

2026

FIRST ANNIVERSARY
EDITION

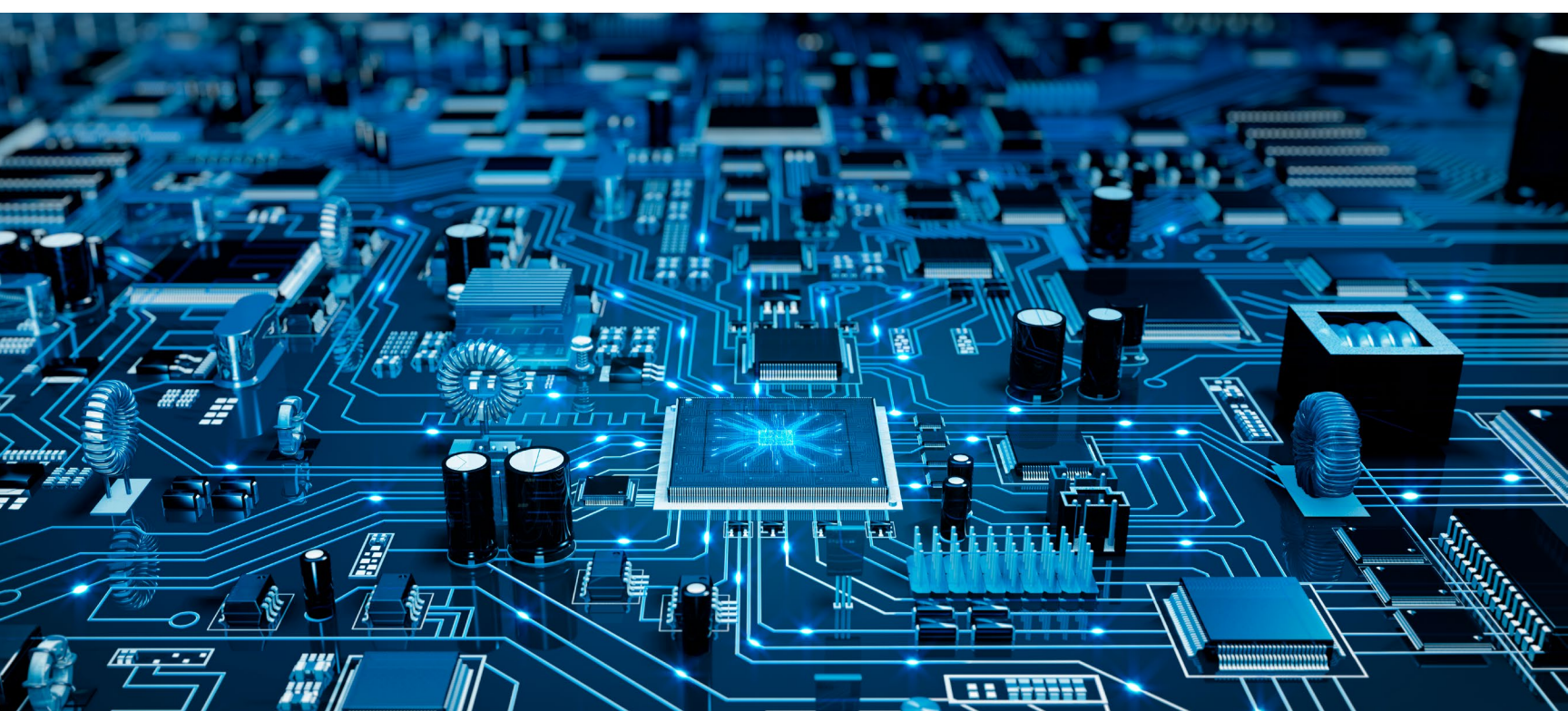


Brink

A Year of Insights
into a World on Edge

JUNE 2026

Center for Geopolitics | JPMorganChase



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Welcome

Jamie Dimon, Chairman and CEO of JPMorganChase



A year ago, I wrote that we were living through a hinge point in history—a time when the world’s old certainties were giving way to new risks, new rivalries, and new opportunities. I said then that our greatest risk was geopolitical risk, and that JPMorganChase needed to meet this moment with clarity, agility, and foresight.

That’s why we launched the Center for Geopolitics: to help our clients, our colleagues, and our communities navigate a world in flux. Twelve months later, the pace of change has only accelerated and the necessity to understand geopolitics is even more important for JPMorganChase and our clients.

When I look back on the Center for Geopolitics’ first year, I am struck by two things. First, how quickly the ground can shift beneath our feet: the global order that defined much of my life—rooted in American leadership, multilateral institutions, and a belief in open markets—is fragmenting. I knew that when we launched CfG, but as this book shows, the past year has reinforced it.

Second, there is opportunity for those who are prepared. By compiling the Center’s work, we can track how ongoing conflicts in the Middle East can ripple through global markets, how a new AI breakthrough can reshape the balance of power, how political transitions in one country can reverberate far beyond its borders. CfG separates the geopolitical signal from the noise, allowing our clients to not just weather the storm, but find new ways to successfully navigate it.

As we look ahead, the need for clarity, judgment, and trusted advice has never been greater. At JPMorganChase, our advantage remains our people, our scale, and our commitment to helping clients lead through change.

The Center for Geopolitics is a vital part of that mission. I am confident this type of strategic advice and guidance will remain critical to our clients—and our firm—whatever comes next.

Jamie Dimon
Chairman and CEO
JPMorganChase

Introduction

Derek Chollet, Head of the JPMorganChase Center for Geopolitics



In May 2025, JPMorganChase launched the Center for Geopolitics with a clear mandate: to help our firm and our clients navigate the rapidly shifting geopolitical order. As our Chairman and CEO Jamie Dimon asserted at the time, “Our largest risk is geopolitical risk.” From the outset, our goal was not to be a news digest, but to provide a lens for understanding the forces shaping our world and their implications for business, markets, states, and society.

As we enter our second year, we felt it was important to step back and reflect on our work. The accelerating pace and complexity of geopolitical change meant there was a lot to sort through. This anniversary book brings together the best of CfG’s analysis from our two flagship products for clients—our deep dive research reports and the *Window on the World* newsletter—organized around the seven main stories that defined our first year.

Taking this step back underscored that the current geopolitical moment has us on the brink of something completely different, presenting new risks and opportunities. That is the inspiration behind the book’s title, *Brink*.

Putting this book together was an equally gratifying and humbling exercise about what we

got right and wrong: we nailed our Venezuela, Greenland, and trade predictions, but our August 2025 report on the Middle East put the odds of an Iran nuclear deal at 65% by the end of Q2 2025. Nobody bats 1000.

The process of compiling this book also helps us look ahead, underlining the growing interconnectedness of politics, security, and economics—how trade policy reverberates through alliances, how regional conflicts reshape global energy flows, and how technological advances like AI are redefining power and risk. It is also a reminder of the fantastic colleagues from around the world we have here at JPMorganChase, as so much of our work leverages the breadth and depth of our colleagues’ expertise across fields.

This exercise has allowed us to look across these stories and see several cross-cutting themes that will shape the shifting geopolitical order going forward:

- **Fragmentation of the global order:** Multilateralism is waning, replaced by regional and transactional alliances. States and markets are learning to hedge, diversify, and build new frameworks in response to increased uncertainty.
- **Instability spills over:** From Iran to Venezuela, leadership changes are roiling regional stability and global markets.

Derek Chollet
Managing Director and Head of the Center for Geopolitics
JPMorganChase

- **Technology and AI:** These are not just economic drivers but strategic imperatives, shaping everything from defense to diplomacy.
- **Energy and supply chains:** The security of critical flows—oil, minerals, data—has become a central concern, with disruptions in one region reverberating globally.
- **Rearmament:** Rearmament is here to stay. The U.S. and allied defense industrial bases face significant headwinds but recognize the challenge and are responding to meet the moment.

The Center for Geopolitics would not exist without the vision and support of the firm’s leadership, the dedication of our founding team, and the collaboration of colleagues across JPMorganChase. We are deeply grateful to everyone who contributed their expertise, energy, and encouragement to bring the Center from concept to reality. In particular, we want to thank Peter Scher, Tim Berry, Steve O’Halloran, Rebecca Brown, Josie Bianchi, Shannon Boozman, and Kate Canter for their unwavering commitment and partnership.

We hope this retrospective will not only inform but provoke new questions. Our second year is shaping up to be even busier. As the geopolitical chessboard continues to shift, our commitment is to provide our clients with clarity and insight as we approach the brink of what’s next.



1

Year Zero of the Next World Order

The past year has challenged many of our most fundamental assumptions. The structure of the global order, the basics underpinning the global energy system, the role of emerging tech in geopolitical competition, and the potency of American soft-power all experienced profound change in 2025. This chapter brings together CfG's best analysis on these systemic changes—showcasing our ability to leverage the firm's deep internal expertise on issues from AI policy to energy, along with external partners like the Tony Blair Institute, to deliver differentiated, decision-ready insights.



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YEAR ZERO OF THE NEXT WORLD ORDER

World Rewired: The Global Order in Flux

December 2025

Center for Geopolitics and Tony Blair Institute Report

We are living through an unprecedented transition in global power and politics. Old assumptions—that growth would remain steady, institutions would adapt, and cooperation would outweigh rivalry—no longer hold. The rules that governed the post-World War II order are fraying, and no single model has or likely will replace them.

This is not the first time the international system has faced such fundamental disruption. Periods of flux have often brought both danger and renewal. **But today's world is not simply multipolar; it is diffusely multipolar, with influence dispersed across many actors, unevenly distributed across domains, and advancing at different speeds (see figure).**

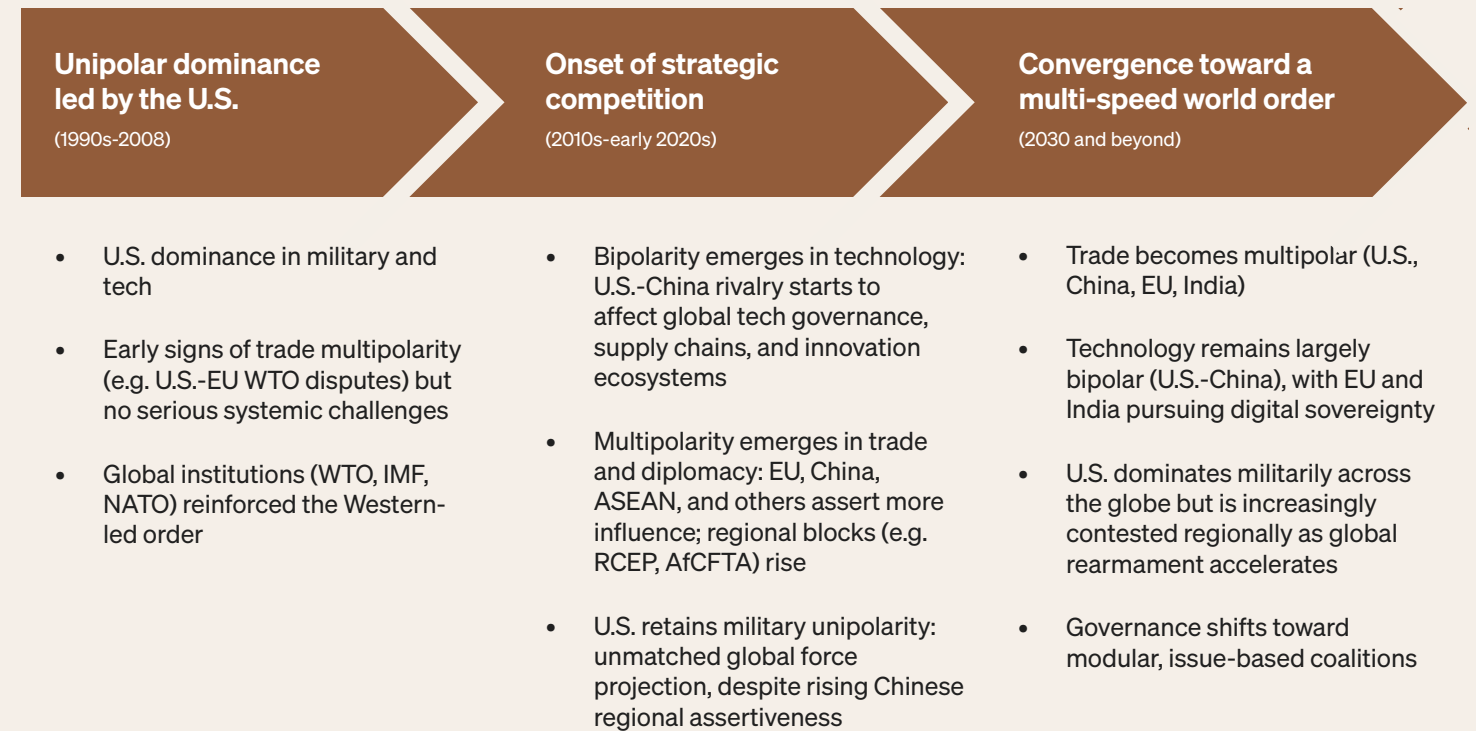
Trade, technology, energy, security, and climate policy are no longer

moving in sync, creating a multi-speed order with little historical precedent. Compared with Cold War rivalries, today's interdependencies are so deep that unmanaged U.S.–China rivalry would be catastrophic, making bounded accommodations on select systemic issues unavoidable.

Three dynamics define this transition: **fragmentation**, as institutions erode and power diffuses; **cohesion**, as values continue to bind like-minded states even amid strain; and **strategic competition**, especially between the U.S. and China, which compresses space for others to hedge. Each interacts with the others, **producing a layered and often contradictory global order—one that is simultaneously more divided, more interdependent, and more contested than at any time in the modern era.**

Graphical timeline from unipolarity to diffuse multipolarity

Global Shift from Unipolarity to Diffuse Multipolarity



1. Fragmentation and the erosion of universal institutions

Universalist institutions such as the UN and WTO remain in place but are increasingly paralyzed by geopolitical rivalry, divergent interests, and inertia. They can still manage technical cooperation but struggle to resolve systemic crises that demand structured cooperation or to enforce compliance on major powers.

Gridlock at the center

The UN Security Council is divided on a number of key issues, while the WTO's dispute settlement mechanism has been sidelined. Universalism no longer provides predictable and enforceable rules for international order.

Risk to global public goods

Climate change, global health, cybersecurity, nuclear non-proliferation, and AI governance require structured cooperation frameworks with agreed metrics, inspection rights, and standing secretariats, anchored by the participation of the U.S. and China. Yet such mechanisms are absent today, leaving systemic risks under-governed—even as the need for them grows.

Fragmentation is structural—not temporary

This is not simply a transitional phase with a new consensus around the corner. The geopolitical landscape is settling into diffuse multipolarity where fragmentation is the baseline and order is negotiated piecemeal, even if over the longer-term new forms of consensus could eventually emerge.

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2. Regional spheres of influence: overlapping, flexible and constrained

Power is increasingly organized through overlapping spheres of influence, shaped by geography, capacity, and strategic intent. Unlike Cold War blocs, these are neither self-contained nor stable: they overlap across trade, technology, and security, creating both room for maneuver and tighter constraints.

Layered spheres of influence

The U.S. retains primacy in the Western Hemisphere and, while increasingly contested, the Indo-Pacific; China seeks dominance in East Asia and along Belt and Road corridors; India asserts leadership across South Asia and the Indian Ocean; and the EU projects influence through trade rules, regulation, and climate diplomacy.

Agility for middle powers

States from Turkey and the Gulf to Southeast Asia can hedge across spheres, engaging in U.S.-led security networks, Chinese infrastructure finance, and European regulatory regimes simultaneously. This enhances their influence but demands constant recalibration.

Limits to maneuver

The scope of maneuver, however, is uneven across domains and great powers are raising the cost of hedging. China urges partners to adopt its position on core sovereignty issues, particularly Taiwan, while the U.S. increasingly links access to markets and advanced technology to security commitments. This squeezes the room for middle powers. The complexity of global economic ties further blurs these boundaries: states may align with one power in security or diplomacy while remaining tightly bound into competing economic and trade networks, making spheres harder to define than in the past. Flexibility is broadest in consumer goods, food, logistics, and basic manufacturing, but far narrower in semiconductors, AI, advanced telecommunications, and defense supply chains.

3. Minilaterals and blocs: agility without cohesion

With universal institutions gridlocked, states are turning to smaller formats. These minilaterals deliver speed and focus, while larger blocs add numerical weight. But neither provide the cohesion or enforceability of universal frameworks.

Minilaterals as default cooperation

Issue-specific coalitions such as the Quad, AUKUS or I2U2 allow states to align selectively on defense, technology or infrastructure. They deliver tangible outcomes faster than multilateral forums but remain narrow in scope. However, their operating model is not suited to managing systemic crisis, where legitimacy, scale, and great power buy-in are critical.

Blocs with weight but weak unity

BRICS+ and the Shanghai Cooperation Organization (SCO) represent efforts to build systemic alternatives to traditional Western groupings, bringing together large populations and resources. BRICS+ now accounts for around 45% of the world's population, 40% of oil production and over a quarter of global GDP. But its apparent rise is largely a reflection of China's trajectory: since 1995 China has accounted for nearly 80% of BRICS economic growth, while the combined share of all other members in global GDP has been broadly stagnant. Diverging interests between China, India, and Russia further constrain cohesion, limiting BRICS+ to largely symbolic weight rather than coordinated action.

This dynamic is evident in the China–Russia partnership: while both oppose Western liberal universalism, their strategic aims diverge: Beijing largely seeks to reorient the global system in its favor, whereas Moscow aims to break it outright. These differences limit the depth of their cooperation within blocs like BRICS+.

Expanding memberships

Enlargement, such as the African Union joining the G20, highlights the growing visibility of non-Western blocs. **Yet expansion increases diversity of interests more than it creates unity**, reinforcing the pattern of greater numerical weight without deeper cohesion.

Disruptive alignments

Informal coalitions like the CRINK (China, Russia, Iran, North Korea) reflect shared opposition to Western-led order, but their tactical cooperation masks deep divergences. They illustrate the destabilizing potential of spheres, but also their limits: tactical cooperation without long-term cohesion or providing a durable alternative to a Western-led global order. See figure.

U.S.–China dynamic

A key variable will be how the U.S. and China decide to involve themselves in these forums. For example, if the U.S. steps back from an active role in the G-20 (following its hosting of the meeting in 2026), how does China fill the void, if at all?

Together, these dynamics create a diffuse, multi-speed multipolarity with little historical precedent, an environment states and companies must navigate without familiar patterns to guide them.

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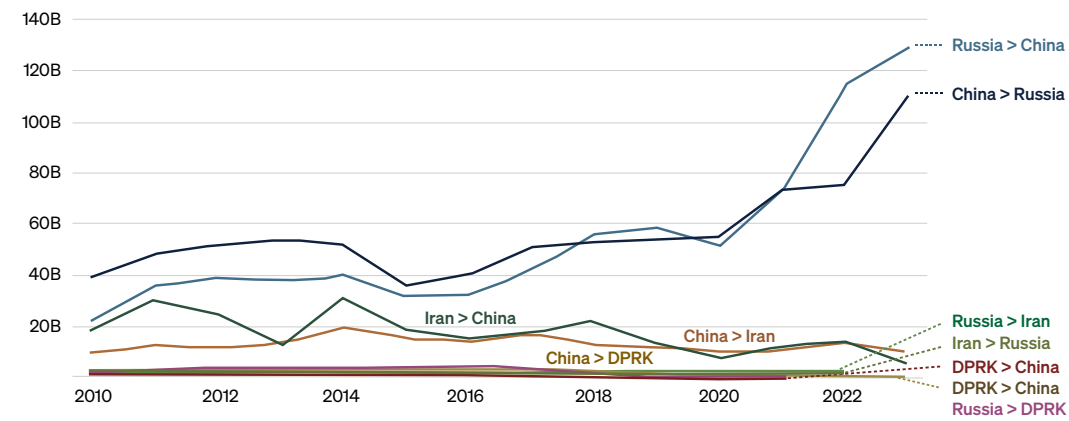
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CRINK—An Axis of Disruption, Not Cohesion

Total Bilateral Trade Among CRINK, 2010–2023 (USD, millions)



Source: Center for Strategic and International Studies, "CRINK Economic Ties: Uneven Patterns of Collaboration," September 2025.

- The informal alignment of China, Russia, Iran and North Korea, sometimes labeled “CRINK”, reflects shared opposition to a Western-led global order, including the aim of weakening U.S. power and avoiding sanctions.
- Cooperation spans military, economic, and cyber domains: from Iranian drones in Ukraine to China–Russia naval patrols. They are also developing partial alternatives to Western systems, such as Russia’s MIR and China’s CIPS payment networks, and share tools of censorship, surveillance, and information warfare.
- Yet cohesion is weak. **Russia and Iran favor disruptive tactics that often clash with China’s preference for stability.** Moscow and Beijing remain suspicious of one another and compete in Central Asia. **This makes CRINK more a coalition of convenience than a cohesive bloc.**
- Nonetheless, as traditional multilateral mechanisms falter, their growing alignment around disruption and sovereignty-first governance reflects a **broader shift toward transactional, competitive geopolitics** in a fragmented global order.



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Window on the World

The U.S. will remain both a source of disruption and an anchor of stability in 2026, with several milestones that will shape domestic politics and global markets.

America's 250th anniversary will be a great celebration.

At the same time, it will surface deeper questions about national identity, cohesion, and direction—expect divergent narratives about the country's past and future, often irreconcilable across the political spectrum. North America will take center stage as the U.S., Mexico, and Canada co-host the World Cup—highlighting regional economic interdependence and cohesion even as immigration tensions and USMCA's review add new frictions. The U.S. will also host the G20, a meeting it skipped this year, making it a global stage that may matter less than it once did but still offers a test of how Washington balances a more unilateral posture with the requirements of multilateral leadership.

Midterms elections will be the defining domestic fulcrum of 2026.

Recent off-year results suggest a competitive landscape that will be shaped by redistricting battles and gerrymandering lawsuits still winding through the courts. Control of the House—the swing variable expected to be in play for the Democrats—will affect how much of the President's legislative agenda can move and how aggressively Congress exercises oversight across trade authorities, immigration enforcement, national guard deployments, and U.S. actions in places like Venezuela.

