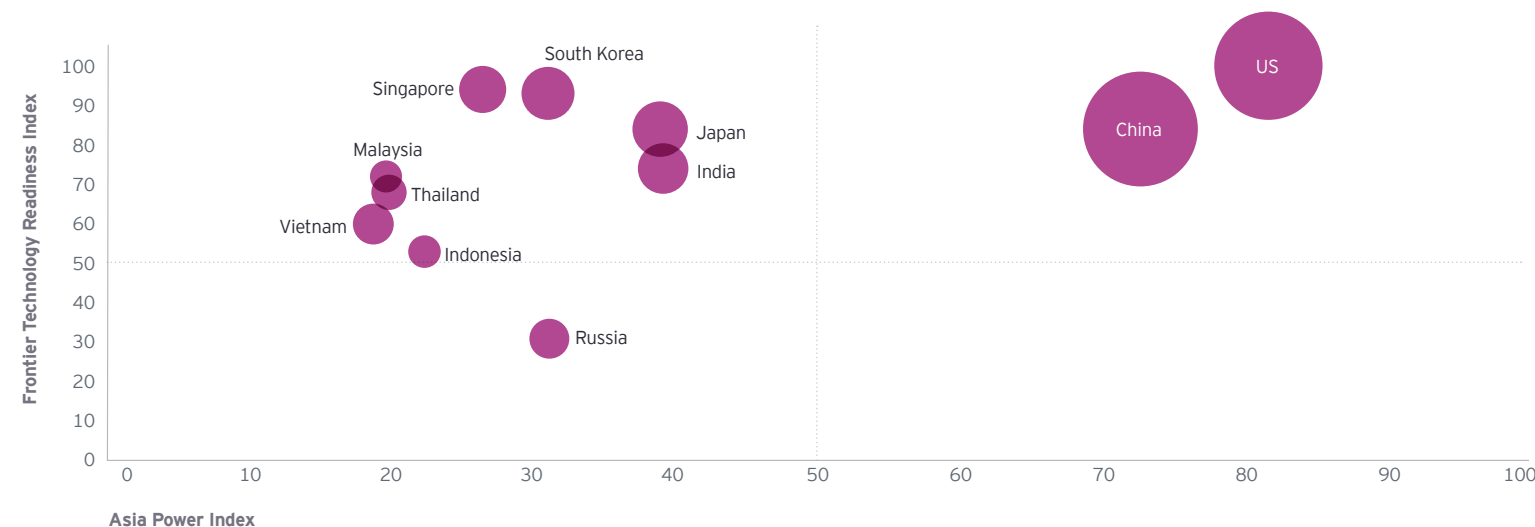
Geostrategic actions

- Challenge assumptions about institutional rules and norms.** President Trump's historic rate of issuing executive orders, use of emergency powers, consolidation of authority and reshaping of the federal government will continue to affect the relationship between the public and private sectors. The move away from long-standing rules and norms will likely impact all aspects of companies' operations, financing and strategy – both in the US and in other markets. Government relations capabilities will continue to be essential. General counsel and legal teams may face new challenges, and [CFOs](#) should prepare to adjust to any capital markets responses to the potential repricing of risk premia over time.
- Explore upsides and downsides of deregulation.** Shifting policy and regulatory frameworks across North America are likely to create investment opportunities, including in the energy and technology sectors. With additional deregulation likely in the US, executives should confirm they proactively monitor proposed and actual regulatory changes, comment on proposals and assess potential benefits or risks for their operations, labor force and sales. Executives should also keep in mind that any US policy change made via executive order is at risk of reversal under a future administration.
- Rethink supply chain strategy.** Trade and industrial policies are raising questions about Mexico and Canada's roles as manufacturing alternatives to the US, as the Trump administration seeks to enhance the US's relative competitiveness. The expected renegotiated terms of trade in the USMCA will likely further rebalance in the favor of the US, while the probable inclusion of more national security-related provisions would elevate the risk of disruption to trade in the future. Chief operations officers and chief supply chain officers should determine whether [relocating operations or suppliers](#) is prudent. Executives should also increase their operations and supply chain risk assessment capabilities to enhance resilience.





Figure 9. The US and China remain the top geopolitical and technological powers in the Asia-Pacific Asia Power Index and Frontier Technology Readiness Index (0-100); Trade volume (US\$)



Sources: Lowy Institute, UN Conference on Trade and Development, World Bank; EY Insights analysis.

Note: Bubble size indicates relative trade volume (exports plus imports). The countries shown are the top 12 countries on the current Asia Power Index, which is calculated as a weighted average across eight measures of power: economic capability, military capability, resilience, future resources, economic relationships, defense networks, diplomatic influence, and cultural influence. The Frontier Technology Readiness Index includes technological capacities related to physical investment, human capital and technological effort, and covers national capacities to use, adopt and adapt these technologies.

8. Asia-Pacific: Economic security

As the primary sphere for geopolitical competition, the Asia-Pacific has immense strategic weight. Its influence is underscored by its scale: it contributes more than 41% of global GDP and is home to nearly 60% of the global population. A variety of diplomatic summits in 2025 – including the Shanghai Cooperation Organization (SCO), ASEAN and the Asia-Pacific Economic Cooperation (APEC) – highlighted the region’s critical role. The primary geopolitical challenge for the region will continue to be US-China competition and the uncertainties created regarding the role of great powers in the region. **In 2026, Asia-Pacific governments will double down on economic security, seeking to balance deeper regional economic integration with national security uncertainties in a more multipolar environment.**

On the economic front, policymaking is expected to increasingly focus on measures to de-risk global interdependencies and boost domestic resilience. Expanded industrial policies in strategic sectors will be the most common measures, with a focus on promoting competitiveness in emerging industries, products with dual-use applications and sectors important to growth and employment. China’s 15th Five-Year

Plan emphasizes further development of advanced manufacturing and high-end technology, for instance, and Australia is expected to strengthen its emphasis on critical minerals and energy transition technologies.

To diversify from traditional end markets such as the US and Europe, efforts to localize and regionalize supply chains and industrial ecosystems will accelerate. Already strong intra-Asian trade and investment will likely be leveraged to build resilience via further regionalization and localization. Governments are expected to continue to push regionalization via trade agreements such as The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Japan will probably accelerate efforts to work with countries in the region to secure critical infrastructure and bolster R&D in leading-edge technologies.

Asia-Pacific governments are expected to target digital technologies, particularly AI, in their economic security policies. Governments may use industrial policies to attract investment in domestic AI value chains and will likely seek to build or expand regional digital economic linkages. But geopolitical competition may fragment regional regulatory initiatives

and product standards. China’s Digital Silk Road is expected to champion China-led technology standards, while Japan, South Korea and other traditional US allies may seek to strengthen their own technology ecosystems through networks of “trusted partners.” This likely deepening digital divide between geopolitical blocs within Asia-Pacific could lead to fragmentation of other aspects of the regional economy as well.

