Three Crosscurrents:

Navigating Power, Trade and Political Realignment in 2026

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Foreword

Three Crosscurrents: The Global Year Ahead

As 2026 begins, the world is defined by three powerful and interlinked crosscurrents: unabated rivalries in geopolitics, the disruptive evolution of global trade and a number of deeper social, economic and political realignments creating new patterns of structural volatility around the globe.

Together, these trends illustrate how the boundaries between economics, security and politics have blurred. In 2025, these factors interacted to create a world of often seemingly random uncertainty. In contrast, 2026 will bring to the fore deeper, more structural dynamics.

The first crosscurrent is geopolitics, where competition keeps intensifying. Power balances are shifting across regions: the United States and China remain the primary poles of rivalry, but the space between them is increasingly crowded by assertive middle powers pursuing their own agendas. In many areas, multipolarity has become the de facto organizing principle of international relations. The year's regional outlooks capture this dynamic, from Africa's recalibrated diplomacy to Asia's balance of deterrence, and finally to Europe's efforts to reimagine its security order after yet another year of war in Ukraine.

The second crosscurrent, trade, is increasingly shaped by geoeconomics rather than rules. Fragmented regulation, selective protectionism and, perhaps above all, industrial policy, have become core instruments of state power. From the USMCA review in North America to Europe's regulatory shifts and Asia's contested trade architecture, markets are adjusting to a new normal of geoeconomic fragmentation. Supply chains, technology and tariffs are now inseparable from national geopolitical agendas.

Below and beyond all this, some more profound realignments are underway within societies around the globe. Economic, social and political textures that underpin the global system are in flux. In 2026, volatility will no longer appear as random as it did in 2025; instead, it will increasingly reveal emerging patterns and macro dynamics around demographic change, technological disruption and concerns about growth and inequality. From the rise of populist and youth movements to contested institutions and labor-market divides, this third crosscurrent points to structural volatility as a new defining feature.

Understanding the interplay of contested geopolitics, shifting trade and underlying realignments is essential for anticipating where shocks may arise and where resilience can be built. At Teneo, our geopolitical risk advisory team works with clients to anticipate and interpret these intersections, assess exposures and turn complexity into strategic foresight. We are here to help business leaders and investors navigate that next phase of volatility.

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Africa

Geopolitics: From U.S. tensions to multipolar leverage

Like other regions, Africa is having to adjust to geopolitical disruption originating from the U.S. Diplomatic tensions have been highest with South Africa, whose foreign policy, domestic policy and alleged racial discrimination are anathema to the U.S. administration. Yet even more pragmatically positioned countries like Nigeria have come under fire for alleged religious discrimination.

African policymakers will try to leverage geopolitical transactionalism, competition for influence in Africa and multipolarity. At the November 2025 G20 leaders' summit—the first held on the continent—South Africa sought to counter the U.S. boycott of the event by adopting a declaration centering on African priorities: new proposals for debt relief, climate finance, inequality and trade. A new credit ratings agency is also in the offing in a bid to address excessive borrowing costs.

While the U.S. —as incoming G20 chair—can ignore South Africa's agenda, Washington's stance creates geopolitical opportunities for other players such as China to demonstrate staying power, and for middle powers, especially those with deep pockets such as the Gulf States, to expand their diplomatic and economic footprint in infrastructure, natural resources and even digital investments. The EU as a bloc—still Africa's largest trade partner—is scrambling to reposition itself as "Africa's partner of choice," though such a reset would require tough work around legacy issues, declining aid, the EU's "green protectionism," its EUR 150bn Global Gateway investment package, migration and security cooperation.

The "stable" element in politics will be less stability and less predictability, amid the rise of youth-led protest movements and digital disinformation campaigns.

Trade: Recalibrating after AGOA's lapse

In 2026, African countries will be adjusting to geoeconomic fragmentation. U.S. protectionism has not spared the region, though after much volatility most African countries have ended up with tariffs in the 10%-15% range, except South Africa, which was slapped with 30%. Additional disruption came from the lapse of the U.S. African Growth and Opportunities Act (AGOA) on 30 September 2025, which hit agriculture and apparel industries from Ethiopia to South Africa.

U.S. bipartisan support for AGOA's reauthorization exists, but the outlook for renewal is uncertain. Adding insult to injury, African countries are not only forced to adjust to tariff unpredictability, but to sudden U.S. aid cuts that have left large holes in social spending.

Trade diversification will be the name of the game for many African countries. China has offered tariff-free trade to all African exporters, though the benefits of this may be offset by a surge in Chinese exports to the continent, which does little to resolve African policymakers' industrial policy conundrums. Countries will also plough ahead with the painstaking implementation of the African Continental Free Trade Agreement (AfCFTA), though sub-regional trading blocs, particularly the East African Community (EAC), will remain more buoyant for now.

Realignments: Entrenched regimes amid eroding stability

The "stable" element in politics will be less stable and less predictable amid the rise of youth-led protest movements and digital disinformation campaigns. Successful coups (in Niger, Burkina Faso, Sudan, Gabon, Guinea, Chad, Mali and Madagascar) have given rise to entrenched military regimes. In Benin, a takeover attempt was reversed through ECOWAS military intervention. While at times popular, these are by no means stable, effective political arrangements. In countries like Burkina Faso and Mali, regimes are under growing threat from Islamist extremist insurgents. Indeed, the Sahel region is increasingly considered the principal global hub for ISIS-linked terrorism, at a time when Western partners have been ejected, Russia's influence has grown and regional cooperation has become fragmented through the creation of the Alliance of Sahel States.

Elsewhere, incumbents' hold on power may offer a mirage of predictability, but instability is being fueled underneath. Elections in Cameroon, Cote d'Ivoire and Tanzania in 2025 were characterized by increasingly blatant limitations on political freedoms and differing degrees of repression. Elections are being manipulated better, it seems. Political continuity may offer predictability, but at a growing cost of illegitimacy and instability. One election following in this vein could be Uganda's presidential election in January 2026.