Several pillars of U.S. strategy will be stress-tested simultaneously.

Abroad, the Administration's push for high-visibility diplomatic breakthroughs, an ambitious suite of trade negotiations, and intensified strategic competition in the Indo-Pacific will continue to confront real-world constraints. Domestic institutions will also face pressure. The courts may weigh in on immigration authority and emergency powers, and the expected nomination of a new Federal Reserve Chair in May will be a market-sensitive moment; politicizing the Fed could trigger concerns from investors.



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Power Rewired: The New Map of Energy and Geopolitics

September 2025

Center for Geopolitics Report with JPMC CIB Climate Advisory

In the New Energy Security Age, control over both minerals and money translates into geopolitical leverage. The emergence of new technologies for energy, AI, and defense has introduced a new set of supply chains forming strategic advantages and vulnerabilities. **Various competitive technologies—including chips, semiconductors, quantum, defense, space, battery storage, wind power, and nuclear—depend on the mining and refining of critical minerals,** many of which are concentrated in fragile or geopolitically-contested regions.

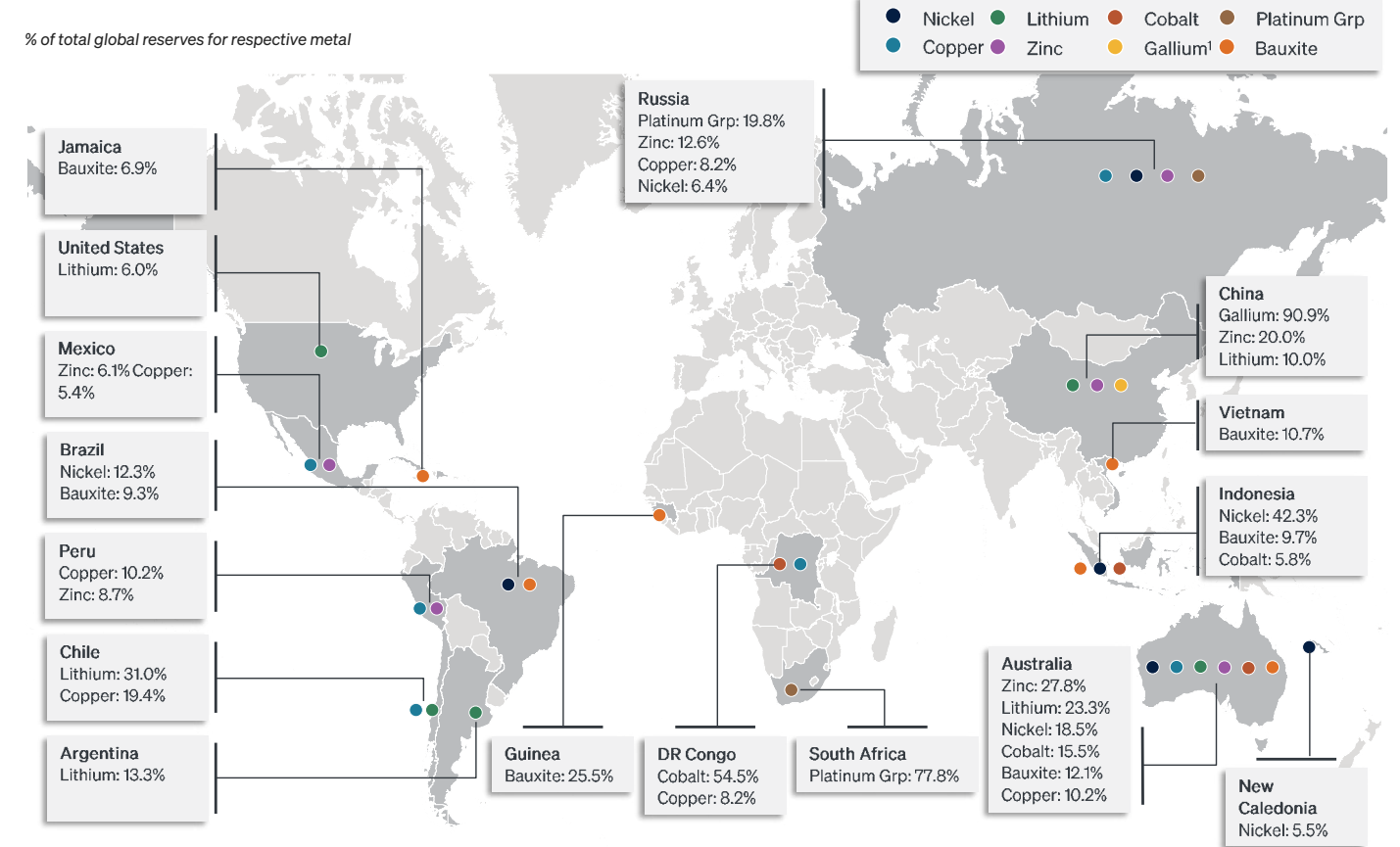
The scramble for minerals—like lithium in Chile (31% global reserves), cobalt in the Democratic Republic of Congo (55% global reserves), and nickel in Indonesia (42% global reserves)—is reshaping trade and diplomacy.

Some governments are imposing export restrictions to retain their advantage and shape global supply chains. For others, dominance rests

not only on resources in the ground and on refining capacity, but on control of capital flows—who finances the mines, who underwrites the factories, and who sets the standards for investment. These can present business risks if standards and underwriting practices are set to support specific countries or entities.

Outbound investment and export controls, sanctions, and restrictions on foreign participation in energy infrastructure and supply chains are becoming standard tools of economic statecraft. Countries that dominate development banks, sovereign wealth flows, or global bond markets are able to steer the direction of energy investment—tilting the playing field in their favor. **This weaponization of critical mineral supply chains and finance marks a structural shift: critical minerals and renewable resources are not just traded commodities, they are strategic levers in a broader geopolitical contest that defines the New Energy Security Age.**

All That Glitters Is Not Just Gold: Mapping Critical Mineral Deposits Globally



Source: U.S. Geological Survey, 2025, Mineral commodity summaries 2025 (ver. 1.2, March 2025) | Note: *Gallium represents production capacity



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China

China has a tight grip on global critical mineral supply chain and refining capacity.

Beijing's export restrictions on graphite and gallium—critical to batteries and semiconductors—demonstrate how midstream processing capabilities can be repurposed as tools of coercion. Its outbound investment screening and competing subsidy regimes are also turning energy technology into a central front in the U.S.-China rivalry. Beijing's Belt and Road Initiative and state banks provide loans for energy (especially solar, battery storage, nuclear) and transmission projects in Africa, Southeast Asia, and Latin America. These packages have two outcomes: (1) partner countries become less reliant on fossil fuels to develop energy independence; and (2) they are often tied to Chinese equipment and labor, cementing China's market share, influence, and technological partnership. Crucially, **this is not just a money-making exercise**. Beijing views the expansions of its energy and financing leadership as part of a deliberate strategy to reduce dependence on imported crude and natural gas, moving China toward greater self-sufficiency, and giving it leverage—over trade partners and over standard-setting in forums like the United Nations.

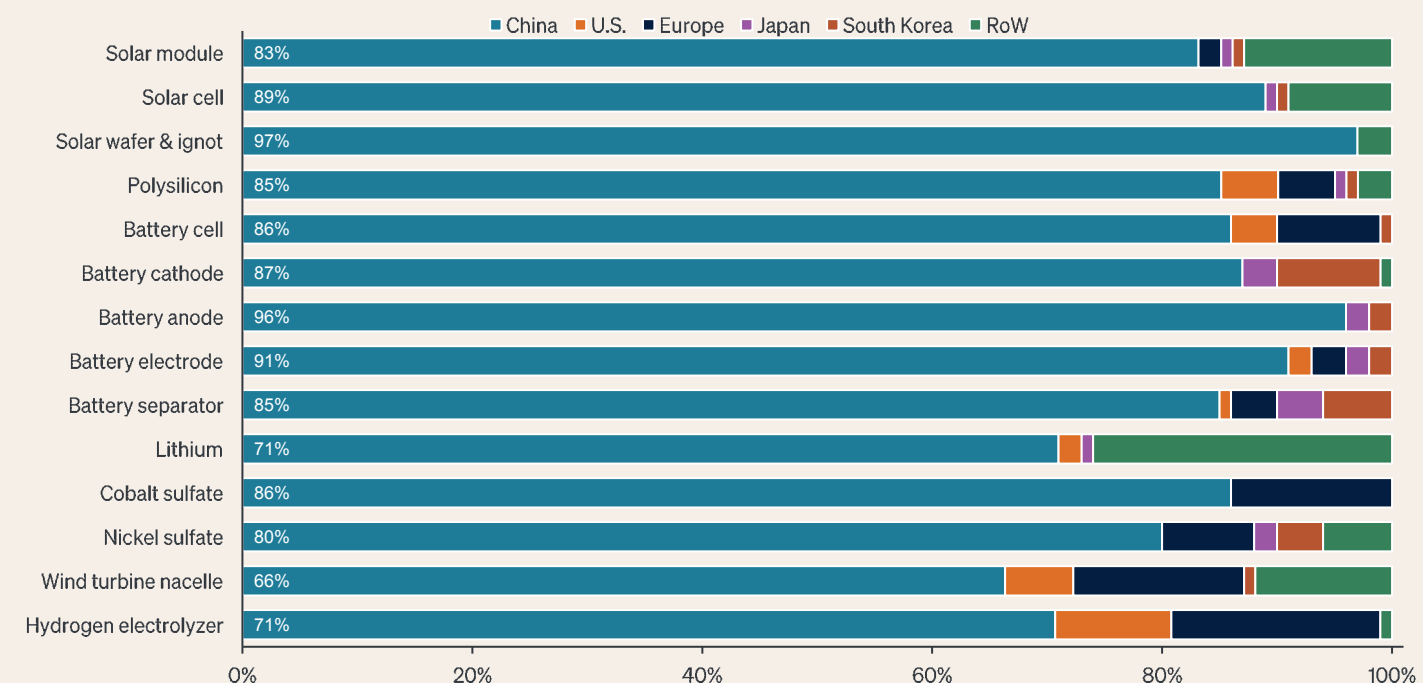
United States

The **United States and its allies** are moving rapidly to onshore or “friend-shore” production, reflected in U.S. policy support for new energy technologies (especially nuclear and geothermal), the EU Green Deal, and Japan's GX Strategy. With a shift in administration, Washington has refocused on deploying tens of billions in Department of Energy loan guarantees that advance and scale the mining, processing, and manufacturing of critical minerals and underwrite grid modernization, nuclear, and battery storage projects. These tools are designed not only to lock in private investment and shorten deployment timelines, but also to ensure allied supply chains remain resilient and insulated from adversarial control. LNG offtake agreements have been a part of tariff negotiations. To close trade negotiations, the EU pledged to purchase \$750 billion in U.S. energy exports (including nuclear technology and fuel, LNG, and crude oil) through 2028.

Indonesia

Indonesia has used its dominant position in nickel and bauxite production and reserves to impose a raw export ban and catalyze domestic refining investment, which may serve as a model for other resource-rich states seeking to retain more of the economic and strategic value of their resources at home. For example, **Guinea** has followed Indonesia's example by taking actions like transferring assets to state-backed firms against bauxite companies for failing to meet domestic processing commitments, with the goal of boosting its own downstream industries.

Beijing's Green Thumb: China dominates global clean tech supply chains



Source: BloombergNEF
Note: Capacity is for physical facility location, not manufacturer headquarters. Lithium refers to lithium hydroxide and carbonate; Data normalized to 100%

Expect to see critical minerals play a central role in future international negotiations, from trade agreements to peace settlements.

Whether it is Washington wrestling Beijing to re-permit its export of certain critical minerals during tariff negotiations, or the recently-brokered Democratic Republic of Congo (DRC)-Rwanda peace deal centered on critical minerals access, governments are increasingly including critical minerals and their technologic derivatives as a core tenet of international negotiations, with countries leveraging their supplies for security and foreign direct investment.

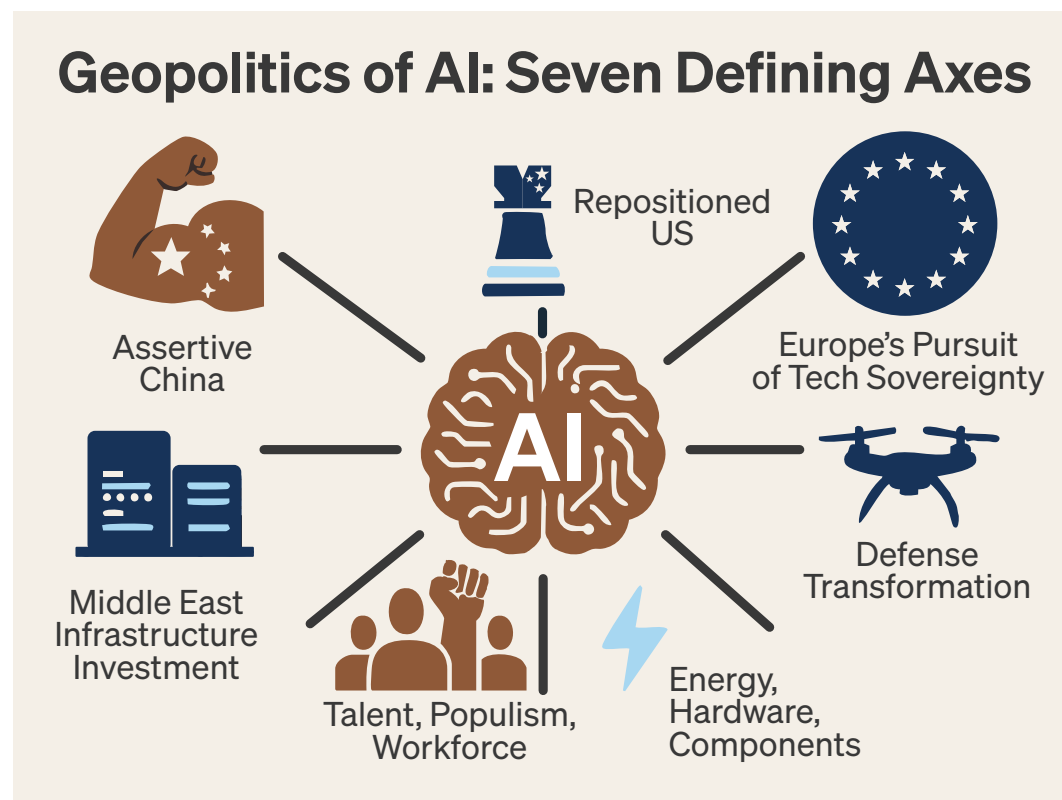
YEAR ZERO OF THE NEXT WORLD ORDER

The Geopolitics of AI: Seven Defining Axes

October 2025

Center for Geopolitics Report with JPMorganChase AI & Data Policy

Artificial Intelligence (AI) and related computing capabilities will be the most consequential technological developments of the 21st century, impacting nearly every aspect of daily life, shaping the global economy, and transforming geopolitics. In the nearly three years since OpenAI launched ChatGPT—igniting a frenzied reordering of the commercial tech ecosystem—AI has driven significant consumer fascination, catalyzed a dizzying scale of investment, and sparked intense debates over matters of policy, ethics, and society. In the U.S. alone, AI related stocks have accounted for almost all earnings growth (80%) and capital spending growth (90%) since November 2022.



AI's impact reaches far beyond the technology sector, with the potential to reshape supply chains, labor markets, infrastructure planning, global alliances, the rules of global trade, and even the rules of war. **As with past industrial and technological revolutions, the nations that can most effectively harness AI's transformative potential while safeguarding against its risks will enjoy decisive economic, political, and security advantages in the decades ahead.**

While AI is advancing in many directions, **seven strategic "axes"** stand out for their significance to the current geopolitical moment. Each reflects a distinct dimension of competition, cooperation, and national ambition—and each is already motivating governments, businesses, and alliances to reposition in ways that will shape the century ahead. **To best navigate the years ahead, understanding these seven strategic axes is essential.**

1. Assertive China

An assertive China seeks to position itself at the forefront of AI development, investing heavily in research and innovation to establish itself as a global leader in technology. This ambition is part of China's broader strategy to enhance its national security, economic power, and self-reliance, positioning itself as a dominant force in the international arena.

2. Repositioned United States

Meanwhile, **the United States is repositioning** to preserve and extend its competitive edge in AI, focusing on fostering innovation through public-private partnerships and investing in cutting-edge research. This strategic shift aims to counterbalance China's rise and to advance and project American national security interests into an AI-influenced geopolitical landscape.

3. Europe's Pursuit of Tech Sovereignty

Across the Atlantic, **Europe has made concerted moves toward tech sovereignty**, with the European Union striving to reduce its dependence on foreign technology and bolster its own AI capabilities. This push for autonomy is driven in part by commitments to protect data privacy, enhance cybersecurity, and maintain control over critical infrastructure. The United Kingdom, meanwhile, is working to advance its own AI and related capex investments in an attempt to forge its own path.

4. Middle East Infrastructure Investment

At the same time, **the Middle East is making significant investments in AI**, reflecting global ambitions supported in part by a robust network of sovereign wealth funds. These investments are aimed at diversifying economies, reducing reliance on oil, and positioning the region as a hub for technological innovation. The influx of capital into AI research and development is transforming the Middle East into a key player in the global tech ecosystem.

5. Talent, Populism, Workforce

Populist movements and labor concerns are also shaping the geopolitics of AI, as the technology's impact on workforces, wages, and employment continues to shape micro- and macro-economic impacts. The rise of widespread, commercially-deployed, AI-driven automation threatens to displace jobs, fueling populist sentiments and calls for protectionist policies. Governments are grappling with the challenge of balancing technological advancement with the need to safeguard employment and social stability.

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6. Energy, Hardware, Components

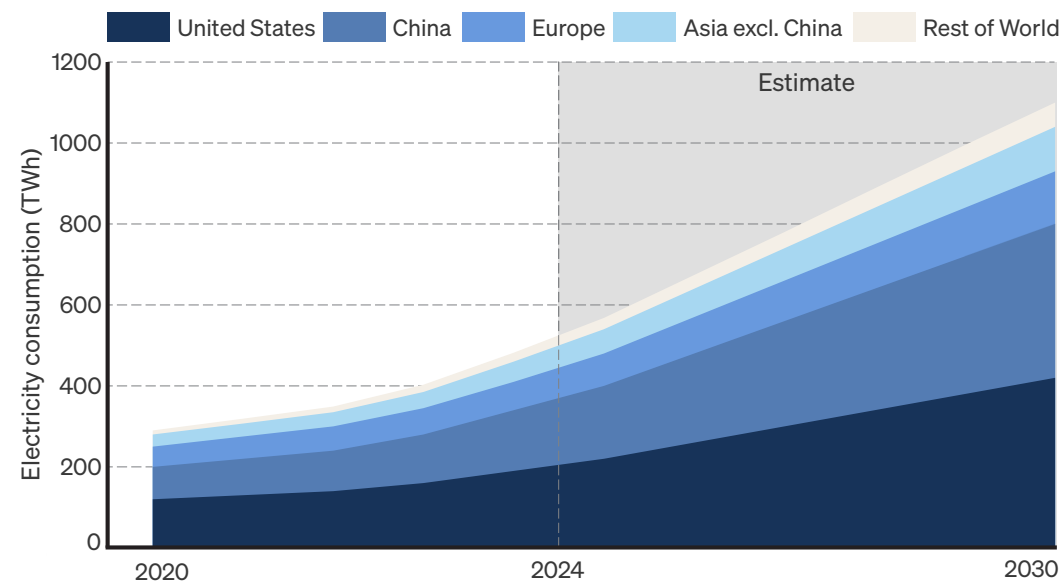
Energy, AI infrastructure, and trade are further intertwined with the geopolitics of AI. The development and deployment of AI technologies require substantial energy resources and robust infrastructure, influencing global trade dynamics, investment, and environmental impacts. Countries with abundant, diverse energy supplies and advanced infrastructure will be better positioned to capitalize on AI advancements and enhance their geopolitical influence. Energy security has become a key factor in states' capacity for technological innovation, and will continue to drive both geopolitical cooperation and strategic competition.

7. Defense Transformation

Finally, AI is rapidly becoming the operating system of **modern military power**, enabling faster decision-making, autonomous systems, and adaptive operational concepts. From swarming drones to AI-assisted targeting, the technology is altering cost curves and challenging industrial bases built for slow, high-cost production. Defense leadership will hinge on the ability to integrate AI into doctrine, procurement, and industrial capacity. Countries will be challenged to close the innovation-adoption gap and to responsibly scale AI-enabled systems essential to maintaining deterrence in an AI-driven battlespace. These dynamics will challenge and make more important the significant ethical, social, and diplomatic contracts of war-fighting.

Data Center Energy Growth

China and the United States are predicted to account for nearly 80% of the global growth in electricity consumption by data centers up to 2030*.



*Predicted trajectory under current regulatory conditions and industry predictions.
Source: Nature Journal, data from the International Energy Agency.



YEAR ZERO OF THE NEXT WORLD ORDER

Mythos and the Geopolitics of Advanced AI

May 2026

Window on the World

The reported capabilities of Anthropic's Mythos and other frontier AI models announced this month likely represent an inflection point—not just in AI development, but in the organization of global power. The model has already identified thousands of critical vulnerabilities across major operating systems and web browsers, reportedly demonstrating cyber capabilities that could enable it to identify and exploit vulnerabilities faster than they can be patched.

Two geopolitical dynamics stand out.