Geopolitics will likely complicate the foreign policies of countries such as Australia, India, Japan, South Korea and the ASEAN bloc. Uncertainty around US-led alliance systems and the rise of competing blocs supported by China will likely complicate these countries’ long-standing strategies of balancing economic ties with China and security engagement with the US (see figure 9). Traditional flashpoints, including the South China Sea and Taiwan Strait, may become more contentious. Border conflicts in the Asia-Pacific could escalate again in 2026. This is compounded by the risk of domestic instability. Popular discontentment could lead to government instability, policy uncertainty and social unrest, such as the “Gen-Z” protests that occurred in Indonesia, Nepal, the Philippines and elsewhere in 2025.

Geostrategic actions

- Conduct a strategic audit of your Asia-Pacific footprint.** Companies should proactively map operational constraints to identify single points of failure and explore dual-sourcing strategies to build resilience. Relying on a single market or geopolitical bloc will increasingly constitute a core systemic risk for many companies. Executives should explore deeper localization or regionalization of critical functions, including [manufacturing, research & development \(R&D\)](#), and marketing. For instance, in the September 2025 edition of the [EY-Parthenon CEO Outlook](#), two-thirds of Asia-Pacific CEOs said they are currently implementing regionalization or have definite plans to do so.
- Enhance compliance frameworks for divergent regulations and sanctions.** The centrality of the Asia-Pacific to geopolitical competition increases the risks of misaligned corporate governance standards and can increase risks of reputational damage, operational disruptions and legal liability. Such risks are particularly high regarding secondary sanctions and export controls related to sensitive technologies. Compliance and legal teams should develop forward-looking, cross-functional [compliance strategies](#) that take into account divergent geopolitical scenarios. Executives should leverage geopolitical insights to monitor changes in the regulatory environment and assess the potential impact across all operating jurisdictions.
- Adapt technology and data practices to geopolitical dynamics.** With governments in the Asia-Pacific pursuing policies that are likely to harden technological blocs, digital architecture and data sharing may become more complicated within the region as well as globally. Companies will need to explore whether they need multiple, distinct [technology stacks](#) in the region and globally. Executives should also confirm they are investing sufficient resources to [evolve cybersecurity capabilities](#) accordingly, so that company data and intellectual property (IP) continue to be robustly protected.





9. Europe: At a crossroads

The shifting global order poses challenges to Europe's security, competitiveness and political stability. In 2025, these pressures intensified as Russia escalated its war on Ukraine and [hybrid attacks](#) on European states, and the US wavered in its support for Ukraine, casting doubts on its broader commitment to European security and the future of transatlantic relations. Europe also struggled to address major challenges to its competitiveness and economy, including a 15% US tariff on EU imports and China's export controls on rare earths that are vital to European industries. **In 2026, Europe will be at a crossroads regarding its security and competitiveness as it will be challenged by external geopolitical forces and internal political divisions.**

Despite EU efforts to reduce reliance on the US, Europe's security and its ability to influence the Ukraine war will largely depend on Washington's stance. Continued US ambiguity could embolden Moscow to intensify its actions against Ukraine and other European countries, testing European resilience and disrupting economic activity. Meanwhile, European governments may expand sanctions on Russia and could decide to use frozen Russian Central Bank assets to fund Ukraine's war effort and military

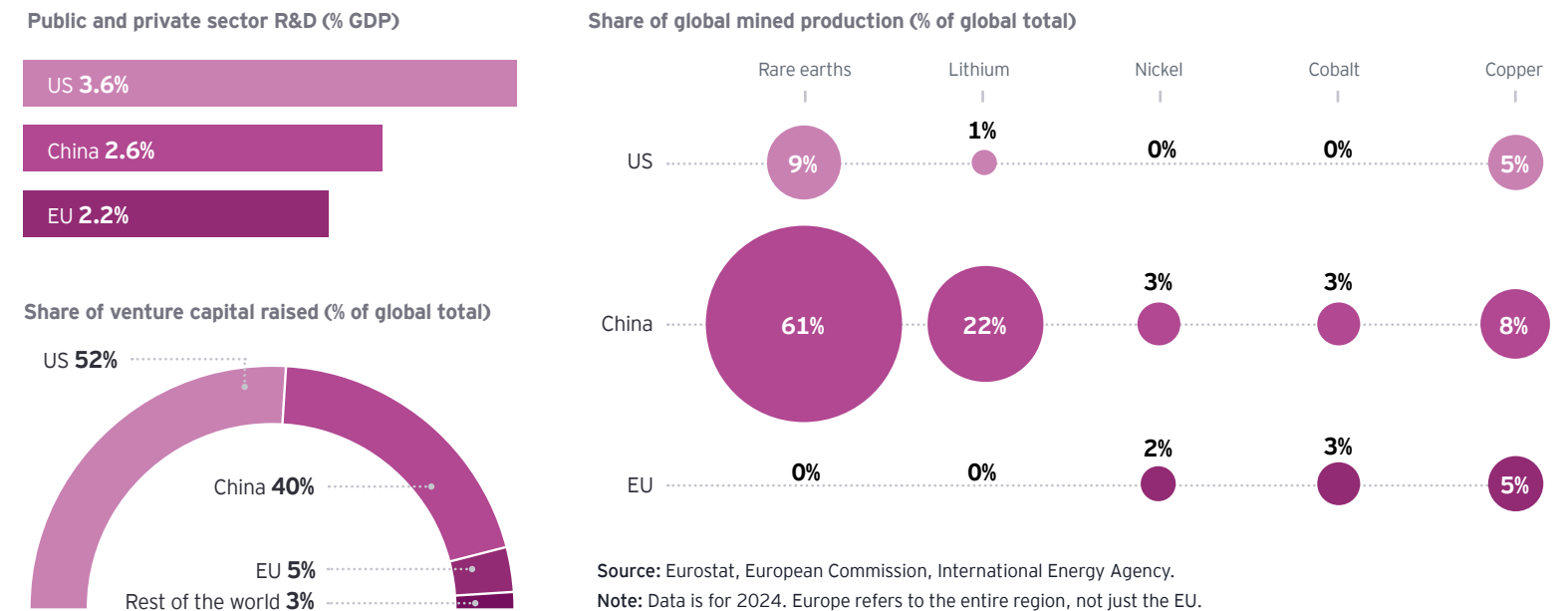
spending. At the same time, NATO's new capability targets and a "buy European" industrial strategy would drive higher defense spending throughout the region.

The pressure to address Europe's competitiveness is anticipated to become even more urgent in light of growing internal and external challenges (see figure 10). In 2026, the EU plans to advance "[omnibus packages](#)" aimed at cutting administrative costs and reporting burdens – although divisions in the European parliament may stall or slow progress. The European Commission [will likely introduce further measures](#) to boost self-reliance and incentivize investments in strategic sectors through initiatives such as the European Biotech Act II, Advanced Materials Act and Cloud & AI Development Act, while refining procurement rules to favor EU firms. The implementation of the Carbon Border Adjustment Mechanism may further support European sourcing – and also provide public sector revenues. The Commission will likely also seek to strengthen energy security by expanding joint purchases and revising storage rules. Progress toward a more integrated single market is likely to remain sluggish, though, with only modest advances on the [Savings and Investment Union](#) and the European Innovation Act.