Other key markets have much more competitive and credible elections upcoming as well. In South Africa, local elections, which must take place in late 2026/early 2027, will signal the accelerating decline of the African National Congress (ANC) and the future of coalition politics. Zambia's polls in August 2026 could entrench the country's remarkable turnaround story, but political freedoms will be scrutinized. In Nigeria and Kenya, the next general elections are not due until March and August 2027, respectively. These timetables render 2026 a crucial pre-election year that will test reform momentum, which has been remarkable in Nigeria and at best muddled in Kenya.

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Asia

Geopolitics: Shifts in the shadow of great-power rivalry

Asia's geopolitics in 2026 will again be defined by shifting regional postures in the shadow of great-power rivalry. Washington's hardball foreign policy is quietly impacting its reputation across Asia, yet relations with Beijing remain complicated, forcing governments to balance economic reliance on China with the market and security benefits of the U.S. China's assertive posture will continue to strengthen, helped by the launch of its third aircraft carrier, though we still see little appetite in Beijing for instigating a Taiwan contingency in the near term.

For Japan, recent frictions with China will only add to the perceived need to continue strengthening deterrence capabilities. New Prime Minister Sanae Takaichi is accelerating plans to lift defense spending to 2% of GDP, though fiscal realities will circumscribe further hikes. While the U.S. alliance remains the cornerstone of Japan's security, Tokyo will continue building out quasi-alliance ties with Australia, the Philippines, South Korea and other partners.

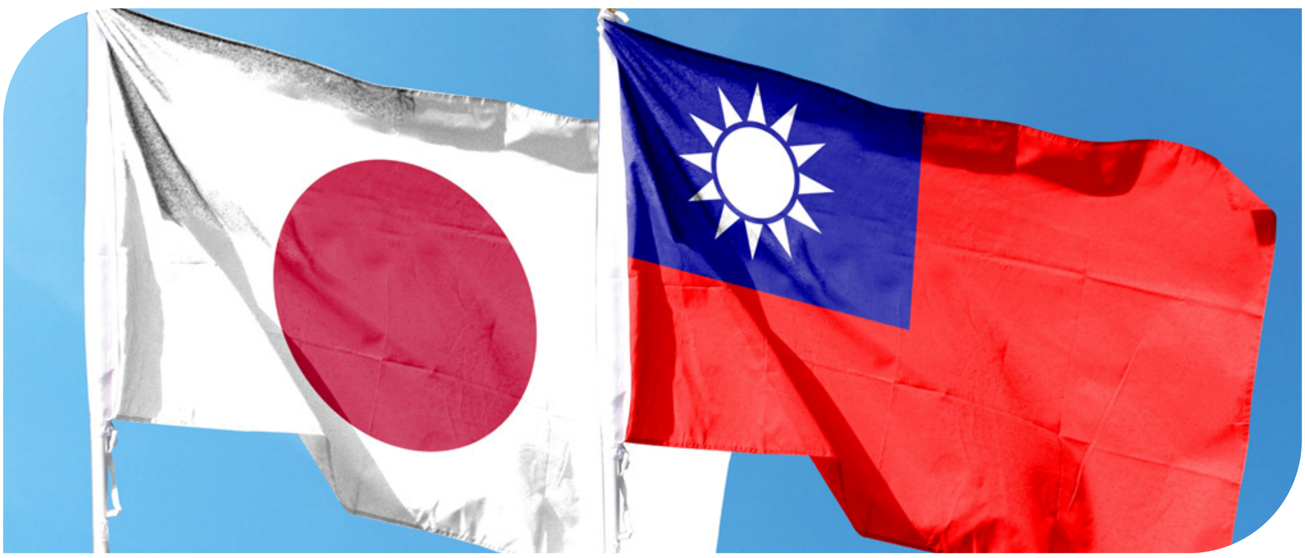
South Korea deepened its alliance with the U.S. in 2025, despite prior concerns about the implications of a second Trump presidency. Seoul's planned acquisition of U.S. nuclear-propelled submarine technology will eventually shift the regional geopolitical needle but carries steep financial costs and could trigger

A successful Trump visit could unlock further U.S. tariff reductions paired with new Chinese purchase guarantees.

fresh tensions with China. Meanwhile, North Korea's economic and military positions will further benefit from ties with Russia and China, allowing it to remain largely insulated from Western pressure, though a possible Trump-Kim summit in 2026 could change the peninsular dynamic.

As always, ASEAN will remain a geopolitical price-taker, navigating a careful course between China and the U.S. as essential economic partners, while maritime frictions with China are unlikely to ease for the Philippines, Vietnam or Indonesia.

For India, the balancing act between the U.S. and Russia will remain a central concern, along with managing tensions with Pakistan and China. India is likely to maintain strong ties with Russia, but seems unlikely to support a bloc pivot away from the dollar when it assumes the BRICS presidency. India-China tensions are likely to continue simmering below the conflict threshold, though other volatile regional flashpoints between India-Pakistan and Pakistan-Afghanistan will require close attention.



Trade: Fragile calm in a contested order

U.S.-China relations will remain the dominant theme for Asian trade politics in 2026, but the short-term outlook appears optimistic. The bilateral truce that presidents Trump and Xi reached in South Korea in late October may keep relations calm until Trump's planned visit to China in April. A successful visit could unlock further U.S. tariff reductions paired with new Chinese purchase guarantees. This outcome would also reduce the risk that China will bring back crippling export controls on rare earths that could have threatened to halt manufacturing in factories around the world.

Elsewhere, the impact of recent U.S. trade agreements with Japan, South Korea, Vietnam, Thailand and Cambodia will be in focus (though the Vietnam and Thailand deals are not yet final). For Japan and South Korea, uncertainty surrounds their commitments to invest USD 550bn and 350bn, respectively, in the U.S. in the coming years. The risk is that wrangling over project selection and commercial terms leads to few projects breaking ground in 2026.