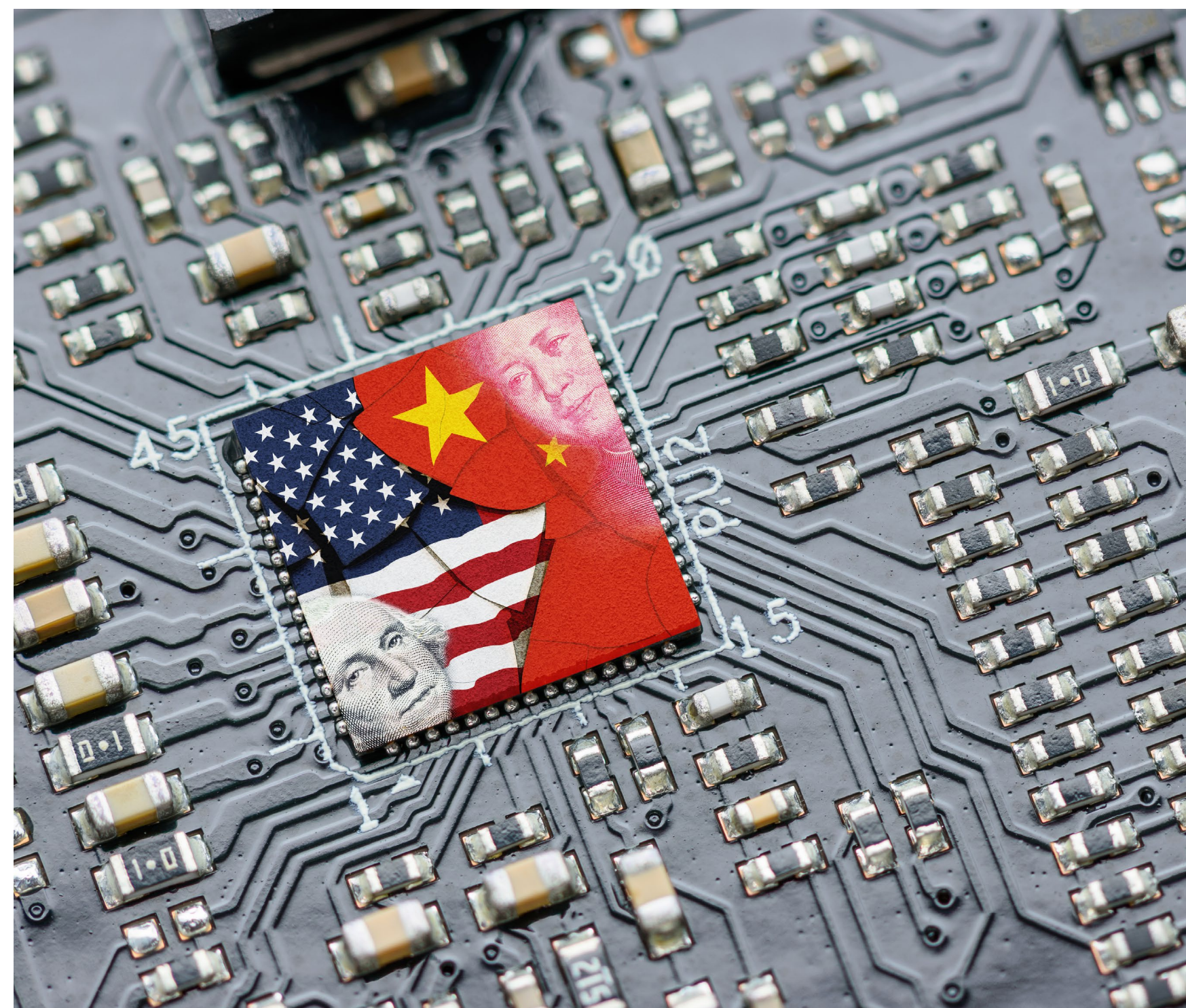
- **First, AI models this advanced accelerate a trend already underway—the diffusion of advanced security capabilities away from governments and into private hands.** Historically, the most sophisticated offensive cyber tools have been the exclusive province of well-resourced state actors. Mythos, and similar models, will lower that barrier significantly, putting capabilities within reach of a wider set of actors and compressing the time available for attribution and response. **That doesn't make rapid escalation of cyber warfare inevitable, but it does make the rules of engagement murkier and raise the premium on resilience across civilian systems**—finance, energy, telecoms, logistics, and health—that were not designed with this threat environment in mind.
- **Second, Mythos-class models throw into sharp relief how underdeveloped international governance frameworks for advanced AI remain.** Among allies, the immediate challenge is practical: how to share information on limited-release, frontier AI models' threat profiles across partners with varying security clearances and institutional capacities, without that information finding its way to the wrong hands. **Looking to the longer-term, this moment underscores the urgent need for an international framework to govern AI development and deployment.** As we wrote in our report last fall on the geopolitics of AI, meaningful progress on AI governance has historically been elusive, with multilateral efforts to establish common standards repeatedly running into the same obstacles: diverging views on risk, competing geopolitical interests, and fundamentally different philosophies on how to regulate frontier industries. Will the shock of the “Mythos moment” make risks visible enough to galvanize real cooperation?

The China dimension poses a distinct challenge. Virtually everything in the U.S.-China technology relationship has been framed as a competition, with each side treating the other's advances as a threat to be countered rather than a risk to be managed together. Finding space for even minimal crisis communication—without appearing to concede advantage—will require careful diplomacy.

Inflection points are defined not by the moment of change itself, but by what follows. **The questions Mythos and other models like it raise about**

governance, attribution, and strategic stability will not be resolved by any single summit or policy intervention. They will be answered through the accumulation of decisions made by governments, firms, and international institutions over the coming months and years—many of them under pressure, with incomplete information, and against a backdrop of strained alliances and intensifying great power competition.

Note: This analysis is based entirely upon open-source material and does not reflect any non-public insights gleaned via JPMorganChase's testing of Mythos or other similar models.



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Breaking the Critical Minerals Chokepoint

April 2026

Center for Geopolitics Report

When China introduced export controls on medium and heavy rare earths last April, it highlighted how concentrated global critical minerals markets had become. Rare earths and their derivatives remain essential inputs across a wide range of commercial and defense applications, making supply disruptions economically and strategically significant.

After decades of expanding its role across mining, processing, and manufacturing, as the figure below illustrates, China had come to occupy a highly concentrated position in several strategically important critical minerals value chains. The episode reinforced how critical mineral supply can quickly shape broader policy choices, accelerating efforts in Washington and other capitals to diversify sourcing and build resilience. Beyond China, the U.S. from 2021–2024 was dependent on a single source for over 50 percent of its imports in nine other minerals. Over the past year, the United States and other nations have taken steps to expand alternatives across highly concentrated critical minerals supply chains. A year in, these efforts show signs of promise, but underscore how much remains to be done.

The United States has taken a whole of government response

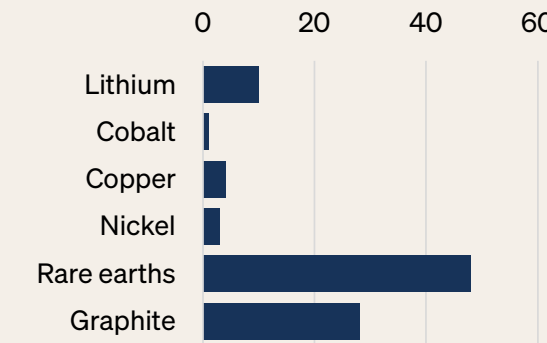
In 2025, Washington implemented a whole-of-government approach to bring new mining, processing, and refining production online. From the outset, the government prioritized shovel ready projects through the FAST-41 Program (a process to improve federal agency coordination and timeliness for environmental reviews for infrastructure projects), targeting companies that had already acquired land and completed feasibility studies but still needed permit approvals.

Where project economics were not supported by market forces alone, the government stepped in with incentives to mobilize private capital.

China's control of critical minerals increases at each stage of the value chain

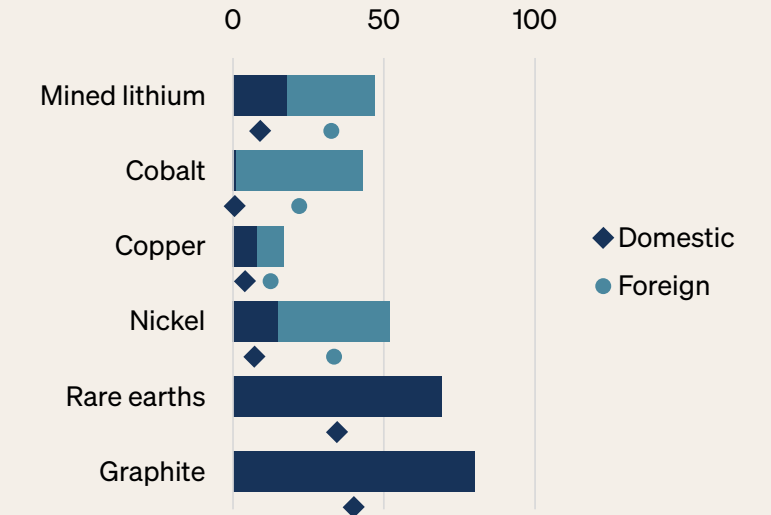
Reserves: are widely dispersed

China share of global reserves (% 2025)¹



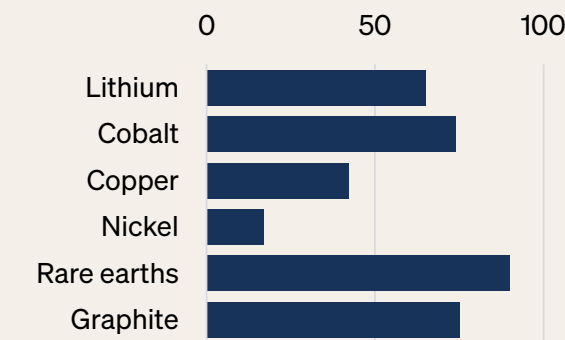
Mining: China has invested in mines abroad to further consolidate control

Share global supply in China's control (%)²



Processing: true source of China's dominance

Share of global processing (% 2022)³



¹ USGS except for cobalt (Wilson Center)

² Chinese-controlled foreign supply calculated based on ownership of assets; Economist except for graphite and rare earths (USGS)

³ International Energy Agency

- According to the U.S. Geological Survey, the Pentagon injected approximately \$1 billion in equity, loans, grants, and purchase agreements for critical minerals projects with defense applications in 2025.
- The Department of Energy provided over \$2.2 billion in direct equity, loan, and grant programs with a particular focus on battery materials and rare earth minerals.
- The Department of Commerce provided \$1.8 billion in loans, grants, and equity, primarily for rare earths refiners, and announced

Section 232 tariff investigations into copper and other critical minerals which could incent diversification.

- Finally, the Development Finance Corporation (DFC), which was reauthorized in 2025 with double the capital, invested \$600 million in the Orion Critical Mineral Consortium. In early 2026, the Export-Import Bank of the United States (EXIM) also lent \$10 billion to establish Project Vault, a public-private mineral reserve. Some \$700 million in financing was also provided for a tungsten mine in Kazakhstan and \$565 million for a rare earth mine in Brazil.

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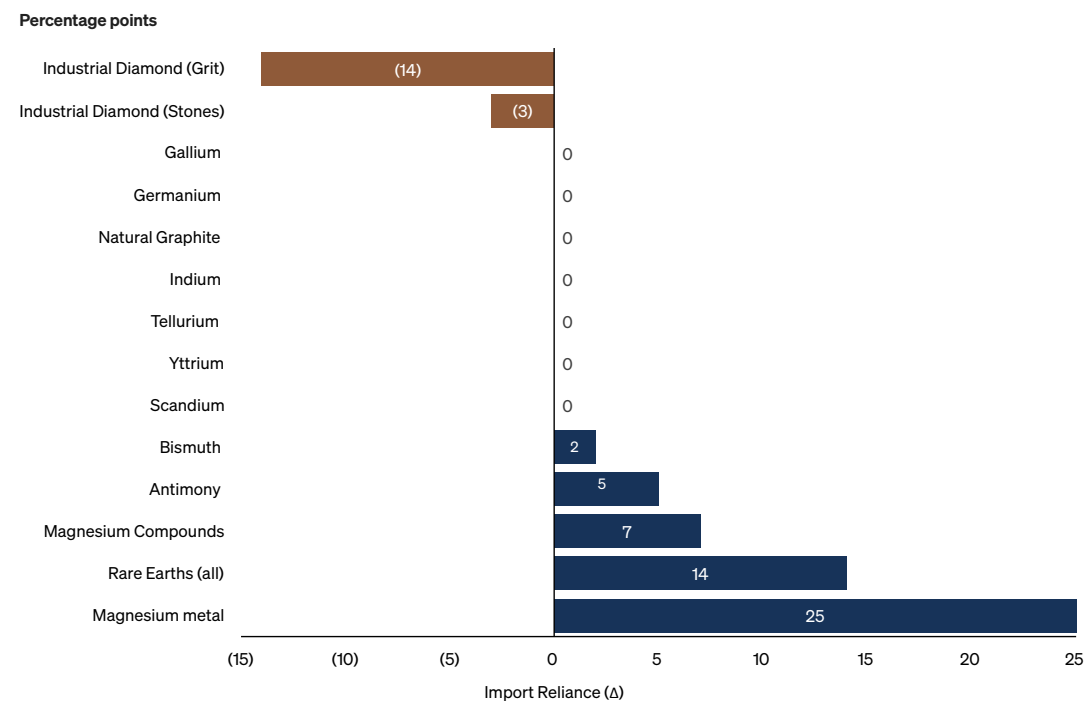
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For all its actions, progress will take time to materialize. New processing capacity typically takes two years to come online, while new mines require several years of lead time due to permitting and site preparation. **In 2025, of the 58 minerals the U.S. government designated as critical, the United States remained 100% net import reliant for 13 minerals and more than 50% net import reliant for an additional 20.** As the chart below shows, U.S. import reliance on key minerals once subject to Chinese export controls either remained unchanged or increased. Industrial diamonds were the only mineral under Chinese export controls that saw domestic production rise relative to U.S. demand, while in other cases, such as with antimony and rare earths, domestic production grew, but demand grew even faster.

The good news is that investments made in 2025 will begin to bear fruit over the medium term, as new mines and production facilities come online. Late last year, the first U.S. antimony mine since 2001 began production in Montana and another mine in Idaho began construction. In rare earths, a mining and processing facility in California expanded its separation and processing capacity, a New Hampshire-based company increased its rare earth metal manufacturing capacity, and a Louisiana-based separation company made progress toward commercial-scale production.

While the United States has not yet formally articulated explicit targets for increasing domestic production, Washington recognizes that complete self-sufficiency is unrealistic. In public remarks, some government-affiliated experts express confidence that standing up non-China alternatives for as little as 30% of supply may be sufficient in some cases to reduce leverage over key supply chains.

Change in U.S. Import Reliance for Minerals Subject to Chinese Export Controls (2024–2025)



Source: U.S. Geological Survey

Military critical minerals vulnerabilities grow only more acute after the Iran conflict

Even as critical minerals exports to industry have resumed, military end-users remain denied. The rapid drawdown in U.S. munitions and interceptors during the conflict with Iran reinforces the leverage China has over America's ability to rearm itself until alternative sources of supply come online. Even without access constraints on critical minerals, America's current industrial base will take years to

replace many of the systems expended in just the initial hours of the Iran conflict.

China remains the leading producer across several strategically important rare earth and specialty mineral segments, including neodymium and gallium, which are needed for motor magnets and radar chips, and critical metals, such as tungsten, used as penetrators.

The lessons learned from the critical minerals experience will have implications for other supply chains

As difficult as it will be to diversify critical minerals supply, **the experience of the past year is increasingly being viewed as a template for how governments and markets may respond to vulnerabilities in other strategic sectors.** The core lesson is that concentrated supply chains are not simply a trade or industrial issue; they can become a strategic constraint on commercial resilience, policy flexibility, and national security.

Third, long-term resilience will depend as much on market design and technology as on new physical capacity. Price-support mechanisms, coordinated procurement, stockpiling, recycling, coproduct recovery, and processing innovation may prove just as important as new mines or refineries in making diversification commercially durable.

Several broader lessons stand out.

First, markets alone often do not deliver resilience when strategically important supply chains become highly concentrated. In critical minerals, governments have concluded that private capital will often underinvest in capacity that is commercially marginal in normal conditions but strategically important in periods of disruption, elevating the role of public-private partnerships, targeted financing, procurement support, and selective policy intervention.

Perhaps the most important lesson is one of timing. Resilience is far less costly to build before a chokepoint becomes disruptive than after it has already shaped commercial decisions or policy choices. In that sense, critical minerals are less an isolated case than an early warning. The effort to build more resilient supply chains remains a multi-year test of policy, diplomacy, capital, and innovation—but it also offers an early case study in how strategic interdependence is likely to shape the global economy. Concentrated supply chains will remain a source of commercial and geopolitical risk, governments will play a larger role in shaping outcomes, and the search for the next potential chokepoint is likely to intensify.

Second, diversification does not require full duplication to materially reduce risk. Establishing alternative supply for even a modest share of demand may, in some cases, be enough to improve resilience and create greater room to absorb shocks.

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Swift Power: Culture as America's Enduring Export

September 2025

Window on the World

Taylor Swift's engagement to NFL star Travis Kelce is more than a pop-culture headline capturing global attention—it's a reminder that **U.S. cultural influence remains a potent form of soft power.**

Abroad, her Eras Tour has been an economic juggernaut and a diplomatic asset, boosting local economies and sparking fierce competition among cities and countries eager to host her shows. Her influence travels far beyond music charts: with over \$1 billion in Eras Tour revenue, more than 4 million overseas ticket sales, and a social media footprint in the hundreds of millions, Swift's global resonance projects an image of American creativity, confidence, and connection the world still craves.

At home, Swift is a rare unifying figure in a polarized landscape—and now a bona fide economic indicator. **"Taylornomics" may not be in the World Bank's models, but her tour has been credited with boosting GDP in multiple countries.**

Recent data shows America's soft power halo is dimming in other areas.

According to a June 2025 Pew global poll, favorable views of the U.S. have fallen in **15 of 24 surveyed countries**, with particularly sharp drops in Mexico, Sweden, Poland, and Canada. Trade policies and global posturing are partly to blame and have triggered boycotts, "buy local" campaigns, and brand backlash. In response, some U.S. companies are now deliberately deemphasizing their Americanness abroad—adjusting branding and packaging and spotlighting contributions to local economies. International air travel to the U.S. is also down 7% from 2024. The economic impact of "tourist boycotts" is estimated to reach between \$60 to \$120 billion this year. Keep an eye on the holiday season to see if this becomes a longer trend.

Classic American companies are feeling the shift.

- **Levi Strauss** recently flagged "rising anti-American sentiment" in international markets tied to U.S. tariffs and foreign policy.
- **Jack Daniel's** reported a 62% year-over-year sales drop in Canada.
- **McDonald's** cited growing anti-American sentiment as a risk in several of its foreign markets during its last earnings call.
- **Tesla** has seen a 45% drop in European sales, despite overall growth in the European electric vehicle market.

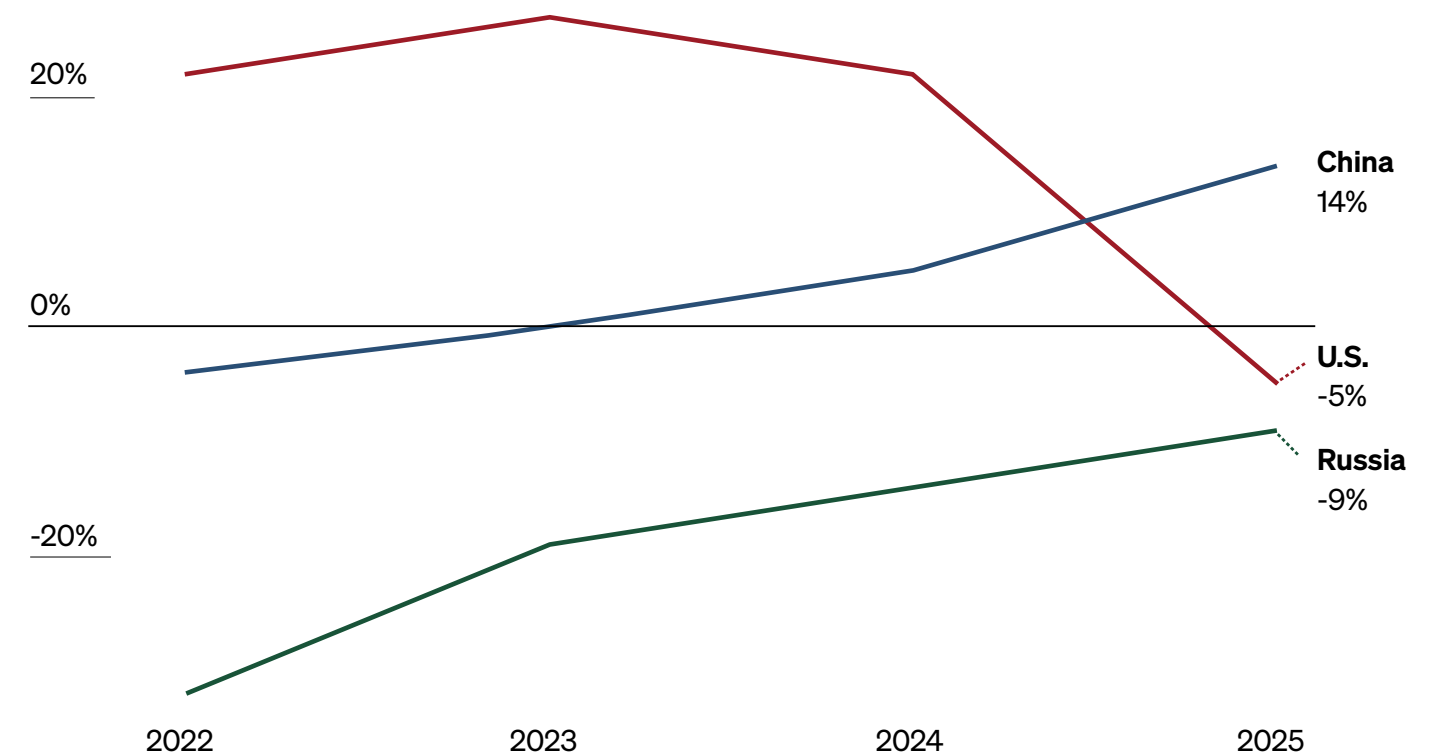
Bottom line

While U.S. cultural power endures, **U.S. brand power is under pressure.** The juxtaposition is striking: a country politically polarized at home and contested abroad still holds the cultural microphone, but the tone is shifting. We have seen things like this before, such as during the height of the Iraq War 20 years ago. But the question for business, investors, and policymakers alike: is this different?