In 2026, EU trade policy will remain central to reducing vulnerabilities and boosting resilience. The EU will likely continue to use trade and investment restrictions to protect critical sectors – primarily vis-à-vis China and, to a lesser extent, the US. But fears over retaliations, rising reliance on Chinese imports while also dealing with overcapacity and diverging member state interests may hinder the implementation of a unified de-risking strategy. Meanwhile, the EU will seek to diversify its trading partners. It expects to finalize FTAs with the Philippines, Thailand and Malaysia in 2026, and aims to conclude negotiations with India.

Europe's success in addressing these challenges will likely hinge on [internal sociopolitical divisions](#) and 2026 elections. There are expected to be elevated risks to government stability in both France and Spain, potentially triggering snap elections and inward-focused policies. State and local elections in the UK and Germany will gauge public trust in current leaders and support for populist parties. Hungary's April parliamentary vote could potentially end Prime Minister Viktor Orbán's tenure, which would strengthen alignment at the EU level on policies such as Russia sanctions.

Figure 10. Europe is trying to catch up on competitiveness, especially related to innovation, capital and critical minerals



Geostrategic actions

- Use scenarios and tabletop exercises to manage domestic political uncertainty.** Elections and domestic sociopolitical instability across Europe will continue to generate significant electoral, policy, and regulatory unpredictability within the region. These shifts can have material impacts on business – from revenue and investment decisions to access to talent. [Tabletop exercises](#) can enable leaders explore a plausible political scenario, assess the implications across key business dimensions and identify crisis response measures. Once these exposures and responses are mapped, executives should proactively adjust risk management and operations strategies to mitigate downside risks and seize emerging opportunities in the event such a scenario materializes.
- Invest in cybersecurity and resilience.** As drone flights, cyberattacks and other hybrid tactics become more common events across Europe, companies face a growing risk of operational disruption. These attacks can target organizations directly or impact them indirectly through their supply chains or via reliance on critical infrastructure, such as transportation and energy networks. Sectors particularly vulnerable to these risks include infrastructure, logistics, transportation, telecommunications and defense. Chief information security officers should take a cross-functional and cross-value chain view of their organization's security capabilities to inform the design and maintenance of [cybersecurity programs](#).
- Capitalize on policy-driven investment opportunities.** Governments across Europe will continue to invest in industrial competitiveness and economic sovereignty. This may include industrial policies to incentivize or mandate local production – particularly in [strategic sectors](#) such as defense, industrials and digital technology. Executives should explore opportunities to leverage related tax breaks, subsidies and state-guaranteed investments. There may also be opportunities to leverage incentives for R&D and expand private-public partnerships, as well as new opportunities in foreign markets due to new free trade agreements.



10. Middle East: Recalibration

The Middle East is going through a geopolitical recalibration, shaped by military conflicts, shifting diplomatic postures and an evolving economic landscape. Elevated tensions led [military expenditure](#) in the region to reach \$243 billion in 2024, a 15% increase over the previous year. Meanwhile, the race for AI competitiveness propelled new interest in the region, and Middle Eastern producers [led](#) OPEC+ in increasing world oil supply as their economic diversification efforts grew. **In 2026, both regional and global actors will recalibrate their positions in the region, introducing economic competition but also potential opportunities for investment.**

Iran's diminished influence is one of the most consequential shifts. A convergence of military setbacks and economic strains accelerated by the September 2025 [reimposition of UN "snapback" sanctions](#) will limit Tehran's international power. Amid a [forecasted](#) 3% GDP contraction in 2026, the government will prioritize domestic stability. Tehran will likely consider two divergent paths – accepting isolation from Western markets while deepening economic dependence on China; or reopening nuclear negotiations with the goal of sanctions removal.

Israel, in contrast, enters 2026 with a strengthened security environment. But

the government's emboldened posture risks diplomatic isolation. Elections, due by October, will likely serve as a referendum on the country's war strategy and could result in a victory for the opposition. If the US-brokered plan for Gaza advances into a lasting resolution to the Israeli-Palestinian conflict, the Abraham Accords – which normalize relations between Israel and several states – could expand to include Saudi Arabia and others. If Gaza governance and reconstruction stalls, though, the Accords would come under [pressure](#).

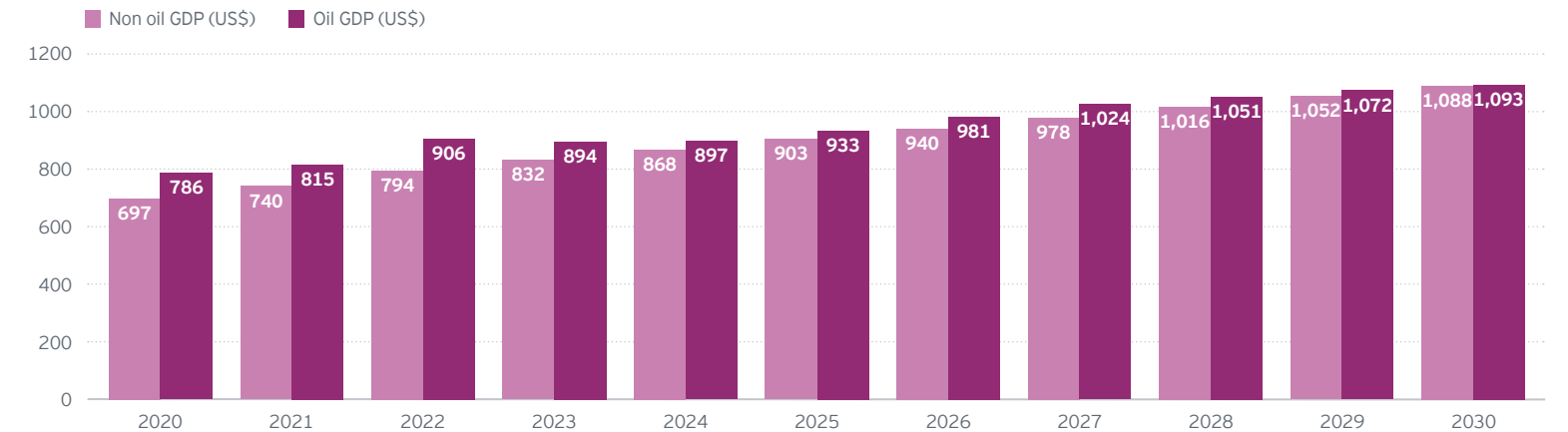
[Gulf Cooperation Council](#) (GCC) members will continue to walk a diplomatic tightrope, strengthening US links while also pursuing deeper ties elsewhere. Riyadh's dual track pursuit of a US security agreement alongside a defense agreement with Pakistan illustrates such efforts.

The conflict in Yemen is expected to continue, with intermittent disruptions to Red Sea maritime chokepoints. In contrast, Syria may be positioned for investment amid relief on Western sanctions and [export controls](#). GCC states and Turkey are expected to lead efforts to capitalize on these commercial opportunities. But sectarian tensions and regime fragility remain significant downside risks.

Indeed, the EY [2025 GCC Attractiveness Study](#) shows geopolitical tensions are the top concern of senior executives with interests in the region. Nevertheless, GCC countries are expected to continue to attract investment driven by their energy markets significance and growth of non-energy sectors (see figure 11). Abu Dhabi and Riyadh will continue competing to be the gateway to regional markets, capital and talent – and for regional AI leadership. Significant [state-backed capital](#) via sovereign wealth funds (SWFs) will likely drive a lot of this investment. And Dubai will likely continue to be a hub for private wealth and a center for investment into the wider region.