In Southeast Asia, new U.S. tariff rates of 15-20% threaten export competitiveness. Another concern is the 10% U.S. fentanyl-related tariff reduction on China that Trump and Xi agreed to in South Korea. Chinese exports of many consumer electronics will now face a tariff of only 10%, lower than the baseline for Southeast Asia, which was once seen as a preferred alternative to China.

For both South and Southeast Asia, navigating trade relations with the U.S. will remain essential, even as both regions begin efforts to diversify exports. India is expecting an initial deal with the U.S. in late 2025 or early 2026, but New Delhi will also pursue trade agreements with the EU, Israel and possibly Canada.

A wild card is the pending U.S. Supreme Court decision on the legality of Trump's tariffs under the International Economic Emergency Powers Act, which provided the legal basis for virtually all Trump's second-term tariffs. If the court rules those tariffs illegal, it would cast doubt on the enforceability of all the U.S.-Asia trade deals from 2025.

Realignments: Strong states, restless societies

In China, President Xi Jinping's authority still appears unchallenged despite a poor job market, weak consumer sentiment and persistent deflation. China's success in resisting U.S. tariff pressure in 2025 enables Xi to claim vindication for his strategy focused on technological self-sufficiency and supply-chain leverage, despite costs to the broader economy. In the military, a series of high-level purges suggests that as part of his campaign to address corruption and ensure loyalty, Xi is even willing to target officers he himself previously selected to address corruption and ensure loyalty.

Japan's Prime Minister Sanae Takaichi's populist nationalism energizes younger voters but strains the ruling coalition, especially over reforms pushed by the Nippon Ishin no Kai. The divisions threaten legislative paralysis and party fractures, while her off-script remarks on Taiwan reveal the risks of hawkish rhetoric. Balancing domestic nationalism with diplomatic restraint remains precarious. Japan's political volatility now stems from both coalition instability and an unpredictable foreign policy that heightens regional tension and undermines policy continuity.

Indian politics is likely to remain stable, though state elections may temporarily sharpen religious cleavages and communal tensions. Sri Lanka is also likely to remain stable under its new leadership. However, in Bangladesh, the banning of former president Sheikh Hasina's Awami League risks instability by alienating a significant portion of the population. In Nepal, following the Gen Z revolution, the challenges of forming a stable ruling coalition will determine the country's political trajectory. For both Kathmandu and Dhaka, interference and influence from China cannot be ruled out.

Volatility could be worst in Thailand and the Philippines, due to elections in the former and an ongoing corruption controversy in the latter. Both have the potential for significant street protests and social instability in worst-case scenarios. In Vietnam, communist party general secretary To Lam is expected to be elected in January for a five-year term, which reduces the risk of political volatility. In Indonesia, pushback from students and activists against the increased consolidation of power by President Prabowo Subianto could see more protests. Malaysia is broadly expected to be stable, with most of the focus on the buildup to 2027 by-elections. In all these countries, with the exception of Vietnam, a significant worsening of the economy could translate into more street protests.

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In Focus: Global Energy and Resources

Geopolitics: Extra uncertainty in the peak demand debate

Geopolitics have been a significant contributor to oil and gas market volatility in recent years and will continue to inject considerable uncertainty into energy markets in 2026. Ongoing conflicts (the Middle East, Russia-Ukraine) pose continued uncertainty around supply and threaten disruptions at key energy transit chokepoints; sanctions and tariffs are continuing to reshape energy trade flows; and a stubborn global economic recovery renders a persistent, uncertain picture for demand and uneven uptake of low carbon solutions.

The market widely anticipates global oil supply to outpace demand in 2026, potentially by up to four million barrels per day, which would be an unprecedented level of oversupply. While persistent, high-stakes geopolitical conflict could still provide some correction, the expectation of a supply overhang, continued structural changes in energy markets linked to alternative fuel sources and greater efficiency, and the possibility of plateauing Chinese oil demand, among other factors, are all likely to cap the upside for prices.

For natural gas and LNG, geopolitical upset has re-rerouted supplies (primarily from Europe to Asia), pushed new trade alliances and exposed infrastructure vulnerabilities. With a significant ramp-up in LNG supply planned in 2026—estimates suggest global supply could rise by up to 10%—prices will likely fall to absorb the impact. Conflict could tighten supply, but only to a degree, and LNG suppliers will have to adapt and show flexibility to compete.

As energy and minerals exporters diversify from traditional markets, this can open opportunities but also raise costs and introduce new geopolitical risks.

Through this, OPEC+ and major non-OPEC producers remain noncommittal with their responses and companies are likely to act more cautiously as investment and project risks remain elevated. Especially in more unstable regions, projects could face delays, impacting the longer-term supply picture, while changing geopolitical and economic trends point to energy demand growth that is likely to be more concentrated in non-OECD regions, especially across Asia, where a demand rebound could begin in earnest in 2026. As exporters diversify from traditional markets, this can open opportunities, but also raise costs, shift pricing dynamics and introduce new challenges and geopolitical risks.

Trade: Policy shifts fuel the minerals race

Critical minerals demand is continuing its sharp rise linked to EV sales, power grid expansion and modernization, and renewable infrastructure. But with China still dominating much of the supply chain, especially critical refining and processing steps, geopolitical competition is an outsized factor shaping the industry outlook. Therefore, a range of policy responses will continue taking shape in 2026:

- **Dependency caps, traceability and due diligence in supply chains:** the EU Critical Raw Materials Act (CRMA) sets enforceable benchmarks by 2030, but 2026 will bring secondary legislation and a compliance ramp-up.
- **Permitting reform and midstream buildout:** in the U.S., more awards and solicitations can be expected under the Defense Production Act Title III, which is being used to fund magnet and rare earth recycling capacity. India's National Critical Mineral Mission is incentivizing recycling and circularity, expected to ramp up in 2026. Canada is pursuing tax credits, indigenous partnerships and more. The EU CRMA is fast-tracking extraction, processing and recycling projects to ease chokepoints.
- **Domestic stockpiling and export controls:** Australia will implement its strategic critical minerals reserve to buy and hold critical minerals. China has expanded export controls to cover more rare earth products, technologies and goods, likely adding to trade frictions. Indonesia wants to keep nickel downstreaming in place and has raised royalties and placed restrictions on export earnings, both of which are likely to impact costs and contracts.
- **Alliances and joint finance programs to shore up supply chains:** the U.S.-led Minerals Security Partnership (MSP) is expected to facilitate more financing and offtake agreements. A range of agreements from U.S.-Japan to India-Japan and fresh EU tie-ups with South Africa and Australia should start to yield additional projects and offtake agreements in the year ahead.