Reputation era: America suffers decline in favorability abroad, as of spring 2025

China now more popular worldwide than the U.S.

Net global perception of select countries, where negative values indicate negative perceptions and positive percentages indicate positive perceptions.



Source: 2025 Democracy Perception Index
Giovanna Coli/POLITICO



2

A Year of Reordering in the Middle East and Iran

Iran was a defining focus in our first year. We even pondered what a post-Khamenei Iran might look like in August 2025, seven months before his assassination in the opening days of the U.S.-Israeli attacks. We had our biggest whiff of the year—a nuclear deal with Iran emphatically did not emerge by Q2 2025—but anticipated the return to conflict following the June 2025 war and generally called the conflict right once the fighting resumed, sending geopolitical reverberations across the globe.

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A New Middle East Chessboard: Iran in the Box

May 2025

Center for Geopolitics Report

No actor shapes the Middle East's security environment for the worse more than Iran—its malign behavior is the organizing principle defining alliances, rivalries, and threat perceptions. After a series of bold, high-risk Israeli military actions last year, **Tehran now finds itself at its weakest point since the 1979 Islamic Revolution.** Its “axis of resistance”—including Hezbollah, Hamas, and other Iranian-aligned militant groups—is reeling. Deterrence has been undermined and air defenses shattered after two failed missile attacks on Israel. New leadership in Syria and Lebanon seem intent on resisting its influence. Russia, once a reliable backer, is focused on Ukraine. At home, the regime faces deepening unrest, a spiraling economy, an energy crisis, and a looming leadership transition. And yet, Iran still holds a powerful card: its nuclear program.

The diplomatic window is cracked open, but likely not for long. Iran's leadership, fully aware of their exposed position (and working to overcome it), may feel pressure to negotiate—especially with President Trump stating his preference for a

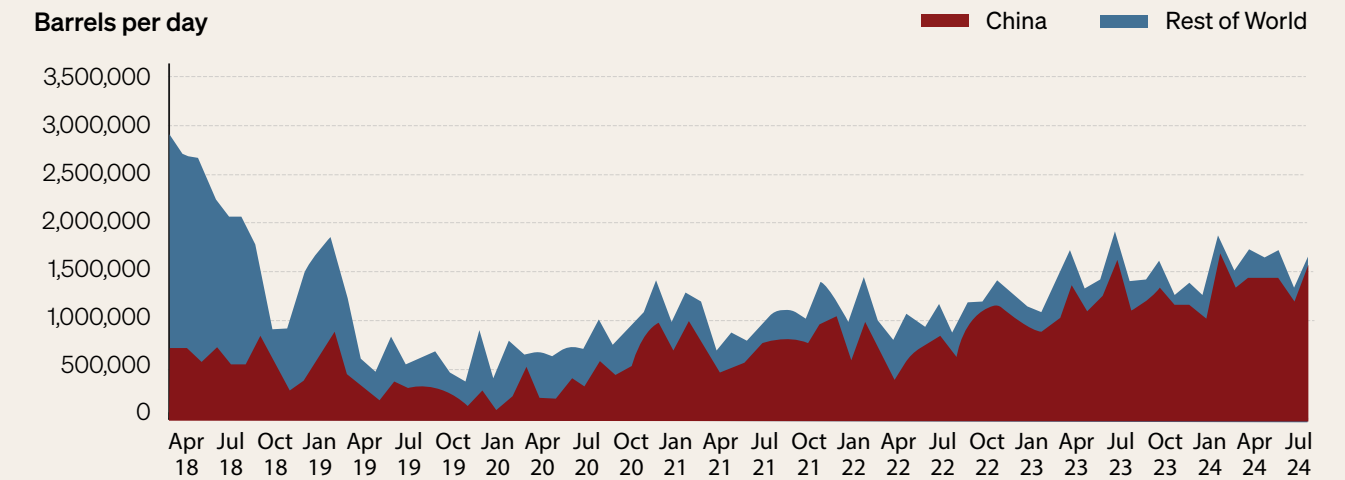
deal over “doing the obvious,” while visibly ramping up U.S. military presence into the region. But Iran won't accept just any deal; demands for zero enrichment that resemble Israel's preferred “Libya solution” will be rejected. More doable is something that looks like the Obama-era “JCPOA,” perhaps without the detested sunset clauses. Such an agreement would be enough for the Administration to declare victory and move on—as some Administration officials are hinting they are ready to do.

Odds:
65%
chance of a nuclear
deal with Iran

Despite the incentives pushing toward a deal—including, importantly, the Gulf states' shift toward rapprochement over confrontation in service of transforming their economies—miscalculation remains a serious risk. Communication channels are

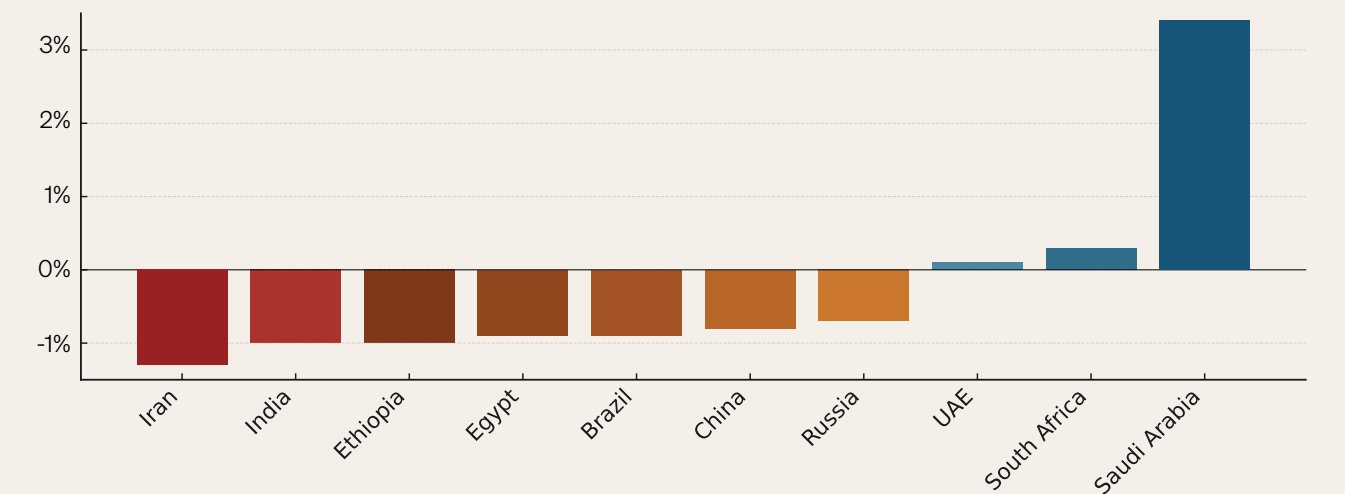
shaky and mutual distrust runs deep. Israel, possibly backed by Iran hawks in the U.S. pushing for “maximum pressure” or “escalate to deescalate,” now sees this as the perfect moment to strike. Iran might double down and sprint for a bomb. Either side could misread the other's intentions. Escalation, whether by design or mistake, could come fast—and spiral into a wider regional war.

Reported Iranian Petroleum Exports



Source: United Against Nuclear Iran
Note: “Rest of World” includes some exports to unknown destinations, which may eventually reach China.
Data through September 2024

Iran Losing Ground: BRICS GDP Growth Rate Difference from 2023 to 2024



Source: IMF WEO April 2024

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Iran After the 12-Day War

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Window on the World



PUT INTO CONTEXT

In June 2025, the U.S. bombed three facilities key to Iran's nuclear program. The operation, codenamed Midnight Hammer, was the U.S.'s only offensive action of the Twelve Day War between Tehran and Israel.

Not peace—just a pause.

If this were football, think of it as halftime, not full time. The shooting stopped, but nothing else is resolved. Iran paused because it was running out of missiles; Israel paused because it was burning through interceptors. Both sides are regrouping. The fundamental drivers of this conflict—Tehran's nuclear ambitions and its determination to destroy Israel—are weaker but remain. Meanwhile, oil markets have stabilized.

The nuclear question is still open.

U.S. and Israeli strikes did major damage, likely setting Iran's industrial-scale nuclear program back potentially by years—although some non-U.S. sources believe it could only be months. How much capability remains is unclear. We don't yet know what amounts of highly enriched

uranium remain or if any centrifuges survived. By early fall, U.S. and Israeli intelligence will have a better picture. That will shape what comes next—whether diplomatic or something more forceful.

Negotiations or breakout?

Iran's takeaway from the war remains murky. Does it double down and go for a crude nuclear weapon or two, or pivot to talks in search of sanctions relief? The U.S. and Israel prefer a deal—where Iran forswears its nuclear ambitions and right to enrichment and agrees to subject itself to robust monitoring and verification. But it's uncertain Tehran could ever accept that. Europe, meanwhile, holds a key piece of leverage—"snapback" sanctions—and is ready to use it. Any sign of a nuclear breakout would be a game changer and bring a ferocious Israeli response.

Israel's prevailing doctrine: Mow the lawn—and keep the grass short.

The war established a new reality: Israel has established air superiority over Iran and will not give that up. Expect periodic Israeli strikes if Tehran moves to reconstitute air defenses, rebuild significant missile capability, or restart nuclear work. Think Syria, Lebanon, and Gaza before 2023, now expanded to Iran itself. The risk is that if this unsteady truce breaks and Iran hits back, escalation becomes a real possibility again.

Tehran's coming transition.

The Iranian regime wasn't the target, but it was shaken. While appearing stable for the moment, it could prove brittle. Supreme Leader Khamenei is elderly and in poor health. Senior leadership has been thinned and rattled by the strikes. The succession question, already fraught, is now even more uncertain. The next government could be more hardline or more pragmatic. Either way, instability looms.



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A YEAR OF REORDERING IN THE MIDDLE EAST AND IRAN

Iran After Khamenei: The Succession that Could Shake the World

November 2025

Window on the World

Iran has dropped out of the news recently in the wake of its June conflict with Israel and the United States. Yet keep an eye on another story unfolding which may prove even more consequential: the struggle over who—and what—comes next in Iran's leadership. For the first time in nearly four decades, **Iran is on the brink of a political inflection point.**

The 12-day war in June left Iran at its weakest point in decades, and injected new urgency into a long-simmering debate over Tehran's

next leader. For years, Iranian politics has revolved around who will replace the 86-year-old supreme leader, Ayatollah Ali Khamenei. The war exposed not only military vulnerability but institutional fragility—eliminating many of the regime's key decision-makers, and forcing even loyalists to question whether the concentration of power in a single figure remains sustainable. Khamenei is only the second leader of Iran since 1979, and his passing will be a seismic global event.



Internally, the regime is increasingly sustained by coercion rather than conviction.

The once-symbolic hijab—called by Ayatollah Khomeini “the flag of the revolution”—is now openly defied by millions of women, while blackouts, water shortages, and inflation erode faith in clerical competence.

As Karim Sadjadpour observes in a must-read essay in Foreign Affairs:

“Iran’s economy is among the world’s most sanctioned. Its currency is among the world’s most devalued. Its passport is among the world’s most denied. Its Internet is among the world’s most censored. Its air is among the world’s most polluted.”

The regime's rhetoric—still anchored in defiance toward the West and Israel—underscores how confrontation, not prosperity, remains its organizing principle, even as daily indignities erode the revolutionary narrative. **This stagnation stands in stark contrast to the broader Middle East, where the Gulf states are pursuing economic diversification, regional diplomacy, and stability initiatives**—from Saudi Arabia's and the UAE's investment-driven transformations to efforts to de-escalate in Lebanon, Syria, and Gaza.

While much of the region is cautiously charting a forward-looking path, Iran remains locked in a cycle of repression, economic strain, and strategic retrenchment.

Once Khamenei leaves the scene, will that change? His visible frailty has accelerated maneuvering among rival factions—clerical traditionalists, reformists, the Revolutionary Guard, and Khamenei's own son, Mojtaba—each vying to shape the post-Khamenei order. But the question now extends beyond who comes next to what kind of system will follow: will Iran's next phase tilt

toward a more militarized state, the continuation of clerical rule, a cautious reformism that relaxes social restrictions, deeper authoritarian retrenchment, or something else entirely?

The outcome will determine not only Iran's internal trajectory but also the direction of its foreign policy: whether Tehran doubles down on defiance or recalibrates toward pragmatism. A major shift while Khamenei remains alive is unlikely—though the ground is shifting beneath him.

Behind the political maneuvering lies a deeper question about Iran's identity. Iran was one of the first countries in Asia to adopt a written constitution and an elected parliament, modeled partly on European law. From the creation of the Islamic Republic in 1979, Iranian leaders have debated whether the country should be guided primarily by divine authority or by popular sovereignty. The republic formalized that tension through parallel institutions—president and supreme leader, parliament and Guardian Council, army and Revolutionary Guard, man's law and God's law. **That enduring contradiction will again define Iran's future: is the Islamic Republic first and foremost Islamic, or a republic?**

Iran's coming transition could reshape the Middle East's strategic landscape and ripple around the world.

A post-Khamenei Iran—whether more theocratic, military, populist, or something different—will redefine its relationship with the West and test whether the Islamic Republic's institutions can adapt or fracture under their own contradictions. For global markets, the outcome will influence regional stability, energy supply, and the calculus of risk across the broader Gulf. The implications could be profound: a different Iran could further catalyze regional economic modernization and investment—or it could foment greater regional instability.

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PUT INTO CONTEXT

In December 2025 and January 2026, thousands of Iranians took to the streets nationwide, venting their increasing discontent over the Iranian economy. When protesters began chanting anti-government slogans, the government shut down the internet on January 8 and embarked on a bloody crackdown, reportedly killing thousands.

Iran's protest movement has been crushed by a sweeping security crackdown (with up to 20,000 or more protesters killed according to a UN official estimate). The demonstrations were the most widespread and socially diverse in decades, driven by economic distress and demands for political reform. But they lacked leadership and organization. The regime's core power centers—Supreme Leader Khamenei and the Islamic Revolutionary Guard Corps (IRGC)—remained unified and prepared to use force to suppress dissent.

In Washington, rhetoric has been running hot.

As we have argued since last June, the U.S.-Iran confrontation should be seen as paused not resolved, and we think the likelihood for U.S. military action in the coming weeks is very high. The U.S. military has been working to “set

the theater”—positioning fixed-wing fighter jets, air defense, and an aircraft carrier strike group—boosting U.S. leverage, deterrence, and the ability to respond in the face of potential Iranian retaliation. J.P. Morgan Research estimates that Washington's threats against Iran added \$6 to the price of oil, with prediction markets “placing an almost 60% chance that the U.S. will strike Iran by March.”

Iran's economy remains in shambles—the same pressure that fueled the unrest in the first place—suggesting further instability ahead.

The U.S. Administration's red lines remain unchanged: curbing Iran's nuclear program, missile and drone development, and regional proxy activity. Talks have commenced but there is not yet a clear path to achieving these objectives. The White House may not have fully settled on its ideal outcome for Iran—whether to insist on longstanding red lines or

pursue deeper regime change—or on the right mix of military or diplomatic tactics to achieve those objectives.

Previous military strikes weakened Iran's internal power structure, but have not been enough to bring about regime change or cause irreversible damage to Iran's military capabilities—even though they damaged weapons systems and military infrastructure. And any renewed campaign could pull the United States into a prolonged confrontation, with no guarantee that a new government would be more moderate or pro-Western.

An unstable equilibrium

With a larger U.S. force now positioned closer to Iran and the Iranian economy deteriorating, the regime may calculate that limited concessions—particularly on the nuclear file—are preferable if it means getting relief from crushing sanctions. But it has shown a proclivity for over-reacting in the past (attacking Israel directly in 2024 and 2025), which makes us think military confrontation is likely.



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PUT INTO CONTEXT
On February 28, the U.S. and Israel launched a joint air campaign, dubbed "Operation Epic Fury," against Iran. CfG wrote a series of Special Edition *Window on the World* newsletters chronicling the conflict and unpacking its implications of the war for Iran, the region, and the globe.

Since the 12-day war last June, we have repeatedly described the situation as a "pause, not a peace"—assessing that the conflict would resume. That pause has ended decisively with an unprecedented U.S.-Israeli joint air campaign—striking hundreds of sites across multiple cities—and the confirmed death of Supreme Leader Ayatollah Ali Khamenei and numerous senior leaders. Details are still emerging, and some operational assessments may evolve. But the strategic implications are becoming clear.

- **How we got here: this was strategic opportunism.** The timing of the strikes reflects both diplomatic deadlock and operational momentum. Despite diplomatic talks last week, Washington and Tehran still remained at an impasse over Iran's nuclear program, ballistic

missile production, and regional proxies. Tehran calculated it could slow-roll talks and exploit the U.S. Administration's aversion to getting bogged down overseas.

- But the clock was ticking for Washington—the U.S. military could not sustain indefinitely the massive posture it had built up over the past few weeks—so it was a case of "use it or lose it." **The U.S. and Israel saw a narrow window of opportunity to take advantage of a brittle regime** weakened by the decimation of its proxy network since October 7th, the 12-day war, and January's wave of mass protests.

The scope and objectives of this campaign are fundamentally different compared to the U.S. attack on Iranian nuclear facilities last June and the recent operation in Venezuela.

- First, the target set has been broad, including Iranian leadership, command and control, nuclear sites, ballistic missile facilities, air defense, and naval assets.
- Second, the U.S. and Israel have been explicit that their core goal is regime change. This is an attempt to alter the strategic balance in the Middle East and less about forcing movement at the negotiating table.
- **The immediate international response has been largely predictable**, with some countries declaring full support for the U.S. and Israel's operation, and others responding more tepidly—not least because the campaign lacked international authority, outreach, and explanation. Yet Iran's allies are few and have little ability to provide help. Iran's counterattacks have provoked condemnation and potential future intervention by European countries to defend their interests in the region. But if the conflict drags on, the lack of international buy-in may prove costly for the U.S.
- **Iran, meanwhile, has so far responded differently than it did in June.** Instead of a careful and calibrated response, Tehran is targeting U.S. assets and facilities across the region—attacking sites in Israel, the UAE, Saudi Arabia, Kuwait, Oman, Jordan, Iraq, Qatar, and Bahrain—as well as hitting civilian areas and critical infrastructure.

- **So far, the damage has been limited.** But Iran's quick retaliation underscores that the regime is desperate, knows diplomacy has likely run its course, and sees force as its only remaining leverage.
- **For businesses, expect some assumptions to change; low-cost Iranian drones penetrating Gulf airspace challenge assumptions about the safety and insulation of commercial hubs like Dubai and Doha—raising potential near-term implications for insurance pricing, sovereign risk, property valuations, aviation, and energy infrastructure.**

Where do we see this going? Leaders in the U.S. and Israel are betting the strikes will be the tipping point for a regime at its most vulnerable point since 1979—and they are likely correct.

- **The U.S. and Israel's plan is to strip the Iranian regime's ability to project power at home and across the region—and then let the Iranian people take it from there.** That framing fits the Administration's "no forever wars" approach.
- **Washington will also have other incentives to wind this down.** The U.S. military will keep a close watch on its stockpiles, which are not infinite. Other foreign policy goals will matter too. For example, the president will not want a war in the Middle East to distract from his scheduled trip to China at the end of the month.



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In our last report, we assessed the **U.S. and Israel would sustain military pressure for days to weeks and then pivot to a “mission accomplished” narrative**—arguing that it has substantially degraded Iran’s ability to threaten its neighbors and created the best conditions for political change inside Iran since 1979.

Messaging from the U.S. Administration in the days since only reinforces our base case. **The U.S. and Israel are achieving a military success so far.** Yet by offering a range of rationales for the conflict—staying vague on regime change and precise U.S. objectives—so that **Washington can claim credit if things break its way and create distance if they don’t.**

To understand where we are and how this might end, **it is useful to see how this looks from the perspectives of the main actors involved.**

For the United States, at some point the military gains will become marginal and carry greater resource risks.

At that point, it will come down to the 3M’s: “Munitions, Markets, and Midterms.” Both the opportunity costs and the real costs of this campaign are rising—and we expect Washington will want to wind down operations sooner rather than later.

Munitions

In the end, it’s about math. The U.S. and Israel are crushing Iran’s military capabilities, but Iran is continuing to launch counterstrikes in the hopes that the U.S. and its Gulf partners will burn through their defense interceptors. Watch whether the U.S. and Israel can destroy Iran’s missiles and launchers before incurring unacceptable trade-offs to force readiness elsewhere (for example, pulling munitions from the Indo-Pacific).

Markets

We’re seeing significant short-term disruption—expect price premiums on airfare, LNG, and shipping as long as the Strait of Hormuz is effectively closed. But the prevailing view from our colleagues at J.P. Morgan Research is that the global economy can stay relatively stable if the conflict is short-lived. If this drags on, though, markets will respond—suppressing Washington’s appetite to keep it going.

Midterms

While the military achievements are substantial, both the opportunity cost and real costs will rise, and we expect Washington will want to wind down this intensive phase of operations sooner rather than later. Political support in the U.S. for this war is tenuous. As U.S. casualties climb, Iranian attacks against Gulf states continue, and oil prices meaningfully react, the criticism that the Administration got itself into a mess will start to bite. And the calculus on how this impacts the November midterms will only intensify.

For Iran, this is about survival.

The regime’s approach is following the Eisenhower adage: if you can’t solve a problem, enlarge it. Iran upped the ante by moving away from primarily striking Israel and U.S. bases toward attacks on Gulf states, European bases, and energy infrastructure. For example, nearly 50% of Iran’s missiles and drones have been aimed at the UAE.

- Expect continued Iranian fire, especially drone attacks, as **Tehran seeks to drive a wedge between the U.S. and its Gulf partners and stay in the game long enough to force an end to U.S. strikes.**
- Meanwhile, **the prospects for diplomacy remain slim.** A three-member interim council is now leading the country, and any new supreme leader is unlikely to make concessions that Khamenei refused—and probably won’t have consolidated enough authority even if they want to.