Global powers may similarly recalibrate regional exposure. The US will likely seek to reduce military entanglements while deepening commercial ties. China is also expected to remain a key economic partner across the region, and India may deepen economic ties with the region as Indian companies continue to [increase investments](#), already up nearly 400% since 2019.

Figure 11. GCC members are steadily diversifying their economies away from energy revenues, with an increasing share of GDP from non-oil sectors
Real GDP (US\$ billions)



Sources: Oxford Economics.

Note: Countries included are GCC members: Saudi Arabia, UAE, Qatar, Bahrain, Oman, Kuwait. Data for 2025 through 2030 are forecasts.

Geostrategic actions

- Enhance management of reputational and compliance risk.** Post-conflict markets may pose new investment and growth opportunities. For instance, efforts to reintegrate Syria into the regional economy may present market entry or expansion opportunities for companies, especially in infrastructure and energy. But given the uncertain outlook for Israel, Iran, the Levant and elsewhere, executives should determine a strategic approach to managing evolving [compliance expectations](#) and reputational risk exposures across key markets. Where appropriate, executives could consider phased entry strategies, including feasibility studies, and they should maintain [visibility to regional developments](#) at a regular cadence and be closely involved in public affairs and compliance strategies.
- Explore investment opportunities in strategic technologies and infrastructure.** GCC technology hubs and national strategies focused on AI and digital innovation present potential strategic partnership and investment opportunities. Riyadh and Abu Dhabi will look to capitalize on 2025 agreements enabling greater access to US technologies such as advanced semiconductor chips. More broadly, emerging [trade corridors](#) connecting India, the Middle East and Europe may see increased investor interest as companies seek to reduce supply chains vulnerability to chokepoints such as the Red Sea. Executives should consider whether entering or expanding in the Middle East would provide [opportunities](#) for their company – while [incorporating geopolitical risk assessments](#) into their investment decisions.
- Strengthen hedging strategies for energy and currency exposure.** Executives and traders should be ready for possible fluctuations in oil and gas pricing or potential supply shocks, although these impacts will likely be mitigated by high global production capacity levels and generally weak global demand. Corporate finance and investment teams should incorporate anticipated Organization of the Petroleum Exporting Countries (OPEC) coordination and price adjustments into their assessment of energy-linked assets and their hedging against commodity and currency volatility. [CFOs](#) at companies with significant exposure to commodity risks should confirm their risk management frameworks are calibrated to better anticipate, measure and operate in this environment.

Sector implications

The top 10 geopolitical developments in the 2026 Geostrategic Outlook will have broad-based impacts on the risk management and strategy agendas of organizations across sectors and geographies. But certain developments are likely to impact some sectors more directly than others, particularly in the near to medium term (see figure 12). The key market themes and business impacts for 18 sectors are outlined in this section.

Figure 12. Geopolitical impacts on businesses are broad based but will vary across sectors

Summary of the top 10 geopolitical developments by direct sector impacts

Click on each development or sector to read more

	Banking and capital markets	Insurance	Wealth and asset management	Chemicals, oil and gas	Mining and metals	Power and utilities	Industrial products	Mobility, aerospace and defense	Consumer products	Retail	Health	Life sciences	Technology	Telecommunications	Media and entertainment	Private equity	Infrastructure	Government and public sector	
New rules and norms																			
1. State interventionism			●	●	●		●	●	●	●	●	●		●	●	●	●	●	●
2. Trade under pressure	●	●		●	●		●	●	●	●	●	●		●	●	●	●	●	●
3. Sovereign AI and cyber conflicts	●	●	●			●	●	●	●	●	●	●	●	●	●	●	●	●	●
Geopolitics of scarcity																			
4. Water scarcity					●	●	●						●	●		●		●	
5. Critical materials rush	●			●	●	●	●						●	●	●			●	
6. Debt, capital and currencies	●		●			●			●	●	●					●	●	●	
Spheres of engagement																			
7. North America: Policy volatility	●	●	●	●	●		●					●	●	●			●	●	●
8. Asia Pacific: Economic sovereignty			●		●		●		●	●	●		●	●			●	●	●
9. Europe: At a crossroads	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
10. Middle East: Recalibration		●	●	●				●					●		●		●	●	●

Source: EY analysis.

Banking and capital markets

Geopolitical uncertainty is reshaping the strategic landscape for banking and capital markets mostly through second-order effects. However, these second-order effects are significant. Banks need to support clients as they navigate the impacts of **trade under pressure** and adapt to increasing investment in key areas of global competition such as **sovereign AI** and the **critical minerals rush**. There is huge demand for investment in data centers, compute capacity and the mining sector.

Increased demand for investment in national security in areas such as defense and energy means banks may face increased scrutiny over their risk appetite and investment choices, especially from an environmental, social and governance (ESG) perspective. These trends are likely to be particularly pronounced in **Europe**.

First-order impacts are also material. Deregulation in some markets – such as in **North America** – means the global banking operating landscape is becoming increasingly fragmented. This raises concerns both about level playing fields for global banks and whether significant risk will return to the global financial system.

Regulatory fragmentation is related to the rise in demand for digital assets – as part of **debt, capital and currency** dynamics. Geopolitical fragmentation poses unique challenges in managing operations across diverse regions. At the same time, a fragmented landscape can provide access to new asset classes and digital finance opportunities.

The elevated risk of **cyber conflicts** as a tool of geopolitics further complicates the landscape, necessitating stringent measures to protect data and maintain operational integrity. Banks can also consider how they can deploy their own cybersecurity and data capabilities to help their clients address these threats.

Insurance

Insurers will likely continue to face a complex web of geopolitical risks that are reshaping the insurance landscape. **Trade under pressure** is likely to continue to drive claims inflation in materials, parts and logistics for property and auto lines. More broadly, any economic weakness associated with volatile or restrictive trade policies could lead to declining solvency ratios and asset prices, prompting stress testing and tighter reserving.

Sovereign AI and cyber conflicts pose a growing operational risk and could drive a surge in cyber insurance claims. At the same time, investment in AI could provide insurers with opportunities to develop seamless, personalized propositions built on real-time and third-party data and predictive analytics.

Insurers also face specific dynamics in different regions. In **North America**, declining inward migration to the US amid rising life expectancy is reshaping protection, pension and health insurance needs. Insurers should personalize offerings using real-time data and predictive analytics – while navigating digital sovereignty regulations, and in **Europe**, sanctions may continue to elevate compliance burdens and counterparty risks, for instance via the EU's evolving anti-money laundering and counterterrorism financing rules.

Finally, in the **Middle East**, conflicts may continue to disrupt operations, elevating energy and logistics costs, and increasing war-related claims. Rerouted shipping and longer voyages also raise the risk of business disruptions, which strain insurers' ability to diversify risk globally, impacting capital efficiency and pricing competitiveness.

Insurers are adapting to this “spheres of engagement” world. In the September edition of the **EY-Parthenon CEO Outlook**, 96% of insurers had completed, were currently implementing or planned to implement regionalization strategies.