While these initiatives will establish some easy wins around policy frameworks and supply chain organization, the transformational change needed to create a diversified market (building new mines, refineries and recycling capacity) remains a long-term challenge. For now, policy announcements are likely to outpace actual delivery and change.

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Realignments: Data centers and evolving energy demand

While there is considerable variation in estimates of global data center electricity consumption due to limited disclosure requirements, AI and data centers nevertheless represent one of the fastest growing sources of demand, having grown at a rate of 12% annually over the last 5 years according to the International Energy Agency (IEA). While the overall share of global electricity demand remains modest, it still represents a vital piece of the incremental electricity growth outlook, assuming AI growth continues at pace. The energy-intensive process of running and cooling servers training AI models is altering the global energy industry with important implications for production, distribution, consumption and regulation.

On the last point in particular, a range of regulatory and policy issues are beginning to emerge, some of which will assume a more mainstream role in the policy debate in 2026, and many of which are creating inconsistent conditions for operators across jurisdictions. In the EU, a package of tightened energy performance rules for data centers is expected in early 2026. In the U.S., individual states and various lawmakers are raising concerns about increasing demands of AI on the grid and household energy bills, which could prompt attempts at new bills or regulatory frameworks to manage large data center loads. This could include, for example, measures such as new tariffs for gigawatt-scale centers or required participation in grid resilience programs. Across the globe, sustainability mandates could impose greater infrastructure regulations on power and cooling and more extensive reporting on energy costs of training models. Furthermore, resource constraints (grid, water, etc.) or social opposition could slow permits or add regulatory hurdles.

All stakeholders will have a role in evolving regulations. Energy and utility companies will have to ensure reliability, fair costs and compatibility with decarbonization goals; data center operators will have to invest in efficiency, possible monitoring or reporting solutions, clean power integration and account for various resource or grid constraints; and meanwhile, lawmakers will have to balance economic development and leadership with various grid, environmental and consumer considerations.

Europe

Geopolitics: Attrition, diplomacy and the future of European security

With the fifth year of Russia's war of attrition approaching, signs of exhaustion are increasingly evident on both sides. Ukrainian forces are struggling to repel ground and air attacks amid deepening manpower shortages and constraints on external military support. In addition, recurring utility shortages, deteriorating living conditions and high-profile corruption investigations are undermining domestic morale and resilience. On the Russian side, the economy is showing multiple signals of distress under the weight of international sanctions, which now increasingly target Moscow's critical energy revenues.

Mounting challenges on both sides, coupled with pressure from the Trump administration, are underpinning a renewed search for a diplomatic settlement. However, even if an agreement is eventually reached, its implementation and sustainability cannot be taken for granted.

Progress toward EU internal market buildout will be the most important development to watch, even if global geoeconomics continue to dominate the headlines.

The terms under which the war in Ukraine ends will have lasting implications for Ukraine, Europe and trust in Western institutions. An agreement that preserves Ukraine's territorial integrity and sovereignty while providing credible security guarantees would be the necessary precondition for economic recovery, EU-mandated structural reforms and investment opportunities. Conversely, failure to secure Ukraine's borders, independence, and long-term security would leave the country vulnerable to renewed Russian aggression and influence—potentially making Europe's second largest state a long-term source of instability.

Looking ahead, the Kremlin is unlikely to abandon its broader geopolitical objectives of weakening key Western institutions, overhauling the European security architecture and expanding leverage within its perceived sphere of influence. In this context, Russia's actions—and those of its affiliated agents—will remain a key source of disruption and insecurity in the near term and a potential military threat over the medium to long term.

Trade: Between superpower competition and internal reform

In 2025, the EU and the UK managed to strike deals with the U.S., but their high-level accords remain fragile. Implementation risks persist around the Europeans' ambitious investment and purchasing commitments, ongoing legal and political uncertainties in Washington, and the interplay between trade and the wider uncertainties of transatlantic and global geopolitics, including Europe's ties with China.

In relations with Beijing, speculation continues over whether Brussels will trigger its Anti-Coercion Instrument. Europe will keep a close eye on China's new

Five-Year Plan and pledges to phase out electric vehicle subsidies. For the EU, the deeper challenge lies in internal coordination. This is less true between member states as the "China shock" has drawn Berlin closer to the consensus, but is increasingly true between governments and the industrial sector, which continues to rely on ties with China despite growing strategic unease.

Efforts to diversify trade remain exposed to competition with the two superpowers. Washington's renewed trade push across the Asia-Pacific region offers partners softer terms on technology taxation and geographical denominations, coupled with security cooperation that Europe cannot match. The EU's counteroffer rests on reliability and regulatory consistency, although larger trade deals have not been without contestation among EU member states either. Brussels is now also racing to ease domestic regulatory burdens. Sensing these changes, trading partners from the UK to India are pressing for opt-outs and exemptions from EU flagship projects such as the Carbon Border Adjustment Mechanism (CBAM).

Europe's drive to expand and diversify trade links may test its own long-held beliefs. External pressures are working together with an internal push for regulatory simplification and increased talk about completing the EU's still fractured internal market. Progress toward such buildout, the cutting of red tape and the bloc's multi-year budget negotiations will be the most important development to watch in 2026, even if global geoeconomics continue to dominate the headlines.