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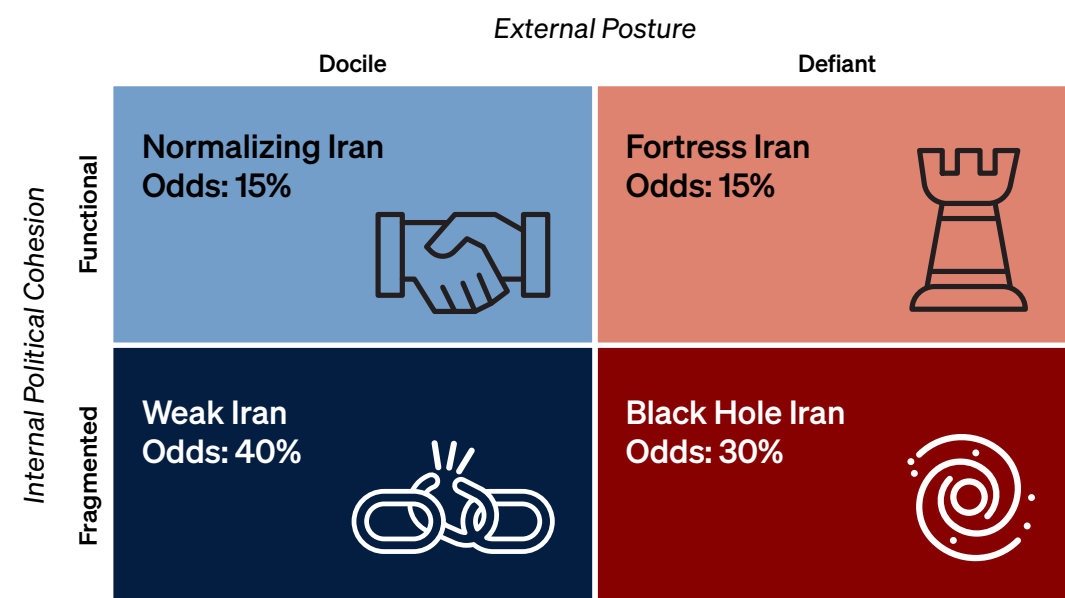
Window on the World

While the near-term human and economic costs remain acute, it is worth considering how a fundamentally weaker (and perhaps chaotic) Iran could reshape geopolitical dynamics across the Middle East and beyond over the next three years—through the end of the current U.S. Administration.

Once the missiles and drones stop flying, Iran's trajectory will likely hinge on two variables: **its internal political cohesion and its external posture toward the region and the West.**

These dynamics produce **four broad pathways.** Developments on the ground may yield some variations, but together they outline the broad range of plausible futures, represented in the following chart and described in detail below.

Four Possible Trajectories for Iran



Scenario 1: Functional and Docile: A Normalizing Iran (Odds: 15%)

This would be the best outcome: a cohesive post-conflict government concludes that the revolutionary project has run its course—and it pivots the country from expansionist ideology to moderation, economic preservation, and rapprochement. Whether dominated by a more pragmatic faction of the IRGC or a civilian technocratic leadership, Tehran trades ideology for stability and reintegration into the global economy.

Grand Bargain

A pliant Iran could propose a grand bargain to the United States, Israel, the Gulf states, and Europe: verifiable dismantlement of its nuclear program, limits on missile and drone production, and the winding down of proxy networks in exchange for phased sanctions relief.

Proxy networks such as Hezbollah and Iraqi militias could gradually evolve into primarily domestic political actors. If the shift proves credible, the possibility of an IMF-supported stabilization program—long considered implausible—could move into the realm of possibility.

Sanctions Relief

Untangling U.S. sanctions would not be straightforward (as we have seen recently with Syria). Many restrictions are codified by Congress. However, the executive branch retains meaningful flexibility through waivers and the reversal of executive orders that formed the backbone of the “maximum pressure” campaign.

Regional Reordering

A normalized Iran would force a strategic rethink across the region. For decades, Middle Eastern security architecture centered on containing Tehran. Instead, regional actors would confront the challenge of integrating Iran into a redesigned regional order.

The economic implications could be significant. Iran could emerge simultaneously as a competitor and partner to Gulf economic hubs. Tehran may seek to position itself as a commercial gateway between Central Asia and the Middle East, while Gulf sovereign wealth funds could explore investment opportunities in a newly opened Iranian market.

Great Power Implications

Geopolitically, Russia and China would lose leverage. Moscow would see its most important regional military partner slip away, as well as key transport routes passing through Iran. A pliant Iran may also allow the U.S. greater access to the Caspian Sea and the southern underbelly of Central Asia—where Iran has historically limited U.S. presence. Russia feels more encircled. Beijing, meanwhile, could pursue multibillion-dollar reconstruction contracts, but a normalized Iran might pivot toward Western-led trade corridors and financial systems, weakening China's ambitions to expand yuan-denominated trade at the expense of the dollar.

Bottom Line

This trajectory is optimistic but not impossible. Iran itself has undergone dramatic strategic pivots before—most notably when Tehran transformed from Washington's closest regional partner to its fiercest adversary within a single revolutionary year in 1979.

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Scenario 2: Functional but Defiant: Fortress Iran (Odds: 15%)

In this scenario, a cohesive governing authority emerges in Tehran—one capable of maintaining internal control and operating the machinery of the state—and doubles down on confrontation with the West. Like Saddam Hussein's Iraq in the 1990s, Iran becomes a hardened security state: poorer, more isolated, more repressive, and still dangerous.

Grey Zone Warfare

With conventional military capabilities degraded, Tehran shifts even more heavily into asymmetric tools. Cyberattacks, sabotage, and proxy harassment become the preferred methods of confrontation. Proxies grow more autonomous and radical, and the drone threat persists.

Rebuilding Deterrence

Iran may attempt to quietly reconstitute its conventional forces or a nuclear program. Lessons from North Korea's nuclear survival strategy—and Ukraine's vulnerability without one—would loom large in Tehran's strategic thinking.

Sanctions Evasion

Crippling sanctions stay in place, so Iran leans further into sanctions evasion networks, smuggling routes, and illicit financial channels. Brain drain accelerates as educated professionals leave the country in growing numbers.

Regional Containment

Relations with the United States, Israel, and the Gulf remain openly hostile. Gulf states expand investments in missile defense and counter-drone technologies, while Washington and Jerusalem periodically conduct "mowing-the-grass" operations to degrade Iran's military recovery.

Adversarial Alignment

Tehran also deepens alignment with China, Russia, and North Korea—countries willing to cooperate in ways that complicate U.S. strategic objectives.

Bottom Line

This scenario resembles a diminished version of the prewar status quo. Iran is weaker abroad but harsher at home, and it continues to demand attention and containment from the United States and its regional partners.

Scenario 3: Fragmented but Docile: A Weak Iran (Odds: 40%)

A third possibility is that Iran's central government reconstitutes in some form but emerges politically fractured and institutionally weak. Competing factions—within both the political elite and the security apparatus—vie for influence, producing unstable coalition politics and uneven governance.

Conditional Accommodation

In this scenario, Tehran may still seek accommodation with the international community, recognizing that economic recovery requires external support. Iran could accept limits on its nuclear program and regional activities in exchange for reconstruction assistance, sanctions relief, and international financial support.

Limited State Capacity

Yet the state's limited capacity would complicate implementation. Security sector reform, economic restructuring, and reconstruction could require extensive international involvement.

Targeted Relief, No Sanctions Rollback

Expect targeted humanitarian and infrastructure relief—not full sanctions relief. Institutional weakness means Tehran cannot credibly assure the removal of radical elements or IRGC remnants,

nor enforce robust AML/CFT controls. As a result, the U.S. and other partners will hesitate to lift sectoral sanctions on oil, finance, and other industries.

External Influence

Externally, Iran might resemble states such as post-2003 Iraq or Lebanon: politically contested, heavily influenced by outside powers, and economically dependent on external support. Regional actors would compete for influence within the country. Gulf states, Western governments, and China could all attempt to shape reconstruction and political alignments.

Bottom Line

Iran becomes weak but slightly more cooperative—a fragile state whose stability depends partly on external economic and political support.

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Scenario 4: Fragmented and Defiant: Black Hole Iran (Odds: 30%)

The most dangerous trajectory would see Iran descend into prolonged fragmentation and instability that spills beyond its borders. Competing power centers and ethnic groups jockey for post-conflict dominance, and competing interests splinter them into rival factions.

Ethnic Fragmentation

Long-suppressed ethnic grievances erupt: Kurds in the west, Baluchis in the southeast, and Azeris in the north push to assert autonomy or independence. Educated professionals flee abroad while economic assets are carved up by competing factions. Elements of the security apparatus may pivot to piracy in the Strait of Hormuz, echoing patterns seen in Somalia.

Regional Spillover

The turbulence could extend well beyond Iran's borders. Instability could spill into Iraq and the Caucasus, while external actors—including regional powers and global rivals—compete for influence inside Iran. Another proxy battlefield emerges, like in Libya or Sudan, with each external power vying for influence.

Militant Safe Havens

In a fragmented, decentralized state where no one is in charge, radical groups may find fertile ground, as in Syria where Islamic State entities ebb, flow, and persist. The U.S. and Israel may resort to routine precision strikes to hunt and secure radical groups and loose missiles or nuclear material. Proliferation risks rise.

Energy Disruption

Persistent instability near the Strait of Hormuz would introduce long-term volatility into global energy markets. Maritime security risks could rise, affecting tanker traffic and insurance premiums. At the same time, instability in the region could indirectly benefit energy producers outside the Gulf, including the United States.

Refugees and Border Security

Neighbors such as Armenia and Turkiye might intervene to secure their borders or establish buffer zones to stem massive refugee flows and block incursions by hostile groups across porous borders. Turkiye may step up military activity to counter Kurdish advances in neighboring areas, like it has in Syria previously.

Bottom Line

Iran becomes a geopolitical black hole—similar to Syria or Libya, although on an even larger scale—destabilizing the region for years and demanding sustained international attention.



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Since the U.S. has already achieved a military success, we think it still owns the clock on when this intensive phase of the campaign ends.

But even if the U.S. says mission accomplished, could the Iranians keep fighting?

- On the one hand, **Mojtaba Khamenei's installation as Iran's third Supreme Leader may give Tehran an easier off-ramp**—if it wants one. As we've said before, Iran is chasing survival, not victory. The regime can choose to tout to the world that an Ayatollah Khamenei remains in charge, a potent symbol that the Islamic Republic endures, at least for now.
- **Mojtaba is a hardline ideologue** with close ties to the Islamic Revolutionary Guard Corps (IRGC)—**his appointment represents continuity**, and his hostility toward the U.S. and Israel has likely only deepened. Raising the political and economic costs for the U.S. by keeping the Strait closed would mean that Washington would be less likely to try this again in a few months. **Nevertheless, we expect that once Washington declares success, Tehran will as well**—defiantly declaring that by surviving it has won, reminding the world that it can once again threaten global energy supplies by keeping the Strait vulnerable.
- **Israel and Gulf partners may be another complicating variable for the U.S.** Jerusalem is committed to real political change and likely won't be satisfied with a hardline regime in place—even if it's substantially weaker. They may want the U.S. to “finish the job,” but **even they acknowledge that an air campaign is unlikely to bring down the regime**. So, they will find it hard to continue at the same pace if the U.S. wants them to stop.
- **What about U.S. ground troops?** The recent strikes against Iran's Kharg Island (through which 90% of Iranian oil flows) and the announcement that several thousand U.S. Marines are being deployed to the region (they are coming from Okinawa, so this could take as long as two weeks) have raised speculation of this becoming a ground war. Given the considerable risks and costs, **we still think this is unlikely**.

So while major military operations may stop, don't expect a quick return to normal. **It would simply be the end of the beginning. Instability and uncertainty will persist.**

What Matters Most Is What Comes Next:

Whenever major military operations wind down, the world will just be starting to grapple **with Iran's future**.

- In our last note, we outlined **four broad scenarios** for a future Iran based on its internal political cohesion and external posture—ranging from a blue-sky Iran that wants to warm to the West to a black hole Iran that devolves into a Libya- and Syria-style chaos.

- So far, **the regime has remained largely functional and defiant**—a diminished version of the prewar status quo. If that holds, we expect Tehran to lean even more heavily into its asymmetric tools—drones, cyberattacks, and sabotage—and for the U.S. and Israel to periodically use force when they perceive a threat.

- **But it will take time before the dust settles and it's clear which Iran we've been left with**. Expect that process to take months—if not years.

For now, we're watching how **battlefield outcomes will translate into sustained market and security realities. The list of things to worry about will likely grow long, but to start, here's our top 5:**

1. The Strait of Hormuz: Center of Gravity

The race to reopen the Strait of Hormuz and restore energy flows is now a central flashpoint in this war. And uncertainty about Tehran's calculus—and what will remain of its asymmetric toolkit—is a strategic weak spot.

Tankers and insurers are wary of resuming transit through the Strait of Hormuz—and that will be hard to change if there are open questions about Iran's future trajectory and capabilities. After all, the Strait is a narrow chokepoint—only 21 miles wide at its narrowest—and it remains vulnerable to Iranian drones, explosive boats, and mines.

Escorts from the U.S., France, and other countries could ultimately help encourage transit through this critical artery to restart, and the U.S. is racing to cobble together a coalition (similar to the effort that helped secure the Red Sea a few years ago). **But guarding every tanker is a risky proposition**

that demands sprawling coordination and a lot more ships—requiring the U.S. and its allies to surge and sustain new assets to the region.

Time is of the essence. While oil price premiums earlier in the month were based on fear rather than actual shortages, our J.P. Morgan Research colleagues note that the oil market is now beginning to feel the physical reality of a supply disruption—and it will only get worse. U.S. officials are now openly conceding that the energy pinch could last weeks, and no one is sure what the long-term impacts will be.

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2. The Reality of Munitions Math

The U.S. weapons tab is staggering, and it keeps going up. A munitions reckoning is coming for Washington—and Beijing is watching.

The war has shoved two issues to the forefront: The U.S. military's "magazine depth" and the lopsided "cost per shot" of using pricey air defenses to swat down cheap drones (the average drone costs thousands; the missiles to shoot them down cost millions). The U.S. has burned through a large share of its precision inventory striking Iran—and the first six days of the war alone reportedly cost over \$11 billion (by comparison, that is an estimated 5 times more expensive than the first week of the 2003 Iraq War, and an estimated 20 times more than the first week of the 2011 Libya War).

This problem is not new. As we wrote in our recent report on the U.S. Defense Industrial Base, platform deficits, munition shortages, and constrained industrial muscle are weakening U.S. deterrence—and reducing the odds of winning in the future if deterrence fails.

What might the broader impact be? **This conflict is unlikely to alter Beijing's political timeline on Taiwan**—but it does give Chinese planners a fresh set of data on U.S. military performance in a multi-theater environment. Beijing will be assessing not only how many interceptors and precision munitions Washington expended, but also how quickly those stocks can be replenished, how effectively the U.S. manages drone and missile threats, and how much capability and senior-level attention can be diverted from the Indo-Pacific to the Gulf without eroding deterrence elsewhere. **Just as important, China will be watching the coalition dimension: how quickly the U.S. and its partners align, how much burden-sharing they can provide, and whether U.S. and partner stockpiles can support a sustained campaign.**

3. Gulf Defense On Deck

The Gulf countries have a new imperative: regain investor confidence—and therefore will embark on a historic defense spending spree.

This war shattered illusions that the Gulf is insulated from regional security threats—and there will be residual reputational damage. Reassuring investors, especially AI hyperscalers, that the Gulf is committed to enhancing security will be a top priority.

The Gulf has become a digital infrastructure hub, and Iranian drone attacks on multiple data centers highlighted their vulnerabilities and are testing investor risk appetite. We expect physical security for AI infrastructure—including hardening defenses of data centers and tech networks—to be a key theme.

Expect a massive investment in air defense, especially counter-drone capabilities. Russia's

further invasion of Ukraine in 2022 spurred a meteoric rise in European defense spending, investment, and innovation—and this war is likely to spur a similar wake-up call. Interceptor drones will be key for Gulf security—they're cheap, easy to produce, and can be deployed at scale. We've already seen the Gulf countries reach out to battle-tested Ukraine.

Israeli technology companies also stand to benefit here—particularly for their early warning and launch detection tools. Meanwhile, the impact of defense spending on Gulf states' fiscal targets or outward investment plans—including in the U.S.—remains to be seen.

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4. Will Russia's Gains Last?

Given high oil prices, this has been a windfall for Russia and its ability to allocate cash for its war in Ukraine.

On top of that, the U.S. has moved to waive sanctions temporarily on Russian oil, freeing more than 120 million stranded barrels to find buyers. Washington also issued a sanctions waiver allowing Indian refiners to temporarily buy Russian oil again—reversing a key component of February's U.S.-India trade deal. Indian refiners have reportedly already bought millions of barrels of Russian oil since the waiver went into effect.

Will the U.S. work to put the genie back in the bottle to try to regain leverage with Moscow? If it does, persuading India to curb imports of Russian crude will have to be part of that effort. Paradoxically, one fix may lie in Washington's other major foreign policy focus of 2026: Venezuela. Caracas recently sent its first oil shipment to India in years—and seems poised to play a growing role in New Delhi's bid to diversify suppliers.

5. The Struggle for Influence Inside Iran

The coming months and years will be defined by the struggle for Iran's future—and since quick regime change is unlikely, we expect this to lead to protracted instability inside Iran. The question is whether this spreads further.

The most likely scenario: we still see it most likely that Iran's central government remains intact in some form but is politically fractured and institutionally weak. Competing factions—within both the political elite and the security apparatus—vie for influence, producing unstable coalition politics and uneven governance. The greatest danger is that Iran becomes a geopolitical

black hole—similar to Syria or Libya, although on an even larger scale—destabilizing the region for years and demanding sustained international attention.

Many countries have an interest in shaping what happens inside Iran—so we expect to see the U.S., Gulf countries, the Israelis, Turks, and others using their resources to try to tip the scales in their favor. This could hasten change toward a new, less repressive Iran—but it could also become yet another arena for regional (and global) competition, like we have seen recently in Syria, Sudan, Libya, and Lebanon.

Bottom Line

The Middle East chessboard remains in flux—and likely will be for some time. Even if Tehran claims tactical survival as victory, the future of the region will be shaped not by targets destroyed but by capacity restored. **Whoever moves fastest to secure energy flows, scale defenses, and restore confidence will write the postwar script—and decide whether instability stays within Iran's borders or spreads beyond them.**



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As Henry Kissinger once observed, in asymmetric conflicts, bigger powers must win outright—while their adversaries win by not losing. That tension is now front and center.

By almost any tactical measure, the U.S. and Israel are succeeding.

Iran's missile forces, naval assets, and elements of its nuclear program have been decimated. Iran's Supreme Leader has been eliminated and his replacement has not yet been seen or heard. **But tactical success does not automatically translate into strategic victory.**

So, what's the scorecard so far?

Regime durability

Shaken, but still standing—and a weakened regime will be consumed by internal struggles. But that may prove more volatile, not less.

Ability to export instability

Significantly degraded, but far from eliminated. Iran doesn't need a navy to disrupt global energy—one fast boat, one mine, one missile can move markets.

Nuclear and missile programs

Set back substantially, not yet erased.

Proxies

Strained, but intact—and notably, the Houthis remain the dog that hasn't barked. But we don't expect a post-conflict Iran to be able to fund its proxies in the same way it has done for decades, if ever again.

Energy flows

The center of gravity. Roughly 20% of global supply moves through the Strait of Hormuz—and the global economy cannot function normally without it. Iran's ability to disrupt energy supplies is not news, but a sustainable solution is not yet clear.

This is the core tension: **tactical military success vs. strategic outcomes**—and the two are no longer moving in lockstep.

The instability is just beginning.

As we've argued from the start, even when the missiles and drone stop flying, **Iran is likely to hold**

on to enough military power to threaten stability and face prolonged internal turbulence.

The key question is whether that instability implodes (remaining confined to its borders) or explodes (destabilizing the region).



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It's Day 32. This campaign has gone on longer than we expected, and the short-term risks are only growing.

- The U.S. and Israel have already severely degraded Iran's military capabilities, but **the decisive front has shifted to the Strait of Hormuz. For Washington, reopening this key waterway and restoring energy flows is now a strategic necessity.**
- **Diplomacy may be active, but the battlefield isn't cooling.** Where diplomacy stands is murky...the U.S. says that productive talks are underway, yet the Iranians seem less enthusiastic—and the military tempo isn't easing.
- **The Houthis in Yemen have entered the fray,** launching missiles at Israel for the first time since fighting kicked off last month. **For now, this seems like a warning shot across the bow**—a reminder that they can choose to widen the conflict and jolt markets, just as they did during the Gaza war. With Hormuz effectively closed, the Houthis' leverage has only grown: the Red Sea's Bab el-Mandeb has become a critical escape valve for energy exports.

This brings us back to the core decision. As we wrote in our last note, **the U.S. sits at a clear yet challenging crossroads.** It can **de-escalate** by letting diplomacy run and find an off-ramp. Or, it can **escalate** in an effort to deliver a knockout blow—potentially with ground forces or strikes on energy infrastructure.

- As of today, Washington's deadline for Iran to fully reopen the Strait is April 6. While the date can slip, the decision doesn't.
- The U.S. surged additional troops to the region—as of today around 50,000 are there—likely to preserve the President's options. We don't think a decision has been made, but having them there sharpens U.S. bargaining power in talks and positions forces if diplomacy fails.

So, which path is most likely? Our base case remains de-escalation.

After all, the 3Ms—munitions, markets, and midterms—are still very much at play. **But we now see a 4th “M”—Mission Creep—gaining in importance as U.S. Army paratroopers and Marines arrive in the region and the prospects for a ground operation grow.**

- The U.S. has reportedly burned through 850 Tomahawk missiles—nearly a quarter of its total inventory.
- Oil disruption has moved from the hypothetical to the real, with Asia especially feeling the squeeze, as our J.P. Morgan Research colleagues have noted.
- The United States isn't insulated. Despite domestic output, higher gas prices, airline fares, and fertilizer costs are hitting consumers—and voters—hard. That's a problem in an election year.