Wealth and asset management

Geopolitics is now a central consideration in capital allocation and operational strategy for wealth and asset managers. For instance, **state interventionism** is influencing asset allocation, with sovereign wealth funds and pension capital playing a large role in those policy efforts. The geopolitical rivalries that drive these and other policies are also reshaping investment flows, with outbound capital increasingly restricted from flowing to certain markets and sectors.

The dynamics around **debt, capital and currency** are also likely to affect asset managers. The push toward private markets, particularly private credit, is accelerating, though recent volatility signals potential risks of overexposure. Many firms are heavily concentrated in private strategies, raising questions about diversification and resilience.

Sovereign AI and cyber conflicts pose both opportunities and challenges. Asset managers should build resilience against cyber threats and protect data and IP, especially as digital sovereignty regulations evolve. But while AI-driven investment tools raise compliance challenges, they could also provide opportunities for new competitive dynamics. As clients demand greater transparency and personalization, firms should strike a balance between leveraging digital capabilities and safeguarding trust, privacy and fiduciary standards.

Regionally, ongoing tensions and shifting policies may necessitate more localized approaches to talent and client engagement. Parts of **Asia-Pacific** and the **Middle East** will likely provide asset managers with opportunities for capital allocation and global capacity centers. In **North America**, particularly the US, talent management is under pressure, with immigration restrictions, such as recent and proposed H-1B visa changes, potentially impacting asset managers' access to specialist skills.

Chemicals, oil and gas

A variety of geopolitical developments are creating both risks and opportunities for the chemicals, oil and gas sector. National oil companies are diversifying into emerging markets to secure future demand, while specialized chemicals and materials critical to renewable technologies gain in strategic importance.

Some chemicals producers may be indirectly affected by **state interventionism** and **trade under pressure** policies, due to chemicals being an input into some of the strategic sectors that governments are targeting, such as pharmaceuticals, semiconductors and green tech. Meanwhile, **critical minerals rush** – including policy drivers such as China's export restrictions – adds another layer of supply chain risk.

Geopolitical tensions are also disrupting energy delivery routes, including maritime chokepoints like the Red Sea and the Strait of Hormuz. Conflicts in the **Middle East** alongside renewed sanctions on Iran and expanding sanctions on Russian oil will likely continue to create volatility in refined product markets and diesel supply chains.

These price and supply dynamics may continue to be especially impactful in **Europe**, as the EU and UK tighten price caps on Russian energy exports. The EU's implementation of its Carbon Border Adjustment Mechanisms (CBAM) in 2026 will also increase costs and compliance processes for European importers, particularly for emissions-intensive products like steel and chemicals.

In **North America**, energy deregulation is providing the sector with some tailwinds. However, US steel and aluminum tariffs are raising cost pressures. In addition, visa policy changes and talent migration challenges may impact human capital strategies across energy operations.

Mining and metals

The **critical minerals rush** puts the mining and metals sector at the center of geopolitical competition and policy shifts in the coming year. Mining executives expect the biggest policy shifts in speeding up the granting of licenses and policies to attract foreign investment (including incentives), according to a [recent EY study](#). Governments are prioritizing production of and access to critical minerals for the energy transition, electric vehicles (EVs), semiconductors and defense technologies. This trend will likely continue to reshape global minerals and metals supply chains and elevate the importance of IP access, as policy restrictions – particularly from China – limit technology transfer and push firms toward domestic R&D.

At the same time, **state interventionism** means that some governments are seeking greater control of, or revenue from, the mining and metals sector. In markets that are current resources producers, companies could face higher royalty rates or profit-sharing requirements. In contrast, governments that are trying to kick-start or expand their country's mining sector may offer preferential financing or ease permitting requirements.

Certain aspects of **trade under pressure** may continue to impact miners and refiners. In **Europe**, carbon border taxes are expected to raise the cost of importing mineral and metals from some markets. In **North America**, US tariffs on steel and aluminum are increasing operational and compliance costs, and in **Asia-Pacific**, China's export controls on certain rare earths products will likely affect global supply dynamics. These trade politics also create uncertainty around long-term capital flows and operational planning.

Finally, **water scarcity** could also affect the mining sector, which requires a lot of water to operate. As other industries' water usage grows and the mining sector transforms, there will be an increasing need for more innovation around water management.

Power and utilities

Demands on the power and utilities sector are rising due to the needs of new energy-intensive industries such as AI data centers. As more governments pursue **sovereign AI**, these power demands are likely to expand in more geographies. At the same time, **cyber conflicts** are putting power and utilities companies, as providers of critical infrastructure, in the crosshairs of geopolitical competition.

Companies are also likely to face geopolitically-driven supply chain challenges as well. **Water scarcity** could affect power companies' costs as they require water for cooling, and water utilities could face changes in permitting and water tariff rates. The **critical minerals rush** is also likely to create supply bottlenecks for power and utilities companies. These supply and operational constraints are likely to be particularly acute in high-demand areas such as data centers and refineries, and in the supply chains for magnets, batteries and specialty steels.

Debt, capital and currency dynamics are likely to create continued uncertainty around long-term investments and capital expenditure. Companies need to make capital allocation decisions that account for both geopolitical risk and the potential for sudden policy and regulatory changes that can affect the cost of capital.

In **Europe**, power and utilities companies may face higher costs due to the EU and UK tightening price caps on Russian energy exports and the EU's implementation of its Carbon Border Adjustment Mechanism (CBAM) in 2026. At the same time, plans for reconstruction in Ukraine may raise questions about the role of utilities in these efforts – particularly where direct funding is involved.

Industrial products

Geopolitical developments are influencing demand, supply chains and investment strategies for industrial products firms. Many governments are seeking to boost domestic industrial production via **state interventionism** policies. Some companies may benefit from tax and other financial incentives to produce in certain markets.

Government support for sectors that are customers of industrial products firms may also provide opportunities. For instance, the need to address **water scarcity** is emerging as a major growth driver, with demand for water treatment and management technologies accelerating. Similarly, the **critical minerals rush** will likely continue to spur renewed interest in previously unprofitable mining sites, creating opportunities for industrial products firms supplying extraction and remediation equipment, and the push for **sovereign AI** is leading to the rapid expansion of data centers, which could create significant end-market opportunities for component suppliers and builders.

At the same time, **cyber conflicts** may escalate risks for industrial products companies as they expand smart manufacturing and digitally enabled services. While such automation and connected systems can improve efficiency, they also heighten vulnerability to cyber-attacks.

Trade under pressure will likely remain a challenge for many industrial products companies. Years of cost-driven offshoring have left industrial products companies exposed to tariff volatility and policy shifts. Many firms are moving production closer to customers, yet rising costs and unsustainable price increases signal margin pressure ahead.

Regional dynamics add complexity. Industrial products companies may continue to face sluggish growth in **Europe**, while demand in **North America** adjusts to post-Inflation Reduction Act (IRA) policy shifts and **Asia-Pacific** continues to benefit from localized manufacturing investments.

Mobility, aerospace and defense

Policies associated with **trade under pressure** are expected to have a significant impact on the mobility, aerospace and defense sector as companies try to de-risk from suppliers exposed to geopolitical volatility. The supply chains for automobiles and aerospace tend to be very long, so companies will need to prioritize which categories (raw materials, component assemblers, etc.) for onshoring, nearshoring and friendshoring.