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Realignments: The uneasy dance with the far right

What happens next on the seemingly ever-continuing move of European politics to the right? A central factor to watch is moderate conservative forces and their willingness to cooperate with the far right—and the latter's willingness to moderate its positions. For instance, in the European Parliament, attention will focus on whether the occasional right-of-center voting alliance evolves into something more durable. Amid continued speculation about snap polls in Spain, similar questions could emerge there.

In contrast, in Hungary the far right has long held executive power. Elections there will not only test Viktor Orbán's strength, they might also raise questions over institutional quality in a scenario where his Fidesz party loses the vote, after years in which Orbán has staffed institutions with loyalists. The role of outside actors will also be watched closely, including speculation about possible financial backing from the U.S. administration.

Across much of Europe, the far right's continued rise reinforces difficult trade-offs for governments. On the one hand, structural economic reform is urgently needed to counter the sense of societal stagnation on which the far right tends to thrive. On the other hand, the strength of far-right forces discourages centrist parties from taking bold reform steps in the short term if they possess the required majorities in the first place.

This pattern is evident across major economies. Amid strong polling for the far-right AfD and five regional elections due in Germany, record spending on defense and infrastructure contrasts with slow progress on structural reform. In France, all eyes will be on the retrial of Marine Le Pen, while halting pension reform remains the price for relative government stability until the 2027 election. In the UK, the government remains trapped between Labour's internal resistance to spending cuts and widespread discontent over tax hikes, while local elections could help Nigel Farage's Reform to further establish itself.

Latin America

Geopolitics: A new Monroe moment?

Latin America attracted more U.S. attention in 2025 than at any time in two decades. U.S. pushback against China's increased influence in the region has been likened to a rebooted Monroe Doctrine, the nineteenth-century declaration to keep extra-hemispheric powers out of the Americas. Likewise, U.S. threats against Mexico, Venezuela and Panama echo the 120-year-old Roosevelt Corollary, a historical justification for U.S. intervention in the region. Whether a deliberate pivot to a spheres-of-influence global order is underway, or U.S. priorities—drug-trafficking and migration—happen to have strong regional resonance, Latin America is likely to remain geopolitically significant in 2026.

Mexico and Venezuela will be particular focal points for the U.S.; it is a measure of the deeply uncertain outlook for Venezuela that so many scenarios are on the table, from regime collapse to the maintenance of the status quo. If Nicolas Maduro is removed as president absent any clear U.S. plan for the day after, a democratic transition might not necessarily be smooth or straightforward. The course of U.S. policy toward Venezuela—in conjunction with other instances of U.S. "big stick" diplomacy—will have important implications for the U.S.'s regional standing. To counter this risk, a U.S. priority will be to expand and strengthen a regional alliance whose main pillar is currently Argentina. Depending on election outcomes, Chile, Colombia and Peru could join this pro-U.S. alignment in 2026. However, in Colombia's case, relations with the U.S. may well get worse before they improve.

The trading relationships of the region's two largest economies—Mexico and Brazil—face heightened uncertainty next year.

At the same time, most countries will continue to adopt a position of strategic straddling vis-à-vis the U.S. and China. Brazil may be the exemplar of Latin American geopolitical non-alignment, but also the exception: Brazil's size, diplomatic clout and relatively reduced exposure to U.S. trade threats mean that it can afford to be more assertive. Even so, Brazil's political horizon beyond 2026 is hazy. From a geopolitical perspective, Brazil is likely to intensify a pragmatic approach to alliances and a consistent defense of multilateralism, not only in trade, finance, the environment and development, but also within the UN system, including reform of the Security Council. How China responds to the more muscular U.S. posture in the region is another key question for 2026.

Trade: Northern uncertainty, Southern diversification

The trading relationships of the region's two largest economies—Mexico and Brazil—face heightened uncertainty next year. The United States-Mexico-Canada Agreement (USMCA) review formally gets underway in July 2026, though in practice preparatory steps by all three parties are already underway. Both process and outcomes remain uncertain.

Brazil has always had a broad-based approach to trade agreements and the diversification of exports markets. For the most part, it has not sought free trade agreements as such but partial agreements where it can use its bargaining power to secure specific concessions. The U.S. has always been a top trading partner but the Trump administration's application of the so-called "reciprocal tariffs" to a cumulative level of 50%—despite Brazil having had a deficit with the U.S. for fifteen years—prompted the country to be more aggressive in seeking new markets. Brazil has traditionally favored negotiating in blocs, as Mercosur. The main item in that context is the bi-regional Mercosur-EU agreement which has been on the agenda for more than twenty years but has gained relevance for both sides amid the U.S.' new approach—and is likely to move forward in 2026. On another front, Brazil's approach to the BRICS alliance has been strategic and investment-related, privileging structural initiatives such as the use of a common currency in intra-bloc trade or greater infrastructure integration.

Beyond Mexico and Brazil, partial trade agreements with a clutch of Latin American governments announced at the end of 2025 should help ensure that the region continues to exercise restraint in the face of U.S. protectionism. Additionally, selective U.S. tariff carve-outs on some agricultural goods are a reminder that trading will remain subject to fluctuations in 2026.

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Realignments: Competing visions of order and reform

Elections take place in Colombia, Peru and Brazil in 2026. In Colombia and Peru, there is a good chance that right-leaning, pro-U.S. governments are elected. If so, they would join the rightward shift already underway in Argentina, Ecuador and Bolivia. Chile might also join this group. However, political fragmentation is intense in Colombia and especially Peru, creating the potential for electoral surprises, including the possibility that populist outsiders end up being elected. The eventual filtering process could produce highly polarized contests pitting right against left. In Brazil, political polarization is likely to ease since the far-right will no longer lead the opposition's electoral efforts after the conviction of former president Jair Bolsonaro (2019-23). Lula will seek re-election and could buck the apparent regional swing in the political pendulum if he prevails; his most likely challenger is Tarcisio de Freitas, current governor of Sao Paulo, the country's richest state.