Three new indicators are also reinforcing our base case:

1. The White House announced the President's trip to Beijing has been rescheduled for May 14. That doesn't rule out escalation, but it's a signal Washington isn't hoping to take that path.
2. It appears that de-escalation is Jerusalem's bet, too. The Israeli military has reportedly been racing to hit as many targets as it can before Washington moves to wind down the war.
3. Paradoxically, the Houthis' entry into the conflict may be a powerful de-escalation catalyst. A simultaneous squeeze at two chokepoints would be far harder for the global economy to withstand—raising the pressure to contain the fight fast.

But what does de-escalation look like from here?

- In the coming weeks, the U.S. will likely have exhausted its target set inside Iran. That puts Washington in position to declare its objectives met. The U.S. can announce it will wind down its air campaign if Tehran halts attacks on regional neighbors, reopens the Strait, and does not resume its nuclear program.
- Diplomacy seems to be intensifying. While we don't yet know the precise contours of the talks, **a narrow deal could be within reach.** Iran has a strong incentive to see the bombardment end and may reason that it has established sufficient deterrence by holding Hormuz at risk.
- How might this work? Three factors will be key to reopening the Strait: 1) **degraded** Iranian military capability; 2) sufficient **defense** of shipping lanes with an international naval presence in the Strait (along the lines of the coalition in the Red Sea); and 3) **deterrence**, with the U.S. maintaining military superiority over Iran given its ability to hold the Strait at risk.
- This is far from a perfect solution, but we see this as the most likely as it gives both sides a face-saving exit and shifts the contest from airstrikes to enforcement and verification.

Even if Washington pursues an off-ramp, though, that doesn't end this story—it just shifts it into a new stage. So once the missiles and drones stop flying, what's next?

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As we noted a few days ago—and as the President confirmed in his recent speech—the next two weeks will be decisive. Despite all the speculation about when this might wind down, the U.S. and Israeli bombing campaign has remained remarkably consistent and within the 4–6 weeks window for operations that had been outlined from the start.

The key variable is time.

U.S. military planners are nearing the end of their target sets, risks to global energy markets are rising as shortages become harder to ignore, and we will soon see whether diplomatic negotiations have real traction (so far, we have our doubts).

We argued at the outset that tactical success and military superiority meant the U.S. “owned the clock”—and it still does, in the sense that Washington can choose when to stop its air campaign. But with the conflict moving beyond four weeks, Iran is treating resilience as its edge. As costs mount, Tehran believes time is shifting in its favor. As Henry Kissinger famously put it, “The

conventional army loses if it does not win. The guerrilla army wins if it does not lose.”

That dynamic concentrates attention on the Strait of Hormuz. **Over the next two weeks, we expect further moves to secure it, but a full-scale ground campaign still looks unlikely.**

- **Watch for a coalition-building push to ensure safe passage**, a more defined diplomatic path at the United Nations (with Bahrain as the rotating chair of the Security Council), and intensified military action designed to degrade—though it won't eliminate—Iran's ability to hold the Strait at risk. We'll also look for what's next from the UK-led meeting of over 30 countries on how to secure the Strait.
- **Limited U.S. ground operations are possible**; Kharg Island and the less-scrutinized islands of Qesham, Abu Musa, and Greater and Lesser Tunb bear watching (the latter are claimed by the UAE, so perhaps something coordinated with Abu Dhabi).

Progress on figuring out the Strait's future also sets the table for a diplomatic off-ramp. **Our base case is that the U.S. will continue major military operations over the next two weeks as the military completes its remaining targets, creating a natural moment to claim mission accomplished.**

The risk, however, is that this drags on.

Previous air campaigns have gone on longer than expected or desired—as happened in Kosovo in 1999 and Libya in 2011. These things are always easier to start than end. And there is a limited amount you can do from the air alone, and the military utility of the strikes is reduced with each passing day.

But here's the most important point: Even when the fighting pauses, we're only at the end of the beginning.

Iran—and the region—will never be the same. We see a future of chronic instability inside Iran, at least in the short term. The question is what direction that takes in the medium to long term, and if the instability is an **implosion** that stays confined to Iran's borders or an **explosion** that spreads throughout the region and beyond.



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Window on the World

On Day 39, the U.S. and Iran agreed to a two-week ceasefire. We want to take stock of where we are and where we're going.

As we shared in our last note, the war was at a crossroads. The U.S. had a choice: find a diplomatic off-ramp or escalate with further military pressure. As we anticipated, **de-escalation prevailed**.

- This path was our base case because the incentives were clear. **The 3Ms—munitions, markets, and midterms—have been shaping U.S. decision-making from the start.** The pause conserves expensive U.S. firepower, while the prospect of an end to fighting is already lifting market sentiment.
- Iran, too, had every reason to stop the bombing after more than a month of U.S. and Israeli strikes. No one enjoys getting bombed at will. And new military and civilian leaders can't consolidate power during active fighting.

Overall, the ceasefire is a positive and much-welcome development. It pulls both countries back from the brink, as tit-for-tat strikes on energy and civilian infrastructure could have devastated both Iran and the Gulf. Markets are breathing a sigh of relief.

But the ceasefire isn't the end of this story. It's just the end of the beginning. As we have said for weeks, once the fighting stops, the struggle for Iran's future will continue.

The Test: Can the Ceasefire Hold?

First up is the hard part: making the ceasefire stick. A two-week pause is not a settlement, and negotiations are scheduled for this weekend. **A wide strategic gulf between the U.S. and Iran persists—so far neither side has backed down from its maximalist position—and narrows to a chokepoint in the Strait of Hormuz.**

- Washington conditioned the ceasefire on “free and clear” transit in the Strait, while Tehran says passage is only safe if coordinated with its military. **Freezing the war with Iran still acting as the de facto gatekeeper of the Strait would be a disastrous result for the U.S. and the Gulf countries.**
- **For Iran, meanwhile, normalizing control of the Strait—turning Hormuz into its own Panama or Suez—would be a strategic win.** Yes, it's revenue. More importantly, it would cement the leverage Tehran built during this war. That's why Iran won't give it up easily—and events have followed that logic. Rather than loosen control, Iran is doubling down, which may force Washington to make some uncomfortable concessions, perhaps on sanctions.

Relief Isn't a Reset

Even if this ceasefire endures and a deal to reopen Strait traffic materializes—which is still highly uncertain—it won't flip a switch. The global economy doesn't just snap back to February 27.

- In the best case scenario, **our colleagues at J.P. Morgan Research expect it would take 2–3 weeks after a durable ceasefire before shippers are willing to run the route again and about two months to normalize port**

operations. All told, they estimate around four months to restore oil output and flows—assuming the Strait truly reopens. This means that energy prices would come down, but they'd still settle at a higher level than before.

- Stretch the disruption and the damage compounds. If the Strait stays closed beyond six months, the risks shift from disruption to lasting damage: reservoir and field impairment that could lock in persistent supply losses.
- The stakes go far beyond oil. Hormuz is also a chokepoint for fertilizer inputs like urea and sulfur, industrial helium (Qatar supplies one-third of global output, critical for semiconductors), and time-sensitive biopharma shipments.

Tactical Success, Strategic Ambiguity

Another reality check is warranted here: Hormuz may now be the center of gravity, but **the core issues that pulled the U.S. to war in the first place remain largely unresolved.**

- Iran's conventional military capabilities and its ability to project power in the region have been severely degraded, **but tactical success isn't the same as strategic victory.**
- For now, the regime is still standing and likely sees a core objective achieved: it survived after taking every U.S. and Israeli punch for nearly six weeks. And its enriched uranium stockpile and missile and drone capabilities survive, even if heavily battered—giving Tehran meaningful leverage at the negotiating table.

That is why what matters most is what comes next. With a fragile ceasefire in place, the fight for Iran's future is only just getting started.

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What's Next in the Region?

The region's future can't be separated from what happens next in Iran. In the coming weeks, we'll be updating our assessment on how this war has further reshaped the Middle East chessboard. But for now, here's what we do know:

1. For Israel, the ceasefire represents a tactical reset—not a strategic shift.

Israel will ensure it keeps freedom of action against Hezbollah in Lebanon and the Syria land bridge, ensuring the pause doesn't become cover for Iranian proxies—while giving the Israeli military time to rebuild interceptor stocks.

But Israel also finds itself at risk of being sidelined as a transactional U.S. Administration prioritizes global oil prices and economic stability over Israel's longstanding red lines.

In the U.S., this conflict may be an early signal of a broader political shift away from unconditional support for Israel, as the bipartisan consensus appears to be loosening—most visibly within the Democratic Party—with significant long-term strategic consequences.

2. The Gulf countries are emerging from this war with a stark new reality, and their immediate priority will be convincing the U.S. that an Iran-controlled Strait of Hormuz is an unacceptable outcome.

If Iran keeps de facto control of Hormuz, Gulf states effectively lose maritime sovereignty and face a direct challenge to freedom of navigation—especially if Iran can impose transit fees (or if the U.S. were to adopt a similar approach). That would mark another clear crack in the foundational principles underpinning the international order. It would also speed up the Gulf's push to develop export routes that bypass the Strait.

For the time being at least, Gulf states will be forced to co-exist with the same Iranian regime as before—only now one that looks more entrenched and hardline. We will see a historic defense spending spree, with a focus on counter-drone and hardening key energy assets and data centers.

What Starts in the Middle East Doesn't Stay There

As we've highlighted before, **the war with Iran is not just reshaping the region—it's reordering the global geopolitical landscape.** This week's ceasefire, after nearly six weeks of fighting, hasn't ended the story; it has made the shockwaves easier to see.

It's tempting to sort players into “winners” and “losers,” but the reality is messier. The war produced both tailwinds and headwinds—just at different speeds. Some headwinds hit now, others will lag. Some gains will likely prove temporary, while others will be more durable. **Bottom line: today's winners aren't necessarily tomorrow's.**

Here's our take on which way the winds are blowing from the vantage points of Beijing, Moscow, Brussels, New Delhi, Tokyo, and Ankara:

China

For China, the strategic tailwinds are looking favorable. The conflict has deepened allies and partners' doubts about U.S. reliability. Many were already starting to “derisk” from the U.S. And with NATO-exit threats and air defenses shifted from South Korea to the Middle East, Beijing expects U.S. partners to hedge further.

- **To be clear, this conflict does not pull countries into China's orbit. But it could weaken confidence in Taipei (and in other regional capitals) that the U.S. would have the will, staying power, and coalition support to defend Taiwan in a crisis.** Beijing's military calculus may not have fundamentally changed, but President Xi now has a clearer picture of the political and operational environment he'd be up against.
- Operationally, Beijing gained a real-time window into how the U.S. fights. The PLA can study burn rates, carrier movements, logistics, targeting, and escalation thresholds—while also observing Washington's reluctance to

commit ground forces or absorb prolonged economic disruption.

- Economically, the war will likely lead to a surge in investment in green technology—an area where China is already well-positioned. As Derek Chollet recently wrote in Semafor with Dr. Sarah Kapnick, JPMorgan's Global Head of Climate Advisory, this conflict reinforces the push to diversify energy—including renewables—to reduce geopolitical chokepoint risk. China, dominant in solar and EVs, stands to benefit. Domestically, China's coal base and strategic oil and gas reserves also help cushion the energy shock.
- Diplomatically, reported Chinese pressure on Iran, outreach to Israel and Gulf capitals, and coordination with Pakistan also helps Beijing project itself as a pragmatic, constructive power.

But the picture is not entirely positive for China. If inflation squeezes consumers and weakens demand for discretionary goods—including Chinese exports—that would hurt. And while the war has yielded valuable intel, it also underscored the unpredictability of asymmetric warfare—and how much damage a weaker actor can still impose—an important cautionary lesson for PLA planners.

Russia

In the near term, **Russia has hit a double jackpot: high oil prices and U.S. sanctions relief.** Urals oil has surged from under \$60 a barrel pre-war to above \$110 ahead of the ceasefire—more cash to bankroll its war in Ukraine.

- And it's not just prices—Russia is also gaining customers. Last month, the U.S. temporarily lifted sanctions on Russian oil already at sea, and buyers in Asia are lining up. The waiver expires on April 11, but an extension would be another boost.

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- **But Russia's most consequential gains may not be economic.** Ongoing and potentially compounding transatlantic tensions could hand Russia the strategic holy grail it has pursued for decades: NATO's effective demise. The consequences could reorder the broader geopolitical map in ways not seen since the end of the Cold War.
- **Still, some of Russia's tailwinds are fading.** Ukraine is moving to blunt Russia's windfall by escalating strikes on Russian oil terminals and other energy infrastructure—damage that could be long term and expensive. Even if revenues hold, more cash doesn't automatically translate into battlefield success. Funding hasn't been Russia's binding constraint.
- **Separately, Moscow may also have a Gulf problem brewing.** President Zelenskyy signed air-defense deals with Gulf states last month, leveraging Ukraine's experience against Iranian-origin drones. Deeper Gulf-Ukraine ties could hurt Russia where it matters: the UAE has been a key financial hub for Russian firms and expats navigating sanctions since 2022.

Europe

At first blush, Europe looks like it comes out behind. Beyond the energy crunch and inflation risks starting to materialize, the biggest headwind is existential: the Iran conflict is further rattling the transatlantic alliance. The U.S. Administration was criticizing European allies as freeloaders long before this war, but the EU's reluctance to act in Iran has sharpened the President's ire.

- We see U.S. threats to leave NATO primarily as a pressure tactic—to rally support to reopen Hormuz—and the U.S. remains legally bound by the treaty. But the damage is done: allies and adversaries alike are questioning Washington's commitment to collective defense (known as Article 5 in NATO parlance).
- Article 5 is NATO's core principle. The U.S. doesn't need to formally leave to weaken that deterrent: it can hollow out the alliance by raising doubts about whether it would show up. Rumors of U.S. force redeployments from key European bases are swirling and do exactly that. Trust, once broken, is difficult to restore. A rupture in the transatlantic alliance would be the war's most consequential and enduring legacy, should it come to pass.
- **But there is a partial offset.** The war in Iran will likely accelerate Europe's push for "strategic autonomy" under a leakier U.S. security umbrella. UK Prime Minister Starmer has pointed to a "closer partnership" with Europe, reinforcing the trend toward higher defense spending and deeper integration—early contours of a more Euro-centric security architecture.

India

India's default instinct is non-alignment—and this war has put that reflex under strain. New Delhi has functional ties with Tehran and a history of stop-start Iranian energy imports. But India's stakes are bigger with the U.S. (trade, tech, defense)

and increasingly with Israel on security, plus deep commercial and diaspora exposure across Gulf states lining up against Iran. **So, India is tightrope-walking—pushing de-escalation while trying not to get boxed into a camp.**

- This diplomatic dance is made harder still by Pakistan. Using its ties to the Gulf, China, the U.S., and Pakistan Army Chief Asim Munir's relationship with President Trump, Islamabad is pitching itself as a Middle East mediator—hosting Iran talks, outflanking India diplomatically, and triggering alarm bells in New Delhi.
- On U.S.–India ties, the conflict cuts both ways. In New Delhi, Washington's swings are seen as Trump-era "par for the course," reinforcing doubts about durable strategic alignment. Still, India will keep close economic and security ties—especially given China—and will want U.S. backing if the border heats up again.
- The conflict also clouds India's bet on Iran's Port of Chabahar—a strategic-autonomy play to bypass Pakistan and counter China's Gwadar—now squeezed between renewed U.S. sanctions risk (India got a six-month waiver in October 2025) and an unstable Hormuz. If a longer-term U.S.–Iran deal brings sanctions relief, India would benefit as Chabahar can move forward.

Japan

Japan's geography doesn't shield it from Middle East shocks—and **Tokyo's policy choices to date point to staying firmly aligned with the U.S.**, even though it resisted U.S. pressure to deploy military assets to reopen the Strait.

- The ceasefire has for now frozen the most controversial domestic debate: the legal threshold for exercising collective self-defense—staving off pre-ceasefire pressure from the U.S. to declare a "survival-threatening situation," which would have mandated a deployment to Hormuz.

- With China's expanding influence in the Gulf and along key sea lanes, Tokyo sees its energy access at risk, particularly in the context of a period of weakness in China-Japan ties. Without the U.S. setting the terms of this war, Japan's Gulf oil and gas could hinge on an Iran aligned with Russia and China.
- At home, Japan is moving to diversify its energy mix, deepening energy cooperation with Indonesia to hedge against Hormuz-driven volatility.

Turkey

Turkey is also being squeezed economically and strategically. Turkish President Erdogan has closed its airspace to U.S. combat operations while condemning Iranian strikes against Gulf states—and ramping up border security to brace for a potential refugee wave. Ankara has spent the war balancing extreme energy vulnerability against the opportunity to act as a regional powerbroker.

- Economically, Turkey is taking a direct hit from higher energy prices and disrupted trade routes through Central Asia, intensifying already-elevated inflation pressures.
- Militarily, Ankara is using its mediator role to press for renewed access to U.S. weapons systems—highlighting that U.S.-made platforms have been central to intercepting Iranian missile attacks on NATO bases in Turkey.
- Strategically, Ankara views an Iranian collapse as the worst-case outcome: a power vacuum that could strengthen Kurdish militants and destabilize the border. A refugee shock would add fuel to that fire. A pause in fighting, however, gives Turkey space to coordinate border security with Tehran and reduce near-term spillover risks.

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Window on the World

It has been 47 days since the Iran conflict began. We wrote in our previous note that last week's ceasefire wasn't the end of this story—it was just the end of the beginning. This week proved it. **The U.S. has now imposed a full maritime blockade of Iranian ports and is, once again, surging additional forces to the region after initial diplomatic talks ended without progress.**

With all the swirl in just the past few days, there's a lot to sort through. And no matter what happens in the near term, **expect Iran to be a preoccupying issue for many more months to come.** So, we've pulled together the key questions we're hearing from clients and how we're thinking about them. Below are our top 9.

Top Nine Questions

Question #1: What's your near-term base case—diplomacy or a resumption of fighting?

Our base case is diplomacy, not escalation. Both the U.S. and Iran prefer an off-ramp, which makes a narrower, face-saving deal plausible in the next few weeks. The lack of a breakthrough over the weekend doesn't mean diplomacy is dead. These were the highest-level talks since 1979, and both the duration (21 hours) and reported tone point to serious intent on both sides.

- More expansive U.S. aims—rolling back Iran's missile and proxy architecture—have quietly given way to more focused objectives: nuclear material and access to the Strait of Hormuz. That shift matters. It makes a deal more achievable—but also more incomplete.
- **We expect another round of talks before the current ceasefire expires on April 21.** Backchannel engagement appears to be continuing via Pakistani, Egyptian, and Turkish intermediaries.
- In the meantime, **both sides are trying to make the other blink first**—and improve their leverage at the table.

Against that backdrop, **the U.S. blockade isn't a pivot away from diplomacy—it's diplomacy by other means. Washington is attempting to reshape the negotiating environment before returning to the table.**

- Washington wants to strip Iran of the perceived leverage it gained in this conflict: the Strait of Hormuz. The blockade is meant

Question #2: So, who will blink first?

Honestly, it's a bit of a coin toss. **Iran sees Hormuz as its best bargaining chip—and it will want to avoid cashing in that leverage until it can maximize the payoff.**

- Tehran calculates that it has a higher pain tolerance than Washington and may be willing to bet that the blockade—by reducing Iranian oil flows and pushing prices higher—hurts the U.S. and the global economy more than it weakens Iran's position.

But there's a catch. The U.S. military says it will only block vessels traveling to and from Iran, not broader traffic. **If a steady stream of ships from non-Iranian ports—even in limited numbers—transit safely without paying Iranian tolls, Tehran's core leverage weakens materially.**

Question #3: What might a diplomatic deal look like at this point?

At this stage, diplomacy has two basic tracks:

Most likely: ceasefire extension and an interim deal.

Before April 21 (or shortly thereafter), we expect the U.S. and Iran will extend the ceasefire and strike a narrow interim agreement. **The goal would be to restart enough economic activity through the Strait to relieve pressure, while punting the hardest issues into follow-on talks**—and letting both sides claim a win.

to demonstrate that U.S. naval prowess can blunt Iran's asymmetric threats—and that Tehran can't credibly hold the Strait at risk in a sustained way.

- The move also aims to undermine the other advantage Iran has sustained during the war: its ability to continue exporting oil, a vital source of revenue.
- That's why a key factor to watch is whether the **Strait becomes functionally open for non-Iranian Gulf trade** now that U.S. naval assets are in position.
- J.P. Morgan Research colleagues previously estimated **it would take roughly 2–3 weeks after a ceasefire for shippers and insurers to feel confident enough to resume crossings**—and that window almost certainly extends with a blockade in place and the ceasefire in question.
- **The cost of delay rises quickly for the U.S.:** the longer it takes for transit to normalize, the larger the drag on **markets**—and the risks for the President going into the November **midterms** given the impact on domestic gas prices for voters focused on affordability.

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Gulf neighbors and Western governments alike. Quiet pressure from China could help push this over the line.

- With deterrence established and its Hormuz leverage intact (though increasingly tested by the U.S. blockade), Iran may be more open to a deal on enrichment and to down-blend or remove its existing uranium stockpiles for a defined period—especially if the U.S. offers rhetorical recognition of Iran's "right" to enrich, a longstanding Iranian ask.
- Such a shift in the U.S. demand—from zero enrichment to a time-bound constraint (at most 20–25 years, but it could be less)—would represent a meaningful movement of the goalposts, but Washington seems to be signaling openness to it.
- What it likely omits: Iran's missile program and support for regional proxies, especially Hezbollah, would probably remain outside the scope of a narrow interim package.

Such a negotiation would no longer be about dismantling Iran's entire security architecture but about how dangerous Iran is allowed to remain—and for how long.

Much, much less likely: a "more for more" grand bargain.

The U.S. could pursue full economic reopening—lifting sanctions and offering financial sweeteners—in exchange for Iran meeting the core U.S. demands that triggered the war and have eluded Washington for decades: shelving its nuclear and missile programs and ending support to proxies.