A key source of supply risk will likely be the **critical minerals rush**. Many companies across the mobility, aerospace and defense sector rely on minerals and metals as inputs to their products. Electric vehicle producers and defense manufacturers are likely to be most significantly affected by potential supply disruptions.

Access to IP in this sector is increasingly being affected by geopolitical developments, including **state interventionism** and **sovereign AI and cyber conflicts**. For products seen as strategic, such as electric vehicles, defense systems and critical minerals processing, governments will likely continue to tighten controls on technology transfer and push firms toward local R&D and manufacturing. Companies could also face more cyber attacks targeted at IP theft.

In some regions, such as the **Middle East** and **Europe**, conflicts could continue to disrupt transportation routes, inflating insurance costs and forcing logistics providers to reassess risk exposure. At the same time, conflicts and regional rearmament initiatives fuel demand for the defense sector. These rearmament efforts are especially pronounced in **Europe** and **Asia-Pacific**.

Consumer products

The consumer products sector faces a complex geopolitical environment shaped largely by trade and regulatory dynamics.

Trade under pressure will remain a critical issue in 2026. While consumer products may not be the primary targets of tariffs and export controls, the ripple effects across global supply chains may continue to drive delays, cost increases and disruption. Continuing high levels of tariff uncertainty may pressure suppliers. Many consumer products firms have already added redundancy to their supply chains to try to adapt to this environment. Tariffs and bilateral trade disputes could also continue to impact consumer spending power, with further pressure expected in the coming year.

As consumer products companies shift their supply chains to adapt to new trade policies, new patterns of trade are likely to emerge at the company level. Trading patterns in **Asia-Pacific** are likely to be particularly impactful for consumer products companies. These changes could affect the currencies in which companies need to conduct international transactions. Currency and corporate treasury strategies may also be impacted by **debt, capital and currency** dynamics.

Sovereign AI and cyber conflicts will likely add complexity in a variety of ways. Leveraging AI to derive more value from consumer data may continue to be an opportunity, but evolving regulations would require compliance with data traceability and privacy standards. At the same time, cyber threats against consumer brands are likely to continue to escalate.

While many consumer goods companies have dealt with **water scarcity** issues for decades, heightened water challenges could arise for agribusiness and food companies in 2026, as they face stricter sourcing requirements and sustainability regulations in some markets such as **Europe**.

Retail

Following significant tariff disruptions and margin pressures in 2025, retailers are likely to experience further impacts from **trade under pressure** in 2026. In the September 2025 EY-Parthenon CEO Outlook, 85% of retail CEOs said they need to diversify supply chains to manage the impact of long-term geopolitical trends. The expected bilateral or sector-specific trade restrictions will likely continue to increase supply chain complexity in the year ahead.

More fundamentally, the impact of tariffs on prices may be more keenly felt across economies, especially in the US, dampening sentiment and weakening spending power with retailers.

Debt, capital and currency dynamics could weigh further on consumer sentiment, particularly in highly indebted markets.

State interventionism may increase government policies designed to influence IP, price controls, labor markets, technology or mergers and acquisitions (M&A) activity for retailers. While these interventions would create a more favorable competitive environment for domestic retailers, they could also increase underlying costs or reduce profitability – particularly if price controls are imposed on the products retailers sell.

Sovereign AI and cyber conflicts will likely continue to be high on retailers' agendas. Retailers present attractive targets for cyber attacks due to their brand visibility, large attack surfaces, complex supplier networks, legacy systems and high volumes of customer data, including payment data. Even as retailers seek to fortify their own systems against attacks, they remain exposed to wider cyber attacks on broader logistics, public services or financial services infrastructure.

As geopolitical developments evolve within different regions, retailers' supply chains and regional operations will be differentially affected. There may also be growth opportunities if geopolitical tension can be resolved in certain geographies.

Health

Sovereign AI and cyber conflicts remain a top concern for the health sector, as hospitals and health systems are prime targets for attacks aimed at monetizing sensitive patient data. In addition, data ownership and privacy continue to be critical issues, especially as governments seek to unite data across the ecosystem. AI-driven healthcare solutions offer transformative potential, but regulation and governance may intensify, given the potential life-or-death implications of flawed algorithms and misuse of personal health data.

State interventionism will likely influence pricing and investment decisions in the health sector. In the US, for example, negotiations on most favored nation pricing for pharmaceuticals could affect costs and prices for health providers, and some emerging markets in **Asia-Pacific** and Latin America are pursuing cost-sensitive strategies, emphasizing localized manufacturing and digital health solutions such as telemedicine. More broadly, economic instability and political polarization can quickly reverse progress in public health, in both emerging and developed countries.

Debt, capital and currency dynamics could create challenges. Government finances are likely to come under pressure, which could lead to spending trade-offs across different policy priorities, including sovereign AI, defense and social services. Health systems could therefore face reduced budgets, which would be particularly challenging in markets with aging populations and rising chronic disease burdens.

These dynamics are likely to be especially notable in **Europe**, where governments have typically maintained high healthcare spending. Recent efforts to invest in supply chain resilience for pharmaceuticals and medical devices are likely to continue. But the EU's focus on boosting investment in industrial sovereignty and defense could pressure health budgets. Eastern Europe may present new opportunities as health companies consider re-entering Ukraine amid reconstruction efforts.

Life sciences

Life sciences companies face heightened geopolitical complexity as governments continue to view the sector as strategically important for economic security.

State interventionism may continue to challenge pharmaceutical firms balancing global cost differentials with incentives to invest domestically in certain markets. Policies targeting active pharmaceutical ingredients (APIs) and medical devices could drive mandates for supply chain resilience and localized production. In **Europe**, companies are aligning with government-backed initiatives to strengthen supply chains and enable vaccine security, and in the US, life sciences companies will likely face ongoing negotiations on most favored nation drug pricing.

Relatedly, **trade under pressure** will likely continue to impact life sciences companies' supply chain and global footprint strategies in the coming year. Uncertainty about how trade policies may evolve will challenge companies' ability to plan for the future. This uncertainty is expected to be particularly high in **North America**, as pharmaceutical companies explore potential exemptions to recently proposed tariffs by the US Trump administration, including concessions on drug pricing and bolstering US manufacturing investments.

Life sciences companies' IP is emerging as a critical geopolitical lever. China's rise as a leading biotech competitor intensifies this geopolitical tension. Governments increasingly view biotech innovation and pharmaceutical IP as national security assets, prompting tighter controls on technology transfer and foreign investment. These restrictions are reshaping global R&D collaboration, limiting cross-border data sharing and constraining market entry for certain firms. **Sovereign AI and cyber conflicts** add another layer of complexity to IP protection as the risk of industrial espionage and IP theft – both private and state-sponsored – continues to grow.

Technology

The technology sector sits at the center of geopolitical competition, which is driving **sovereign AI and cyber conflicts**. Governments increasingly view digital technology capabilities as critical to economic competitiveness and national security, so technology companies will likely continue to face a mix of policy incentives and mandates to boost domestic investments and capacity in key markets.