The 2026 election cycle will shine a light on the region's different manifestations of the resurgent political right, which encompass libertarianism, law and order populism, economic orthodoxy and pragmatism. Argentina is something of an outlier, but Javier Milei's ability to advance the next phase of his structural reform agenda will be a test case for the new right. The demand for results and better policy delivery in Argentina and beyond is clear. Outbreaks of protests in Peru and Mexico toward the end of 2025 indicate how frustration with increasing crime has risen up Latin America's political agenda; It is now the top public concern across the Andean region. Failure risks disillusionment, expanded protests, political volatility and another anti-incumbency cycle.

In Focus: The Geopolitics of AI

Geopolitics: Great power rivalries over—or against—AI?

In 2025, markets surged to record highs on the back of the AI investment boom. In the process, they even shrugged off fears about the impact of tariffs on global trade and the world economy. Against this backdrop, the question going into 2026 is about the relationship between the new technology and geopolitics.

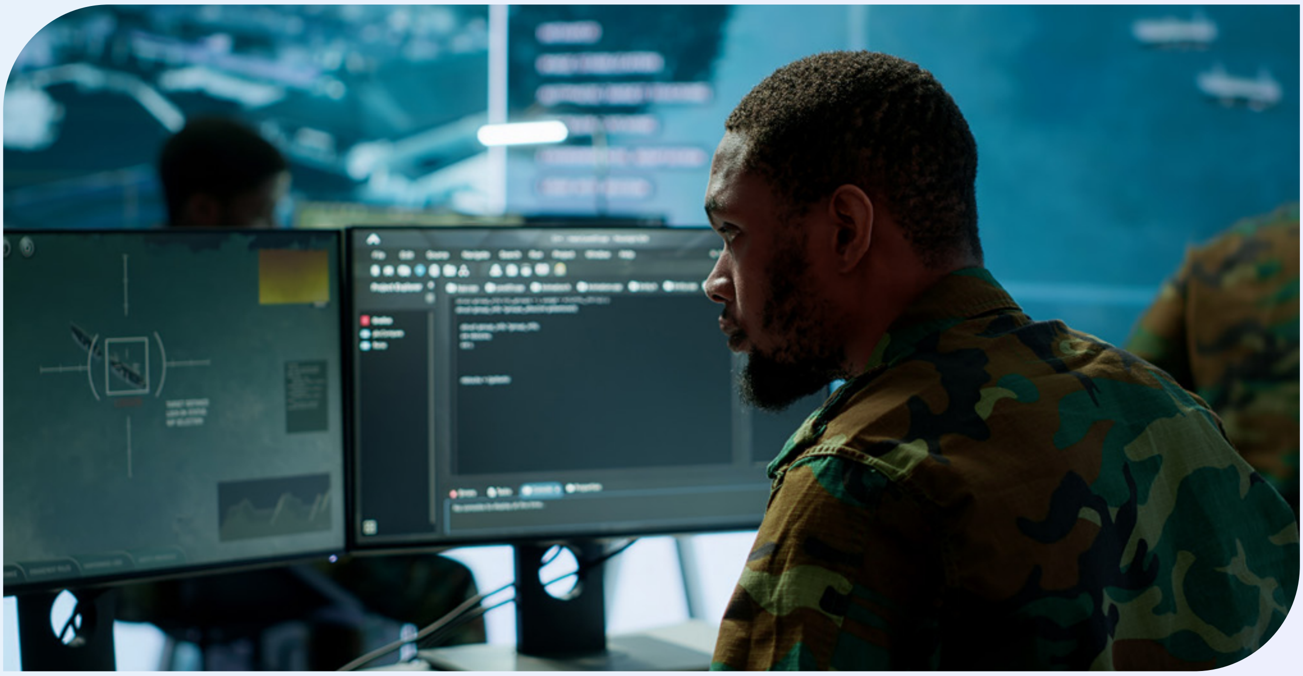
AI is not just about algorithms. It is about access to data, capital, computing power, and regulatory influence.

Is what we have been seeing the geopolitics of AI? The evidence includes the continued race to control this technology between the U.S. and China, leveraging export restrictions targeting everything from rare earth inputs to chips and inconsistent progress, even among the most advanced economies. Or are we witnessing competition for markets' attention, pitting geopolitics against AI? This would mean that investors will continue to focus on the technology's potential to outpace otherwise ubiquitous concern with politics altogether. In all likelihood, both dynamics will play out in parallel.

AI will continue to shape global alignments and expose new fault lines in 2026. What began as a race for technological advantage has evolved into a contest over governance, access, and distribution, in the process creating a widening rift between those who possess advanced AI capabilities and those who do not. Apart from the much-debated competition between big power blocs, the resulting asymmetry is also reinforcing the latest debate over the global North–South divide, with model-training capacity, cloud infrastructure and capital concentrated in a handful of economies.

The geopolitical relevance of AI is already visible, from AI-assisted military targeting in Ukraine to the growing role of algorithmic systems in defense planning more broadly. In the short to medium term, the key question is how the competition for innovation plays out between China and the U.S. Over the longer run, the AI story underscores that despite continued debate over the challenges faced by the U.S., its capacity for innovation and funding remains difficult to rival.

Ultimately, the geopolitics of AI are defined less by algorithms than by access to data, capital, computing power and regulatory influence. The coming year could further entrench a world where digital capabilities both mirror and reinforce existing geopolitical hierarchies.



Trade: Fragmented regulation amid global competition

In 2026, companies and investors will continue to monitor closely how the drive to regulate AI is progressing unevenly across major economies.

In the U.S., the close nexus between the tech sector, government and investors remains crucial, while China's top-down model reflects a fundamentally different approach to risk and innovation. Amid weak growth prospects and fears of falling behind on innovation, the EU is changing course from its erstwhile, skeptical approach to "high-risk" use cases. Brussels is now delaying or softening parts of its AI Act as it seeks to simplify compliance and ease burdens for smaller firms struggling to compete globally.