- This would be politically explosive in the U.S.—recall the blowback to the Obama Administration's 2015 deal—and ideologically discordant for a regime whose core organizing principles are "death to America" and "death to Israel."
- Still, it can't be dismissed outright. The U.S. has floated a comprehensive deal and is motivated to convert the U.S. military's tactical gains degrading Iran into a lasting legacy. And Tehran's internal calculus remains opaque: after the January protests—and amid the risk of further Israeli targeted assassinations—the regime may prioritize economic survival.
- **Again, we think a big bang deal is very unlikely.** It would be a huge political risk for the U.S., and it would require the Iranian regime to foreswear things that are at the core of its power projection. **But recent Middle East history—and the President's willingness to do things once considered unthinkable—have shown that longstanding norms can break quickly.**

Question #4: What could prompt fighting to resume, and what military options does the U.S. have?

While our base case remains de-escalation, as both sides judge the costs of returning to pre-ceasefire hostilities outweigh the gains, **the escalation risk remains real.** Here, too, we see two main paths:

Deliberate escalation if talks stall.

If neither side blinks and both hold their maximalist positions, Washington could reach for additional military options, as **more U.S. forces are headed to the region** (and this force posture can't be sustained indefinitely). **Further military escalation would be a last resort for Washington, but a prolonged freeze with no momentum in negotiations would effectively lock in a costly stalemate for the U.S.**

- One escalation pathway would be limited, targeted ground operations. Kharg Island bears close watching, along with the lower-visibility islands of Qeshm, Abu Musa, and Greater and Lesser Tunb. The Tunbs are claimed by the UAE, which creates a potential avenue for coordination with Abu Dhabi if action were contemplated there.

Accidental or rogue escalation.

Even if leadership on both sides want to avoid conflict, control is not absolute. The Iranian system is fragmented, with IRGC units and militias capable of acting independently. Additionally, Iran could try to probe U.S. resolve by harassing U.S. vessels with drones or fast-attack craft. **A direct strike remains unlikely given the certainty of a forceful U.S. response, but the Strait's tight geography—about 20 miles wide at its narrowest—raises miscalculation risk amid high tension and deep mistrust.**

- In such a scenario, tit-for-tat strikes on energy infrastructure become more plausible. Iran could also tap the Houthis to target shipping through the Bab el-Mandeb or Gulf infrastructure that transits the Red Sea (such as the Saudi East-West pipeline).

Question #5: Are the U.S. and Israel on the same page?

Only partially—and the overlap is tactical rather than strategic. The U.S. and Israeli air campaign has been tightly managed. Tactically, that alignment should hold: Israel is unlikely to break U.S. choreography by resuming large-scale strikes inside Iran while the ceasefire stands. Strategically, though, the endgames diverge.

- **For Washington, regime change is a bonus. For Israel, it's the objective. And that gap matters:** Israel will view any diplomatic outcome that leaves the regime with greater financial latitude as a direct threat, as that cash can fuel missiles and proxies.

- **Lebanon will be a key test,** as Iran initially tied the ceasefire to a halt in Israeli operations there. Israel participated in U.S.-brokered talks with the Lebanese government and has agreed to a 10-day pause, but **this is politically fraught for Prime Minister Netanyahu heading into October elections.** Israelis in the north—many displaced since Hezbollah joined Hamas in attacking Israel after October 7—want a buffer zone, not diplomacy.

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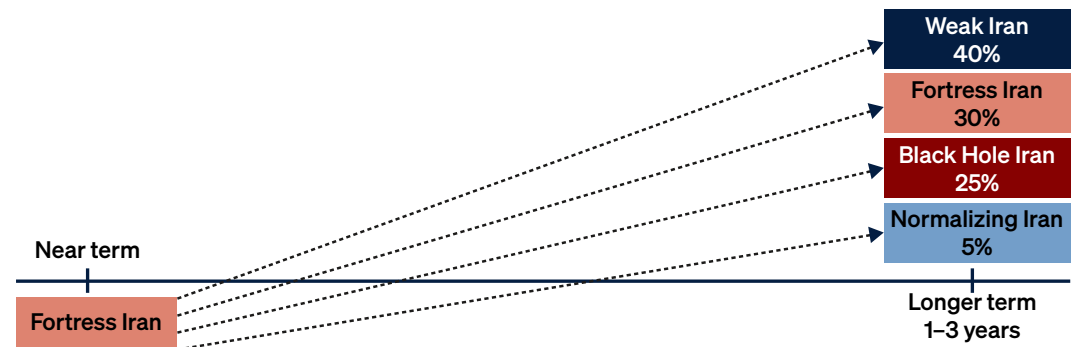
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Question #6: What can we expect in Iran in the longer term?

Wartime pressure can manufacture unity—elites close ranks, put aside disagreements, and temporarily shelve rivalries. And that's broadly what we have seen so far. **We put the odds of Fortress Iran enduring at 30%.**



As the external threat recedes, however, political jockeying for power may return, and the fault lines beneath the surface are likely to become harder to contain. Several stresses could drive that shift:

- The succession question remains contested, in part because Mojtaba Khamenei lacks broad clerical legitimacy. As of this writing, he has still not been seen or heard from directly, so questions of his health and ability to assert control persist.
- Competition among the security services could sharpen after years of IRGC favoritism. In particular, tensions between the IRGC and the Artesh (the conventional armed forces) may intensify: war time grievances have likely exacerbated fissures created by decades of coup-proofing that elevated the IRGC in funding, status, and economic influence.
- And technocratic elements within the regime—already frustrated by mismanagement and isolation—may press their grievances more openly.
- **The regime remains very unpopular**—and the domestic ferment we saw in January will likely return. There's little evidence the war created a “rally around the flag” effect; so the question is what happens when the Iranian people's grievances pile up and they return to the streets.

If these tensions intensify, three alternative pathways become plausible over time:

- **Weak Iran (40% odds):** A reconstituted but faction-ridden central government pursues limited accommodation. It would be willing to accept constraints on its nuclear activities and its missile programs in exchange for reconstruction aid, sanctions relief, and financial support.

- **Black Hole Iran (25% odds):** Iran may instead fracture into rival power centers and identity blocs, drawing in regional and global actors, and becoming a proxy battleground in the process. The result would be higher spillover risk across the region, chronic instability near the Strait, persistent maritime disruption, higher insurance costs, and structurally higher energy volatility.

- **Normalizing Iran (5% odds):** This is the upside case—and it's less likely and only plausible over a longer horizon. In this scenario, intra-regime fractures eventually elevate a more pragmatic faction oriented toward moderation and economic renewal.

Bottom Line: Near-term regime change is unlikely, and we expect the next year to be very bumpy. But it's too early to call what kind of Iran emerges in the long term.

Question #7: What's next for the Gulf countries?

The GCC is on the front line—both economically and strategically. **The war will harden Gulf countries' security posture, with a sharper focus on higher defense spending and resilience against asymmetric Iranian threats.** The Gulf countries are determined to show that their business model can manage persistent threat and uncertainty from Iran.

- That has big budget implications. Higher outlays may pressure fiscal targets and could crowd out some outward investment (including into the U.S.), though it's too early to quantify.
- **Gulf countries may seek to diversify their defense systems to avoid being dependent on U.S. military bottlenecks,** especially on air defense and counter-drone capabilities. Moves toward South Korea, Ukraine, and UK startups were already underway—and are likely to speed up.
- Gulf states will also work with companies to harden key infrastructure sites like data centers.

- For sovereign wealth fund flows, much remains uncertain—both about how far funds will adjust their investment strategies and about whether higher defense spending will meaningfully pressure fiscal targets and constrain outward investment.

- **We do not expect the war to heal some persistent Gulf rivalries**—the disputes between the UAE and the Saudi leadership remain bitter and deep. However, we do expect military and intelligence cooperation between UAE and Israel to increase.

Still, the operating environment ultimately hinges on one chokepoint: Hormuz. Where control settles will define Gulf strategic room to maneuver.

- If Iran holds de facto control, Gulf states lose meaningful maritime sovereignty and freedom of navigation becomes conditional—especially if “transit fees” become the norm—rewriting the rules of the road and turbocharging efforts to build export routes that bypass the Strait.

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Question #8: Will oil and gas prices continue to rise?

Until shipping through the Strait of Hormuz can resume, the short answer is yes.

As our colleagues at J.P. Morgan Research have noted, this conflict is creating a supply shock, with the Strait's closure disrupting the physical flow of energy. The last tanker that cleared the Strait before the war is expected to arrive at its destination on April 20.

- If the status quo continues and the Strait stays constrained, our Research colleagues see a risk that U.S. gasoline prices (which today hover just above \$4 per gallon) could exceed \$5 soon. And by early May, oil inventories could fall toward critical minimums, making fuel rationing and outages more likely.
- **And we shouldn't forget that this isn't just about crude:** Hormuz is also a bottleneck for natural gas and the industrial products tied to it, from jet fuel and diesel to helium and petrochemical inputs. A prolonged supply shock to these products that economies use every day would not stay confined to energy markets; **it would feed directly into freight costs, grocery prices, and broader household inflation.**

Early signs of strain are already emerging.

- In Europe, airports in Northern Italy warned airlines about limited jet fuel availability after conflict-related supply delays, even if local suppliers stepped in to prevent outright disruption.
- In South Asia, energy rationing and demand destruction are already underway. India has diverted gas away from non-priority users to protect households, while Pakistan, Bangladesh, and Sri Lanka have cut commercial hours, reduced office energy use, and scaled back transport and other services to conserve fuel.

And even in the best case scenario where the ceasefire holds and transit through the Strait resumes, **the region's energy infrastructure has taken a hit—and it will take time to repair the damage.**

- More than 60 energy infrastructure assets across the Gulf were hit by Iranian missiles or drones, according to our commodities research team, and at least eight facilities will likely face lengthy repair timelines. The full extent of the regional repercussions remains somewhat opaque, with much of the damage not reported publicly or obscured by the fog of war.
- We do know, however, that Qatar has been particularly hard hit. Iranian strikes on Qatar's Ras Laffan gas complex last month knocked about 17% of the country's LNG export capacity offline and will take three to five years to repair.

Put simply, **even if some Gulf energy starts flowing again after a deal, the damage will still weigh on the market.**

Question #9: What are the war's second- and third-order geopolitical impacts that will prove most consequential?

Transatlantic friction will benefit Russia while Ukraine will feel the squeeze.

- Ongoing and potentially compounding transatlantic tensions could hand Russia the strategic holy grail it has pursued for decades: NATO's effective demise. The consequences could reorder the broader geopolitical map in ways not seen since the end of the Cold War.
- The Middle East draw on air-defense interceptors and other military assets will squeeze what's available for Ukraine—especially as Europeans buy from the U.S. to backfill and transfer systems to Kyiv. As we've noted before, every air defense interceptor that the U.S. and its allies fire to down an Iranian drone or missile is one more interceptor Ukraine won't have.

China's strategic lessons from the war will have wide-ranging political and economic implications.

- Beijing may see this conflict as shaking confidence in Taipei—and other regional capitals—that the U.S. has the will, staying power, and coalition backing to defend Taiwan.
- Operationally, Beijing just got a live-fire look at how the U.S. fights—weapons burn rates, carrier movements, logistics, targeting, and escalation thresholds—alongside clear signals of U.S. limits on ground-force commitment and tolerance for prolonged economic disruption. This gives Xi a sharper read on the political and operational constraints Washington would face.

- Economically, the war likely accelerates investment in energy diversification and green tech to reduce chokepoint risk—an area where China is already advantaged. China's coal base and strategic oil and gas reserves also help it absorb energy shocks.

The "middle powers" agenda may gain momentum.

- This war has amplified existing concerns among U.S. allies and partners about Washington's reliability, but it's also highlighted that China is unwilling or unable to step in as pragmatic peacemaker and stabilizing superpower. That leaves middle powers in a messy middle—and this conflict will be their biggest test yet.
- As we wrote in our report with the Tony Blair Institute last year, in a more fragmented, multipolar world, middle powers will leverage modular coalitions and selective alignment to shape trade, energy, and technology agendas. The flurry of middle power diplomacy—from the Europeans on Hormuz to Pakistan, Turkey, and Egypt on the ceasefire—is a case in point.
- It's early days still, but we may look back on this war as a proving ground for Canadian Prime Minister Carney's Davos call to action for deeper middle power cooperation.

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Window on the World

We've just passed the 60-day mark since the war with Iran began. With time comes perspective. **Looking back, the story so far can be told in four chapters:**

- **Chapter 1 (first half of March): The U.S.-Israeli air campaign pummeled Iran's military, yet Tehran's retaliation** shattered the illusion that the Gulf states were insulated from regional conflict.
- **Chapter 2 (back half of March): Attention shifted to the Strait of Hormuz.** Even with Iran's military severely degraded, it didn't need sophisticated firepower to choke global trade—just the threat of it. Shipping froze, energy markets seized up, and key commodity supply chains were broken, expanding the war's economic blast radius.
- **Chapter 3 (early April): The search for an off-ramp.** The U.S. and Iran agreed to a ceasefire without any terms, as both sides each confronted the limits of escalation.
- **Chapter 4 (now): Kinetic war has given way to economic warfare.** Drones and interceptors are out; dueling blockades are in. It's a big game of chicken: each side is stress-testing the other's economic pain threshold to shape the terms of the deal to come.

Chapter 5 will be written in May. Our base case: a narrow, interim deal is within reach because the U.S.'s early sweeping war aims—rolling back Iran's nuclear, missile, and proxy architecture—have shrunk to more focused priorities: reopening the Strait and constraining nuclear enrichment.

Direct talks may not restart immediately, but the backchannel is still humming. Pakistan, with ties to both sides, is keeping the messages flowing. Neither Washington nor Tehran want renewed hostilities. **Still, the timing and terms of any deal will come down to who blinks first.**

- **If the Strait is not opened in the coming weeks,** J.P. Morgan Chief Economist Bruce Kasman estimates Brent crude could spike to \$150 a barrel. That's a crisis in Asia and Europe and a political problem for Washington heading into the summer travel season and fall midterm elections.
- **If the U.S. blockade holds**—and the military can keep shadow-fleet tankers from slipping through and materially cut off oil exports—Iran will start running out of storage capacity and may be forced to shut-in production. That's a more existential threat to the regime's economic lifeblood.

Think of a potential deal as a sliding scale: each side wants to take more and give less. **If Iran can absorb the squeeze, it will demand deeper sanctions relief in exchange for a shorter enrichment moratorium. If the U.S. can, expect the inverse.**

- **Decision-making in Tehran remains opaque,** but recent reporting points to a consensus-driven system in which IRGC commanders—led by Brigadier General Vahidi—have consolidated dominant influence, alongside Speaker of Parliament Ghalibaf and new Supreme Leader Khamenei, who remains in hiding.
- Within that core group, **there appears to be agreement on the need for a deal but a split on when to strike it.** Relative pragmatists like Ghalibaf worry Washington may lose patience and again reach for military options, while Vahidi's camp appears opposed to conceding to U.S. demands on the nuclear file—leaving Iran's negotiating posture stuck between ideological red lines and economic reality.

How those chips fall will matter well beyond May. **The breadth of sanctions relief will shape how quickly Iran can rebuild degraded capabilities**—and the threat perceptions and resources that Iran will continue to demand from the U.S., Israel, and Gulf neighbors.

- **For the U.S.,** it could turbocharge debates in Washington about whether the costs of the war (in military hardware alone, at least \$25 billion) were “worth it” and become campaign fodder.
- **For Israel,** where the public sees the emerging deal as a dangerous development, it could further undercut Prime Minister Netanyahu's prospects in October elections. It would also force a reckoning on how to monitor and act on Iranian threats when Israel's “mowing the grass” strategy will be far less viable: a world where Tehran's ability to threaten the Strait has moved from hypothetical to real.
- **For the Gulf,** the regime's post-deal position will shape how its neighbors calibrate confrontation and accommodation. In the near term, expect the UAE to tilt closer to Israel, while Saudi Arabia leans toward Pakistan and Turkey and takes a less overtly confrontational line toward Iran. **That divergence is likely to only widen the Saudi-Emirati rift—underscored this week by the UAE's exit from OPEC.**

Zooming out further: **regardless of how the next few weeks play out, many of the war's global aftershocks—from friction in the transatlantic relationship to heightened concerns in Asia about U.S. commitments to the Indo-Pacific to a renewed focus on energy resilience and diversification—are largely locked in.** These dynamics can still shift at the margins, but, as we've written in previous notes, **the war's strategic shocks aren't waiting to be written—they're already here.**



3

A Year of Stalemate in Ukraine

Our Ukraine analysis traced the evolution from hopes of a negotiated settlement to the reality of entrenched stalemate and attrition. Early optimism about diplomatic breakthroughs gave way to a focus on the limits of military and economic endurance, the shifting priorities of Western backers, and the persistent risks of escalation—or drift.

A YEAR OF STALEMATE IN UKRAINE

The Russia-Ukraine Endgame

May 2025

Center for Geopolitics Report

As Europe runs low on weapons, Ukraine on fighters, the U.S. on patience, and transatlantic unity frays, **President Zelenskyy will likely be forced to accept a negotiated settlement with Russia sometime this year that freezes the fighting but stops short of a comprehensive peace agreement.** Putin's losses are also far from sustainable. At its current rate of gain, Russia will control all of Ukraine in about...118 years. So President Putin will aim to cut a deal that is favorable to his overall goal to eventually control Kyiv. **2025 was always going to be the year of negotiation, and the endgame is here.**

But will it last? The durability of any settlement will depend on: (1) how satisfied President Putin is with Ukrainian and Western concessions (*did he get enough of what he wanted?*). Both sides need a deal they can defend politically. And (2) the strength of the security promises underwriting it (*are they sufficient to deter further aggression and allow Ukraine to rebuild with confidence?*). These are in direct tension; **the weaker the security promises, the more concessions Ukraine will have to swallow**—neutrality, demilitarization, disarmament, territory, etc.—or risk a return to fighting.

Generally, we see 4 possible outcomes, each with parallels to other countries today:

Best case – “South Korea”

President Zelenskyy will get neither NATO membership nor the full restoration of Ukraine's territory. However, if he can secure an in-country European tripwire force backstopped by an American security promise on assistance and intelligence support, then the 80 percent of Ukraine still under Kyiv's control will be set on a much more stable, prosperous, and democratic trajectory. The West's decision to leverage the approximately \$300 billion it has frozen in Russian sovereign assets would also get reconstruction in Ukraine off to a good start.

Odds:
15%

Odds:
20%

Still OK – “Israel”

Strong, enduring military and economic support without a significant foreign troop presence would likely still provide Ukraine the space to turn itself into a fortress, pursue military modernization, and eventually establish its own deterrent. But war would always be on its doorstep. Putin would still need to see sufficient economic benefits (including sanctions relief) and a stronger relationship with the U.S.

Odds:
50%

Not great – “Georgia”

In the absence of both foreign troops and strong military support, Ukraine would experience ongoing instability, stunted growth and recovery, waning foreign support over time, and the effective derailment of its Western integration (i.e., EU and NATO membership), with gradual drift back into Russia's orbit.

Odds:
15%

Worst case – “Belarus”

If the United States abandons Ukraine—or is perceived as switching sides—and Europe fails to step up, Russia would hold firm to its maximalist demands and seek Ukraine's total capitulation, turning the country into a vassal state of Moscow. In this scenario, Russia will have effectively won the war, divided the West, and irrevocably upended the post-World War II world order.

Putin's maximalist demands: 6 nos and 6 yeses

- | | |
|--|---|
| 1. No: NATO membership and Ukraine's declared neutrality | 1. Yes: International recognition of Russia's claim on Crimea and four provinces (about 20% of Ukraine) |
| 2. No: Nuclear weapons in Ukraine or umbrella for it | 2. Yes: Veto over foreign security guarantees for Ukraine |
| 3. No: Foreign troops in Ukraine (including peacekeepers) | 3. Yes: Ban on military exercises by U.S. and other NATO forces on the territories of newer alliance members |
| 4. No: Foreign military aid or intel sharing | 4. Yes: Limits on U.S. troops in Europe |
| 5. No: Large Ukrainian military (major reduction in the size of Ukraine's army) | 5. Yes: Sanctions relief and unfreezing of Russian assets |
| 6. No: Modern weapons in Ukraine (major restrictions on the types of weapons Ukraine can possess) | 6. Yes: Return of Russian diplomatic compounds in the U.S. |

A YEAR OF STALEMATE IN UKRAINE

Dealwatch: Endgame Ukraine?

August 2025

Window on the World



PUT INTO CONTEXT

On August 15, 2025, President Trump hosted Russian President Vladimir Putin in Alaska for talks on ending the war in Ukraine. No deal was struck, but the summit sent shockwaves throughout Europe as President Putin received red-carpet treatment six months after the infamous Oval Office dressing-down of Ukrainian President Zelenskyy.

The extraordinary summits in Alaska and the White House changed the optics, but not the outcome (yet). If the U.S. stays engaged and European resolve endures, **we think the odds are now higher for an outcome that would stop the fighting while enabling Ukraine to maintain its sovereignty, defend itself, and rebuild**—like South Korea or Israel today.

Trump stays center stage.

The President is exactly where he wants to be: positioned as the indispensable mediator between Kyiv, Europe, and Moscow—a self-styled Putin whisperer. While European leaders haven't pushed back publicly, most are privately wary of how this is unfolding, which is why they left their summer vacations to come to the White House. With a trilateral meeting in view, Trump is shaping both the pace and the process.

Zelenskyy's Balancing Act.

Zelenskyy and European leaders' historic, high-stakes meeting with Trump at the White House solidified momentum, as they pressed for a ceasefire and firm U.S. security guarantees that would prevent a return to conflict. They seemed to make some headway on the latter, with many details unclear. The tone was friendly and presented a united front—but the backdrop was grim: a wave of Russian drone and missile attacks struck Ukraine earlier that day, a stark reminder that diplomacy is unfolding amid ongoing violence. A one-on-one between Zelenskyy and Putin is on the table before a later trilateral summit that would include Trump in the coming weeks. The ball is in Putin's court. Meanwhile, Russian officials have begun publicly rejecting the idea of foreign troops on Ukrainian soil.