North America and **Asia-Pacific** are expected to continue to drive AI investments, led by the **US** and China, respectively. The US may accelerate AI development by removing zoning and permitting barriers for data centers and AI factories – although recent and proposed H-1B visa changes could affect access to talent. The **Middle East** will likely also invest in data centers and AI, both within the region as well as in China and the US. **Europe** will seek to accelerate investments in data storage and computing capabilities but may be constrained by the EU's more cautious regulatory approach and climate commitments. These sovereign AI dynamics may continue to fragment markets, forcing companies to adapt infrastructure and partnerships to local rules.

Across regions, energy scarcity – or the risk of future energy scarcity – could be a key constraint on technology build-outs. Large AI-driven data center projects require gigawatts of power. Some companies are exploring nuclear energy solutions, but **water scarcity** complicates those investments due to cooling needs. The **critical minerals rush** also factors into energy scarcity because they are inputs to high-capacity batteries and other energy infrastructure (as well as for advanced semiconductors and physical AI applications such as drones).

Cyber conflicts escalate and compound risk amid a race to use new AI capabilities to protect systems and infrastructure from bad actors. Relatedly, the increase in data center and connected energy systems require greater vigilance to physical security.

Telecommunications

Governments increasingly view telecommunications networks as strategic assets, so some **state interventionism** policies are aimed at the sector. For instance, telcos may need to adapt to policies that localize data storage and tighten cross-border data transfer rules.

These dynamics will interact with **sovereign AI and cyber conflicts**. The push by governments to develop sovereign AI, cloud storage and related services could create growth opportunities for telcos, but it could also heighten compliance complexity. Cyber- attacks on critical infrastructure also put telcos at risk of business disruption, data loss and financial injury.

The growing relationship between the technology and telecommunications sectors is affecting telcos' geopolitical exposure. Many **trade under pressure** policies are aimed at the supply chain for critical technologies, such as semiconductors, upon which telcos rely. While telcos have invested in supply chain resilience, the potential for new trade restrictions on inputs will require operators to stay agile.

Data centers powering AI-driven telecom services demand significant electricity and cooling capacity. As such, **water scarcity**, the **critical minerals rush** and broader challenges with energy shortages may slow infrastructure expansion despite strong demand.

Europe faces a crossroads regarding whether it can coordinate at the EU level to create a larger telecommunications market or whether existing market structures will likely persist – with a Digital Networks Act planned for 2026. Similar coordination challenges are emerging in **North America**, as the US embraces "America First" policies even as state-level rules on AI and energy for data centers further fragment strategies. In **Asia-Pacific**, major tech players and telcos are collaborating on AI infrastructure.

Media and entertainment

As part of **state interventionism**, governments will likely continue to exert greater influence over content creation, distribution and ownership in the media and entertainment sector. These policies raise questions about editorial independence and regulatory oversight, including antitrust rules governing M&A. These dynamics are likely to be prevalent in **North America**, where political pressure on major networks and freedom of the press remain central topics of debate. **Trade under pressure** is expected to ripple across advertising budgets, international content distribution and cross-border investment.

Sovereign AI and cyber conflicts may also affect the sector, as governments tighten controls on algorithmic content generation and recommendation systems, creating compliance challenges for streaming platforms and digital advertisers. More laws requiring companies to localize data storage and comply with diverse privacy laws are likely to continue to increase costs and complicate global monetization models. The fragmentation of IP laws and risks could further complicate global distribution, marketing and revenue streams.

Media and entertainment companies rely on digital technologies and devices to deliver their products to consumers, so the geopolitical developments affecting the technology sector may have second-order implications. In particular, the **critical minerals rush** could constrain how media companies reach their consumers.

In experiential entertainment, massive government-backed investments in the **Middle East** – spanning giga-projects, resorts and sports infrastructure – are pulling cruise lines, theme parks and gaming companies into new markets in the regions. These opportunities come with regulatory and cultural considerations that require nuanced engagement strategies. Globally, companies will need to balance creative freedom with regulatory compliance and politically influenced consumer preferences.

Private equity

Trade under pressure will likely remain at the top of the private equity (PE) sector's concerns. The expected continued uncertainty in trade policies in major markets may continue to make it difficult for PE firms to price deals accurately and build confidence in cross-border models. This volatility also creates opportunities for investors who can navigate shifting supply chains, identify underpriced assets or back companies that stand to benefit from new trade alignments.

From a fundraising perspective, **debt, capital and currency** will likely be particularly influential. Interest rate differentials across markets would affect how and where funds raise capital. That said, for many PE firms, volatility across rates or currencies can be a source of opportunity; challenges in one part of the capital structure can create tactical advantages elsewhere.

As firms look to deploy capital, **sovereign AI and cyber conflicts** may continue to be significant drivers of the opportunity set. PE firms will likely continue to be active partners in helping to onshore sensitive industries, such as semiconductors. As AI adoption continues, PE may help build out the world's digital infrastructure by investing across the value chain. Energy investments may be an area of focus. However, **water scarcity** could pose a challenge to such investments.

More broadly, **state interventionism** may provide PE firms with opportunities for public-private partnerships and expanded investments in strategic sectors – particularly in markets with fiscally constrained governments. This trend is likely to be most pronounced in **Europe**, where more investments in defense – broadly defined to include satellites, critical infrastructure and other strategic assets – are expected.



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Top 10 geopolitical developments in 2026

Proactive geostrategic priorities

Sector implications

About the Geostrategic Outlook

Infrastructure

State interventionism is shaping investment flows, with governments prioritizing infrastructure investment as a safe asset that can boost economic competitiveness and resilience amid global volatility. **Sovereign AI and cyber conflicts, water scarcity** and the **critical minerals rush** are priorities driving many state-backed infrastructure projects around the world, with a focus on physical and cyber resilience as climate disasters and attacks on critical infrastructure increase.

Digital infrastructure project opportunities are likely to be particularly robust in the **Asia-Pacific**, where regional digital economy integration is a priority. Energy and defense will likely be central, especially in **Europe**, to the growth of the infrastructure sector, which is expected to increase green financing initiatives as well as investment in defense-adjacent infrastructure.

Infrastructure projects tied to energy generation and distribution may be prioritized as facilitators of **sovereign AI** systems, creating opportunities for engineering firms and infrastructure funds. In the short term, though, energy supply constraints and **water scarcity** – particularly for cooling data centers and industrial facilities – threaten project timelines and costs.

The dynamics associated with **trade under pressure** will likely continue to elevate the cost of infrastructure projects, particularly for construction inputs such as steel and aluminum. In some markets, such as **North America**, policy-driven labor supply constraints may also pose a challenge to the cost and timelines of infrastructure projects.

Debt, capital and currency trends may also have a significant effect on the capital availability for infrastructure companies, as some private investors continue to delay investment amid heightened costs and uncertainty.

Government and public sector

Governments will both contribute to and, as major operating entities in their own right, need to respond to each of the top 10 geopolitical developments in 2026.

Governments will operate in a more fragmented and competitive global landscape, with **trade under pressure** and economic interdependence increasingly seen as a risk. As a result, governments may continue to lean into **state interventionism** along with industrial and digital sovereignty initiatives to increase supply chain resilience, boost domestic production and investment. Now seen as critical to future economic success, **sovereign AI and cyber conflicts** are expected to remain at the heart of geopolitical competition, as both an enabler and a strategic risk.