None of these frameworks can function without sustained funding, however. This fact links the AI story directly to industrial policy debates. The U.S. remains in a unique position due to the depth and liquidity of its financial markets. In contrast, the EU's attempts to mobilize subsidies face tight fiscal constraints, as well as regulatory fragmentation. Affluent sovereigns such as the Gulf economies may have greater flexibility and the added advantage of abundant and cheap energy, while China remains the largest interventionist player. The underlying question concerns the role state-directed investment can ultimately play in an innovation story originally born in the private, venture-driven environment of Silicon Valley.

The scale of capital required also brings financial risk. Investor speculation around AI growth is already raising concerns about a possible "AI bubble," especially in computing infrastructure and chipmaking. If a sharp correction were to occur in 2026, it could have far-reaching geoeconomic and geostrategic repercussions. Short of that, export controls on key inputs will keep AI at the heart of global trade tensions.

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Realignments: Access, agency and adaptation

Realignments: Access, agency and adaptation

AI is further reshaping politics in countries around the world after years of growing fragmentation, polarization and populism. Concerns over disinformation and election interference predate this technology but have already intensified, as generative tools become more sophisticated and harder to trace.

From a more structural perspective, uneven AI adoption could amplify existing social, economic and ultimately political divides. Companies searching for the next productivity breakthrough have so far reported mixed results when assessing the effects of AI adoption. Yet, over the longer term, AI might both boost growth and risk deepening inequality between winners and losers in labor markets already under pressure from automation and demographic shifts, further widening the gap between sectors and skill levels, and in turn, exacerbating wealth disparities between voters and among nations.

For advanced economies, AI has become a cross-cutting issue spanning debates on fiscal, education, defense and competitiveness policy. For developing countries, it represents both opportunity and dependency: access to computing infrastructure, training data and foundational models is becoming a new measure of influence. Many governments are seeking fairer terms of participation in this emerging digital order.

The G20, OECD and UN are all exploring governance frameworks, but a lack of trust between major blocs and the broader decline of multilateralism mean that progress in 2026 will likely be extremely modest. The more realistic path forward sees "AI sovereignty" emerge as yet another dividing line: not only between rival big power blocs in the northern hemisphere, but also between digital haves and have-nots across the global South.

Middle East & North Africa

Geopolitics: Escalation risks amid fragile containment

A Iran will continue to play a consequential, if uncertain, role in the region. The future of its nuclear and missile programs will be key questions in the year ahead. A political transition also looms, though 86-year-old Supreme Leader Ali Khamenei has yet to name a successor.

Iran's regional influence has weakened, as its proxies falter and Israeli strikes target nuclear and military assets. Following the 12-Day War in June 2025, the risk of renewed conflict between Israel and Iran remains high.

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Though battered, Iran is not defeated. Its November 2025 seizure of a ship near the Strait of Hormuz underscored its capacity to disrupt maritime trade. Gulf Arab governments remain on alert to contain fallout from destabilizing Iranian actions.

Houthis in Yemen and Iran-aligned militias in Iraq continue to pose risks, but have largely stayed quiet. The Houthis have paused attacks on Red Sea shipping, though changes in Gaza's ceasefire could reverse that. Iraq's November 2025 elections and the lengthy government formation process will occupy much of its political bandwidth.

Syria shows some tentative progress, though reconstruction and investment needs remain vast. Lebanon, meanwhile, stays tense amid Israeli strikes on Hezbollah and an ongoing Israeli presence. Expanded U.S. and Gulf support depends on Beirut's ability to manage and disarm Hezbollah.

The Gaza ceasefire and hostage exchange marked progress in the Israel-Hamas war. Yet advancing toward later peace-deal phases—including establishing an Internal Stabilization Force, disarming Hamas and creating transitional governance—will be difficult. Gulf Arab governments are coordinating closely with Washington on negotiations, humanitarian aid and Gaza's postwar future.

Trade: Resilience and recalibration

Many countries in the region face relatively low direct exposure to U.S. tariffs. Beyond the 10% baseline, some encounter higher rates on aluminum, steel and other exports, though exposure remains manageable. Trump-era tariffs have disrupted FTAs between the U.S. and several regional countries.

Governments are absorbing tariff shocks, focusing on other U.S. partnership areas and diversifying economic ties. The United Arab Emirates (UAE) is building new coalitions like the Future of Investment and Trade Partnership, a 14-country group promoting open and fair trade. It also continues to sign Comprehensive Economic Partnership Agreements (CEPAs) across key markets. Meanwhile, the Gulf Cooperation Council (GCC) is working to finalize multiple FTAs, though some talks have stalled.

Regional economic growth is expected to rise in 2026, driven by higher oil production, fewer trade disruptions and easing tensions, despite persistent uncertainty. The Chinese economy's trajectory amid Beijing's tense relationship with the U.S. will affect fiscal and economic conditions, particularly for oil and gas producers.

Gulf countries aim to sustain positive momentum. This prosperous, stable subset remains a global hub for wealth and investment, but lower oil prices and supply-glut fears are prompting spending recalibrations.

Egypt's economy is recovering, supported by global assistance, foreign capital inflows and falling interest rates, helping avert a downturn. Yet geopolitical risks from the Gaza crisis, Red Sea tensions and the Grand Ethiopian Renaissance Dam persist.

Iran continues to struggle under sanctions, with tighter restrictions further straining its economy. Some regional governments are urging renewed U.S.-Iran negotiations to de-escalate tensions.

Realignments: Domestic politics of global partnerships

Iraq, Egypt and Syria held parliamentary elections in the fall of 2025. Iraqi elections followed a familiar script, with an extended period of political horse trading expected into 2026. Egypt's National Election Authority annulled the results of some electoral districts following a directive from the Egyptian president to investigate voting processes.

Syria's first elections after the fall of Bashar al-Assad were a symbolic achievement. But President Ahmed al-Sharaa is under pressure to build an inclusive political system after more than a decade of civil war and negotiate a permanent repeal of sanctions on his country. Presidential elections are not expected to occur for several years.

Armed groups will loom over regional electoral processes. Lebanon's fragmented political system is preparing for general elections in mid-2026, though there are concerns that political actors like Hezbollah might seek to delay the elections.

Israeli elections are planned for October 2026, but voting could take place earlier. The opposition bloc poses a genuine threat to Prime Minister Benjamin Netanyahu, who has announced his intention to run despite facing legal challenges. Public demands for political accountability for the Hamas-led attack on October 7, the future of Gaza governance and broader security concerns related to the Israeli-Palestinian conflict will feature prominently in the elections.

Gulf countries, which possess greater stability in political leadership, are closely following fast-moving political developments in the region and beyond. The U.S. remains a crucial partner for these governments and deepening alignment with the new—and occasionally unpredictable—administration in the White House is a top priority. Countries that have not yet normalized ties with Israel are likely to feel increasing pressure from the Trump administration.

Gulf-U.S. relations will nevertheless continue to serve as a robust and strategic corridor involving defence and security arrangements, energy cooperation and broad economic engagement frameworks. A key geoeconomic dimension of this exchange involves artificial intelligence collaboration. Gulf authorities must adroitly manage U.S. political dynamics and other consequential global developments to advance their longer-term technology agendas.

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North America

Geopolitics: Defining "America First" amid global turmoil

In 2026, U.S. foreign policy is likely to continue to move away from globalism, defining what "America First" means amid internal divisions within the MAGA coalition between extreme isolationists, classical conservatives and nationalist voices.

The U.S.-China relationship remains the biggest question. While the Department of War continues to prepare for a conflict with China in the 2028-2030 timeframe, it will be constrained from making any major advancements by available funds—even for significant administration priorities such as the "Golden Dome for America" missile defense proposal. President Trump, on the other hand, is focused on stabilizing trade with the second largest economy in the world and, more importantly, his relationship with President Xi.

The U.S. enters 2026 amid political and economic volatility that will define the midterm cycle and shape the trajectory of President Trump's final years in office.

In both the U.S.-China relationship and global geopolitics, technology competition and investment will become an even more important driver of both friction and cooperation. The U.S. and China will continue to compete for the best frontier models (where the U.S. is leading) and for global adoption (where China has an early edge.) More deals to diffuse AI technology might emerge around the world, particularly in the Middle East, where countries are racing to complete data center buildout ahead of their neighbors. Economic cooperation could be disrupted by the resumption of full-blown war in Gaza; the Trump administration will be occupied with keeping the ongoing fighting from flaring up rather than finding a lasting, successful peace.

Expect Western hemisphere issues to remain dynamic in 2026. In Venezuela, the administration is unlikely to back off on targeting alleged drug boats, nor ease up pressure on Maduro. MAGA non-interventionists who want to focus on the U.S. and avoid conflict abroad will have an uphill road to climb. Tensions are also growing with Nicaragua, Colombia and Mexico. Amid Trump's strong desire to bring an end to the war in Ukraine, expect more pressure on both sides and on Europe. This may further complicate the already strained transatlantic relationship.

Trade: Posturing and pragmatism in the USMCA review

The 2026 review of the United States–Mexico–Canada Agreement will test the balance between political posturing and policy substance. While Trump continues to frame trade negotiations as a tool for political leverage rather than simply policy strategy, the administration's limited engagement on formal renegotiation suggests the review will serve as a political instrument rather than a comprehensive rewrite. For business, this reinforces the importance of sustained bilateral relationships across North America, even in the absence of major policy shifts.

Trade remains central to Trump's economic narrative. The White House and U.S. Trade Representative Jamieson Greer are expected to press for tighter rules of origin, increased U.S. content requirements and greater scrutiny of Chinese inputs routed through Mexico.

Tariffs will remain a key pressure point, including possible reactivation of Section 232 measures on metals and autos, as the administration tests the limits of its authority under the International Emergency Economic Powers Act. Yet beyond these tactical moves, no sweeping renegotiation is expected, with officials emphasizing enforcement over expansion of existing provisions.

Nevertheless, thorny issues on the agenda will include Mexican energy policy, concerns about the weakening of investment protections under the recently overhauled judiciary, rules of origin requirements and measures to reduce China's involvement in North American supply chains. In Canada, Prime Minister Mark Carney's overarching challenge is to preserve access to the U.S. market, at the potential cost of giving way on sensitive political issues, including cultural policies and Canada's highly protected dairy and poultry sectors. Trump's deep unpopularity in Canada will further complicate Carney's ability to balance domestic politics with economic necessity. Both governments are preparing for drawn-out discussions that favor long-term continuity.

Even without dramatic policy change, however, the review underscores the enduring centrality of North American trade. Bilateral engagement and predictable coordination between capitals will remain essential to managing exposure and sustaining investment confidence. For companies, the imperative is to engage early, reinforce credibility with all three governments and adapt to a landscape where uncertainty, rather than new rules, supports regional trade relations.

Realignments: Economic volatility in the midterm cycle

The U.S. enters 2026 amid political and economic volatility that will define the midterm cycle and shape the trajectory of Trump's final years in office. With thin Congressional margins that will limit further legislative progress, the White House is driving its agenda across trade, immigration and energy through executive actions, reinforcing the consolidation of authority within the executive branch.

In Congress, leadership is focused on maintaining unity as Republicans navigate internal divisions and prepare for the midterms without Trump on the ballot. The GOP's strategy centers on preserving base enthusiasm and avoiding costly primary fights as Democrats capitalize on renewed energy following local gains in off-year 2025 elections.

Economic unease remains the dominant voter concern. Persistent inflation, uncertain forecasts on job growth and high living costs are fueling voter anxiety, framing the midterms as a referendum on Republican management of the economy. Redistricting battles in multiple states and shifting demographic patterns add further uncertainty to the control of the House after the 2026 midterms.

Abroad, Trump's transactional diplomacy continues to redefine alliances, rewarding leaders who adapt to his personal style and priorities. World leaders and corporations alike have adjusted to a Washington where policy is personal, unpredictable and increasingly shaped by direct presidential intervention.

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