As a result, governments may seek new foreign partnerships and domestic investments in response to the **critical minerals rush**. But diverse **water scarcity** challenges and rising energy demand in both emerging and developed markets will likely highlight the need for integrated, climate-resilient infrastructure planning and adaptation.

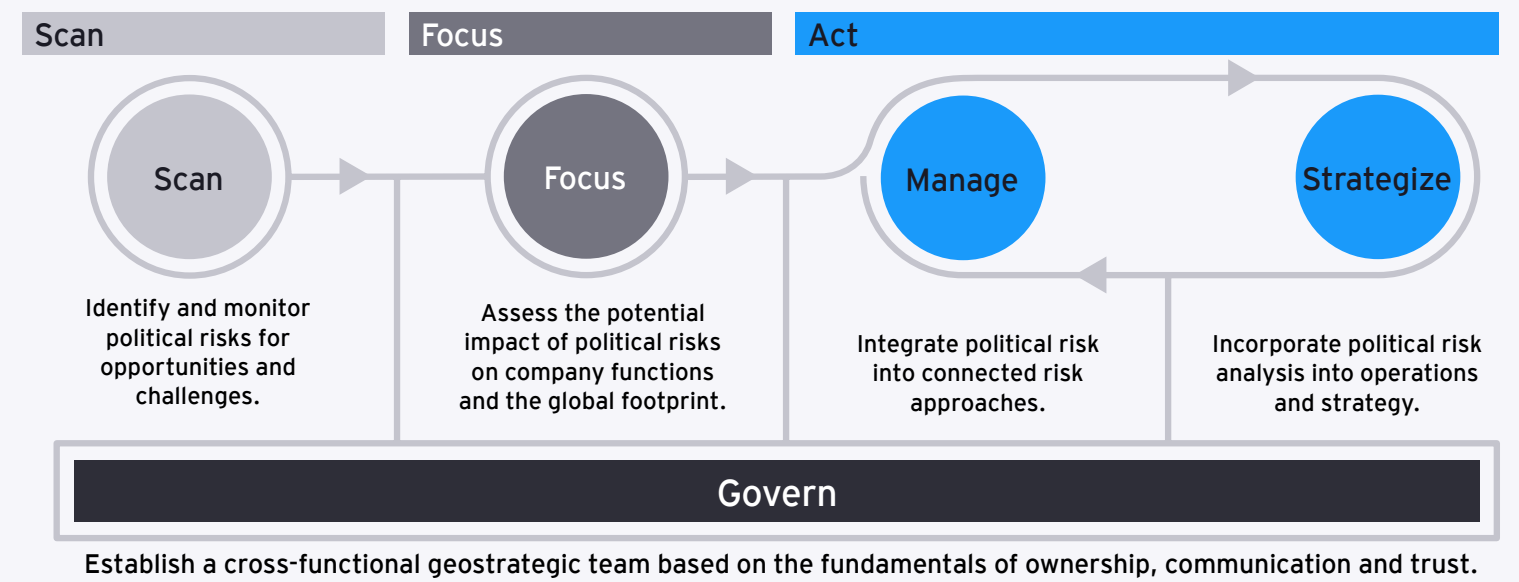
Defense and adjacent infrastructure may continue to be a focus globally, including **Europe**, the **Middle East**, **Asia-Pacific** and **North America**. At the same time, **debt, capital and currency** dynamics – along with slower economic growth in **North America** and **Europe** due to immigration and trade restrictions – mean policymakers may increasingly have to balance competing spending priorities. The next year could be an inflection point regarding heightened costs of living and perceptions of inequality continue to grow across developed and developing markets around the world, placing mounting pressure on public services.

As highlighted in this section, organizations across different sectors will face distinct impacts from geopolitical risks and opportunities in 2026.

The mitigating actions and strategic responses that each organization takes will therefore vary based on their specific circumstances. However, all organizations need a geostrategy to thrive in an uncertain world. To do this, leaders should pursue four distinct activities and create a

governance structure that weaves them together, as outlined in figure 13 below. This framework enables organizations to build an effective geostrategic capability and proactively reimagine their strategy to fit new geopolitical realities.

Figure 13. Scanning the geopolitical environment is the first step in implementing a geostrategy
EY-Parthenon geostrategy framework



About the Geostrategic Outlook

The EY-Parthenon [Geostrategic Business Group](#) (GBG) is a network of geopolitical risk professionals around the globe with backgrounds in political risk, government policy, the public sector, strategy and academia. The GBG has years of experience helping clients to more strategically manage geopolitical risk. This knowledge has led to the creation of a proven framework for the holistic and cross-functional integration of political risk management, strategy and governance. As explored in our book, *Geostrategy by Design*, companies should consider implementing four distinct activities for a proactive geostrategy – and it explains how to create a governance structure that weaves them together so they can effectively shape their future with confidence (see figure 13 on page 18).

The annual Geostrategic Outlook presents analysis by the GBG on the expected transformations in the global political risk environment in the year ahead. The GBG defines political risk as the probability that political decisions, events or conditions at the geopolitical, country, regulatory or societal level will impact the performance of a company, market or economy. Importantly, this definition of political risk includes both challenges and opportunities for global organizations.

Scanning the external environment to identify political risks is the first step in implementing a geostrategy. As such, to select the top 10 geopolitical

developments in the 2026 Geostrategic Outlook, the GBG first conducted a broad horizon-scanning exercise to identify potential political risks. The scanning exercise drew on inputs from multiple internal and external data and research sources. The GBG also collected inputs from more than 50 individuals across EY teams, including those focused on public policy, strategy, macro trends and sector-level developments. Contributions to this scan came from individuals in Australia, China, France, Germany, India, Mexico, Poland, South Africa, the UK, the US and many other geographies. This scan encompassed the four categories of political risk in the geostrategy framework: geopolitical, country, regulatory and societal. The GBG then identified additional developments through interviews with subject-matter resources in other political risk organizations.

Next, the GBG assessed all the identified political risks along two dimensions – their probability of occurring and the degree to which they would have impact on companies across sectors and geographies globally. This impact assessment is aligned with the second step in implementing a geostrategy, which is critical for understanding how geopolitics could affect transformations at global organizations. The top 10 geopolitical developments included in this Outlook are those that were assessed to be both high probability and high impact, broadly speaking for global organizations.

The analysis for each of the 10 developments in the 2026 Geostrategic Outlook explores how each development is likely to unfold in the year ahead (scan), assesses the impact of each political development on specific business functions (focus), and provides considerations for how executives can mitigate downside risks (manage) and take advantage of upside opportunities (strategize). In addition, this Outlook includes analysis of the market disruptions – both downside and upside – of the 10 developments across 18 sectors, and it includes recommended actions that executives can take to manage each geopolitical development in a strategic and proactive manner.

Executives who implement a geostrategy that addresses all the top 10 geopolitical developments in the 2026 Geostrategic Outlook – as well as any other developments of particular relevance for their organizations – are likely to be better positioned to build a geopolitically robust strategy and shape their future with confidence.

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