In Alaska, Putin gained by showing up.

Warm words, red carpets, a Presidential limo ride, and a press conference without drama marked his reentry onto the global stage. He gave up nothing, recited his long-standing grievances and goals, yet gained legitimacy, time, and standing—at zero cost. For Moscow, this itself is a geopolitical win.

No deal, no details, no red lines.

Trump described Friday's meeting with Putin as constructive (a "10"), without offering details. Putin spoke of "turning the page" on U.S.-Russia relations and invited Trump to Moscow. There is no indication Putin's maximalist demands have changed (see the chart for Putin's "6 yeses

and 6 no's"). One notable shift since Alaska: Washington is no longer pushing for an immediate ceasefire, but rather a final peace agreement—suggesting a longer timeline, more ambitious framing, and less immediate pressure on Russia. This fits the Kremlin's preferred playbook: endless talks, no commitments, optics of parity, and creeping normalization of territorial gains. Trump made no public mention of U.S. red lines. His prior ultimatum to turn the screws on Russia now appears stalled, if not shelved. The display of warmth raised eyebrows in Europe, but also quiet relief that Trump avoided a Helsinki-style moment or explicit alignment with Moscow. Should negotiations drag on, the Europeans could threaten to seize Russian frozen assets to reenergize talks.



A YEAR OF STALEMATE IN UKRAINE

Red Lines and Roadblocks: The Fortress Belt and Ukraine's Path Forward

February 2026

Window on the World

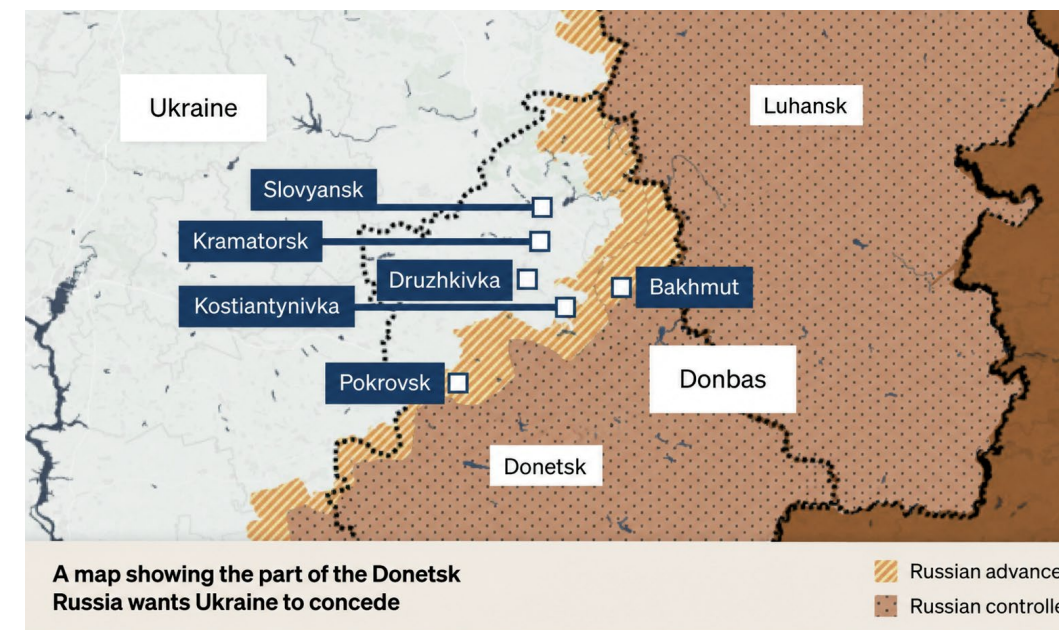
Of all the news from the past month, Ukraine may prove the most geopolitically significant—and expect a surge of activity in and around the upcoming Munich Security Conference. Trilateral talks between U.S., Ukrainian, and Russian officials in the UAE marked the **first direct negotiations with U.S. presence since Russia's 2022 invasion** with talks set to continue in the coming days, though **for now a breakthrough remains elusive**. The Ukrainians say that roughly 90 percent of issues are settled and that U.S. security guarantees are ready to be signed. One obstacle, however, remains decisive: **Russia's demand for full control of Donbas**.

This is a red line for Kyiv. Ceding the so-called “Fortress Belt”—a roughly 50-mile corridor of industrial, heavily fortified cities in northern Donetsk—would strip Ukraine of a critical defensive barrier and expose the country's core to future Russian advances. Although Russia already occupies much of the region, it is pressing for total control as the price of a ceasefire.

The fate of the Fortress Belt has thus become the central dealbreaker.

Despite slow battlefield progress and heavy manpower and equipment losses, Moscow remains convinced that Ukraine will weaken first under sustained military and economic pressure. To reinforce that leverage, **Russia has intensified strikes on Ukraine's energy infrastructure**—pushing large parts of the country into rolling blackouts as winter deepens. Estimates suggest 80% of the country is facing emergency power shutoffs. It's also still unclear whether Russia will accept Western peacekeepers in a ceasefire, and which side will control the Zaporizhzhia power plant. For Kyiv, the plant is critical to Ukraine's energy needs; for Moscow, it's both an energy prize and a foothold for a lasting presence in southeastern Ukraine.

The Fortress Belt



Source: ISW-CTP

Diplomacy on Ukraine's European future is unfolding in a parallel track. Ukraine's “fast track” to EU membership is likely to hit speedbumps.

The focus has shifted to phased entry, with hopes of crossing the finish line by 2027, although the complex web of EU procedures and requirements ahead are likely to realistically take at least a few more years. For Kyiv, EU membership is seen as a vital economic security guarantee, especially given the likelihood that Ukraine will have to forgo NATO aspirations. But resistance from several member

states remains strong, driven by concerns over the significant financial burden, the risk of deeper tensions with Russia and Ukraine's sluggish anticorruption and legal reforms.

Meanwhile, a bold ten-year, \$800 billion prosperity plan is still in the works.

This plan aims to catalyze a wave of public and private investment from G7 nations and the EU, tackling urgent economic and social challenges while giving Western allies a strategic stake in Ukraine's future.

A YEAR OF STALEMATE IN UKRAINE

Ukraine War Enters Fifth Year Amid Battlefield and Diplomatic Stalemates and Financing Risks

March 2026

Window on the World

Four years after Russia's full-scale invasion, **the war remains one of grinding attrition**. Russian forces continue to make incremental gains in the east at high cost. In 2025, Russia gained only an additional 0.8% of Ukrainian territory while taking an average of nearly 35,000 casualties per month. And Ukrainian counterstrikes further underscore that Moscow remains far from achieving a decisive breakthrough. Continued Russian attacks on energy infrastructure sustain economic and social pressure, but neither side appears positioned to materially shift the front lines.

Europe Now Bearing the Financial Burden of Supporting Ukraine



Allocations are defined as aid which has been delivered or specified for delivery. Europe includes EU, Iceland, Norway, Switzerland, and the United Kingdom.

Allocations are defined as aid which has been delivered or specified for delivery. Europe includes EU, Iceland, Norway, Switzerland, and the United Kingdom. Source: Kiel Institut; European Central Bank

Diplomacy remains stalled.

February talks in Geneva collapsed amid mutual accusations of bad faith negotiating, and territorial control—particularly in the western Donbas and the Zaporizhzhia nuclear power plant—continues to block compromise. **Washington is pressing for progress by early summer ahead of the November midterm elections, with most of the pressure for additional concessions directed at Kyiv.**

In response, President Zelenskyy is exploring presidential elections alongside a national referendum on any peace deal as early as May—an extraordinary step while martial law remains in effect, millions of Ukrainians are displaced, and roughly 20% of the country is under Russian occupation. The proposal reflects both U.S. pressure to formalize a deal and Zelenskyy's effort to demonstrate responsiveness, lock in U.S. security guarantees, and legitimize any settlement domestically. But holding a vote in the absence of a ceasefire would carry significant logistical and legitimacy risks—particularly without a concrete peace agreement to present to voters—making the timeline unlikely to hold.

The more immediate vulnerability for Kyiv lies in financing.

As the chart above shows, Europe is now providing most of the support for Ukraine. Yet disputes inside the EU—with Hungary threatening to block implementation of the EU's €90 billion loan package—raises the risk of a spring budget shortfall. **While Brussels is seeking workarounds, prolonged delays would directly affect Ukraine's wartime resilience and economic stability.**

As the conflict enters its fifth year, the defining question is less who can outmaneuver on the battlefield—but who can endure politically and financially.

The bottom line:

As we've highlighted over the past six months, a landing zone for a settlement is coming into view; significant progress has been made on key issues such as Western security guarantees, an in-country European deterrence force, and intelligence support for Ukraine. But the ultimate hurdle remains how to get Russia to move off its maximalist demands.



A YEAR OF STALEMATE IN UKRAINE

Ukraine Endgame: The Path to an Imperfect Peace

May 2026

Center for Geopolitics Report

In our May 2025 report, we assessed that Ukraine would most likely to be forced into an unsavory, “Georgia-like” settlement with Russia—one that would, over time, pull it back toward Moscow’s orbit. At the time, the strategic picture was deteriorating. The United States was signaling a preference for a rapid settlement, and a contentious Oval Office meeting between the U.S. and Ukrainian presidents raised the prospect that American military aid could be stopped altogether. Europe, meanwhile, was confronting a stark over-reliance on Washington—scrambling to close gaps in defense spending and industrial capacity—while failing to articulate a credible framework for long-term security guarantees for Ukraine or a post-ceasefire presence on the ground.

Over the past year, two developments have meaningfully shifted that trajectory—at least for now:

- **First, Europe has stepped forward as the primary backer of Ukraine.** As U.S. support has slowed to a trickle, Europeans have moved to fill the gap—expanding financial assistance, accelerating weapons provision, and advancing Ukraine’s path toward EU accession to its most concrete point to date.
- **Second, the contours of Western security assurances have come into focus.** While still falling short of a NATO-style guarantee or a large multinational tripwire force, the U.S. and Europe have clarified their willingness to play a sustained post-conflict role—removing a key source of uncertainty that loomed large a year ago.

Taken together, these shifts lead us to upgrade our base case.

Ukraine will have to swallow difficult concessions—especially on territory. But we now assess that substantial European support, combined with limited but tangible Western security backing, could be sufficient for the part of Ukraine under Kyiv’s control—about 80 percent of Ukraine’s pre-2014 territory—to establish a form of deterrence, stabilize economically, and continue integrating westward. **Under current conditions, a negotiated settlement could emerge as early as this year.**

In this report, we assess how the conflict is evolving across three key theaters—the diplomatic, financial, and military—which together will determine each side’s negotiating position and the durability of any settlement. The trajectory of the conflict will be determined not by the next offensive, but by how these three theaters evolve and intersect—and whether they hold long enough to produce a deal.

Based on these dynamics, we assess that Ukraine’s most likely path has shifted from a

Russia-Ukraine Negotiations—Putting the Cards on the Table

How the three theaters evolve will determine the position the Ukrainians and Russians bring into negotiations. **While both sides continue to posture, the broad contours of a potential settlement are now more visible than at any point since 2022.**

What remains unresolved are the two issues that matter most for each side—and where neither has yet shown its final hand.

The first is territory.

Russia already controls around 89 percent of the Donbas (comprised of the Donetsk and Luhansk oblasts) but is pressing for full control as the price of a ceasefire—an unacceptable concession for Kyiv. Ceding the so-called “Fortress Belt”—a roughly 50-mile corridor of heavily fortified industrial cities in northern Donetsk—would strip Ukraine of a critical defensive buffer.

- Control of the Zaporizhzhia nuclear plant is similarly contested and strategically significant. For Kyiv, the plant is critical to Ukraine’s energy needs; for Moscow, it’s both an energy prize and a foothold for a lasting presence in southeastern Ukraine.

“Georgia”-like trajectory toward a more “Finland”-like outcome—one that preserves sovereignty and Western alignment, but falls short of a fully just or secure peace.

- This trajectory is far from certain. **A range of disruptors could still reshape the balance—many of them to Ukraine’s disadvantage.** In particular, the evolving Iran conflict introduces second- and third-order effects that risk diverting Western attention, resources, and political capital at a critical moment.

- Russia is also pushing for international recognition of its control of Crimea as part of a ceasefire. Although Russia has effectively controlled Crimea since 2014, Ukraine and most international institutions classify it as occupied territory.

Taken together, these issues define not just the map, but Ukraine’s ability to defend and rebuild what remains.

The second is Moscow’s acceptance of Western security assurances.

President Putin has shown no willingness to move off core demands: no foreign troops on Ukrainian soil and effective veto power over Ukraine’s future security arrangements. Without credible assurances, Kyiv will view any settlement as leaving the door open to renewed attack down the road.

- **The central question is whether the United States and Europe can construct a framework strong enough to deter Russia without crossing Moscow’s red lines.** One potential pathway would involve Putin accepting a narrow Western support mission in exchange for Ukrainian concessions on territory—but there is little evidence that either side is ready to make that trade.

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These are not peripheral issues—they are the foundation of any durable settlement. Recent diplomacy underscores how wide the gap remains. February's trilateral talks in Geneva collapsed amid mutual accusations of bad faith—a reminder that proximity to a deal does not guarantee one.

Time, however, is not working in Ukraine's favor.

As Ukraine's financial position tightens, battlefield pressures persist, and Western attention is increasingly divided, Moscow's relative leverage improves.

History compounds this urgency.

The longer the conflict drags on, the greater the risk it settles into a frozen conflict—leaving Ukraine with a ceasefire but stripped of territory and lacking the security assurances or reparations a formal peace deal could deliver. This is precisely what followed Russia's 2014 annexation of Crimea: the Minsk Agreements froze the conflict rather than resolving it and, in Kyiv's view, laid the groundwork for the 2022 invasion. Ukraine is therefore incentivized to secure a durable agreement before accepting any ceasefire—wary that a pause in fighting could allow Russia to regroup while pushing the conflict down Washington's and Brussels' list of priorities.

We therefore expect a combination of external pressure and internal constraint will ultimately force Kyiv to accept a flawed and uneven settlement. J.P. Morgan Research colleagues recently updated their

forecast: whereas they previously expected the war to end in 2026, they now predict it will continue into 2027, citing Moscow's increased confidence in its position.

Although we agree Putin sees time as on his side, we expect a Finland-style deal sufficiently incentivizes Putin to play his hand sooner.

Striking a deal would give Moscow:

A real win on territory

Securing territory in the Donbas provides Putin with a tangible victory—gaining valuable mineral resources, fertile farmland, and Black Sea access via Mariupol. Donbas is not only an economic prize but also symbolically central to the “Russkiy Mir” (“Russian world”) narrative that Putin uses to justify the war.







An optical win on neutrality

With NATO unable to reach consensus on Ukrainian membership, a robust form of armed neutrality could allow Ukraine to strengthen its security while enabling Putin to claim a symbolic and strategic win on neutrality—probably the best he can do without massively escalating the war and risking domestic instability.

Sanctions relief

Russia now faces high inflation, labor shortages, weakening consumer demand, depressed prices on international markets for its oil, and heavy reliance on its defense sector after years of crippling Western sanctions. A deal that includes a phased lifting of sanctions by the U.S. and Europe could allow Putin to start rebuilding a peacetime economy.

Key questions shaping a deal:

	Russia's Position	Open Questions	Ukraine's Position
 Territory	Russia seeks full control of Donbas and international recognition of its annexation of approximately 20% of Ukrainian territory	→ Will Russia accept a freeze along current frontlines? Will Ukraine be forced to concede the remainder of Donbas?	← Ukraine rejects recognition of Russian occupation and refuses withdrawal from additional territory not currently controlled by Russia
 Security Guarantees	Russia demands veto power over any Western security arrangements for Ukraine	→ Will Western security assurances that fall short of guarantees be strong enough to satisfy Kyiv, and unthreatening enough to be acceptable to Moscow?	← Ukraine seeks legally binding Western security guarantees and rejects any Russian veto over sovereign Ukrainian security decisions
 Foreign Troop Presence	Russia demands that no foreign troops be present on Ukrainian soil	→ Would the Western force structure currently on offer—a multinational force under orders to help train and rebuild the Ukrainian army, but not fight—be acceptable to both sides?	← Ukraine's best case scenario would be a U.S./European tripwire force
 Westward Integration	Russia opposes Ukraine's NATO and EU membership but is less overtly categorical on the latter	→ Near-term NATO membership is off the table, but will Moscow accept Ukraine's pursuit of EU membership?	← Ukraine seeks EU accession on a clear timeline while maintaining long-term Western integration ambitions
 Rearmament	Russia seeks significant restrictions on the size and character of Ukraine's postwar military	→ Can Kyiv and Moscow agree on limitations that give Ukraine credible deterrence against a future Russian attack?	← Ukraine rejects any Russian veto over the size or structure of its armed forces and seeks credible deterrence
 Financial Flows	Russia seeks sanctions relief and opposes reparations obligations	→ How much sanctions relief will be on offer, at what pace, and what will Moscow have to concede to earn it? Will Russia pay Ukraine any reparations, including potentially using its assets currently frozen in the EU?	← Ukraine seeks reparations or a reconstruction fund

THREE

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The status of Russia's frozen assets—which he may need to solidify support among oligarchs—could be used as leverage to secure additional concessions from Putin if they are not redirected to a reconstruction fund for Ukraine.

An opportunity to rebuild the arsenal

Russia has drained its military of personnel and equipment. Ending the war would allow him to focus on rearming and modernizing Russia's military.

Perhaps most importantly, Putin probably would prefer to cut a deal while the current U.S. administration is in power.

Putin likely views the current U.S. approach as his best opportunity to secure a favorable deal, given its reluctance to support Ukraine's NATO membership, increased tensions in the Transatlantic relations, and willingness to pressure Kyiv into accepting difficult concessions. Putin will want to finalize an agreement before a potential shift in American policy or leadership.

As the scenarios that follow make clear, outcomes will not be determined by the terms alone. **Even a bad hand, well played, can preserve what matters most:** Ukraine's sovereignty over the vast majority of its territory, its path toward Europe, and the possibility that constraints imposed today prove temporary over time.

What might a "Finland" scenario look like? Tough trade-offs, strategic restraint, and buying time

Finland preserved its sovereignty against the Soviet Union during and after World War II—but did so by accommodating Moscow's interests in key areas of foreign and domestic policy, a strategy later termed "Finlandization."

Our base case envisions a version of this dynamic for Ukraine—though with a few differences. With time working against Kyiv and Washington pushing for a deal, Ukraine may be forced to accept painful terms: roughly 20 percent of its territory remaining under Russian control, formal neutrality (including a veto on NATO membership), and constraints on military size and capabilities. These concessions

would give Putin the optics of victory while stopping short of full Ukrainian capitulation.

In this scenario, Ukraine adopts a **"Finland—without full Finlandization"** strategy: managing a persistent threat on its borders through a mix of deterrence, economic resilience, selective accommodation, and strategic restraint. **Unlike post-war Finland, Ukraine is now deeply aligned with Europe, and overt deference to Moscow would be politically untenable. But in the absence of a tripwire force or NATO/American security umbrella, Kyiv would likely be pushed toward a more calibrated posture than it would otherwise choose.**

Finland's experience offers several instructive parallels:

- **Economically,** Finland turned constraint into opportunity. Reparations to the Soviet Union forced rapid industrialization, building export capacity that sustained growth for decades. Ukraine faces a similar imperative to rebuild, but with advantages Finland lacked: strong agricultural output, a growing technology sector, and a defense industrial base already shaped by wartime demand. Crucially, Ukraine won't have reparations hanging over their heads as Finland did or necessarily feel compelled to reject western assistance to appease Moscow—giving it a more diversified and resilient economic path.
- **Politically,** Finland maintained its democratic system despite sustained Soviet pressure, carefully calibrating policy to avoid provocation. Ukraine will face similar interference but with a more consolidated national identity and stronger Western ties. The challenge will be preserving democratic integrity without ceding effective veto power to Moscow. Ukraine's ability to tackle corruption within its political system will also be decisive in determining both how much influence Russia is able to maintain as well as how fully and quickly Ukraine is allowed to integrate westward.

- **Militarily,** Finland balanced deterrence with restraint—maintaining credible defense capabilities without triggering escalation. Universal conscription, rapid mobilization capacity, and moderate defense spending were sufficient to raise the cost of invasion. Ukraine would face a similar balancing act: building a capable territorial defense while avoiding postures that Moscow could exploit, likely with more Western support but under similar strategic constraints. Official neutrality would remove a key Russian justification for hostility, potentially stabilizing the ceasefire in ways more formal NATO backing might not.

The analogy is imperfect. Finland lost less territory (about 10 percent in 1944), faced a less central role in Russian imperial ambition, and entered the post-war period with intact institutions and infrastructure. Ukraine's scale, symbolic importance to Russia, and level of destruction make its challenge far greater.

But Finland's experience offers a broader lesson: sovereignty is not binary.

States can preserve identity, build prosperity, and maintain credible deterrence even under constraint. And when conditions shift, they can move decisively. Finland ultimately integrated fully into Western institutions. We assess that a similar pathway—though likely measured in decades, not years—remains open to Ukraine.



4

A Year of U.S. Rewiring of Trade

Over the past year, trade policy emerged as a primary tool of U.S. geopolitical competition, rewiring the trading system and creating a billable hours bonanza for trade lawyers. We analyzed the expanding use of different tariff authorities, anticipated how spurned partners might respond by forming smaller trade blocs, and highlighted key sectors—like autos—where trade, geopolitics, and industrial policy increasingly collide.

America's Trade Policy:
Historical Blip or the
New Normal?
Aug 2025

Car Troubles: Autos as
a Growing Fault Line in
Global Trade
Oct 2025

Are They Legal? The U.S.
Supreme Court Weighs
Presidential Tariff Powers
Nov 2025

Trade Outlook 2026:
Restructuring Without
a Rulebook
Dec 2025

U.S. Trade Policy Adjusts
to Political Reality
Feb 2026

Out With The Old Tariffs,
In With The New
Feb 2026

The One Year Anniversary
of Liberation Day
Apr 2026

A YEAR OF U.S. REWIRING OF TRADE

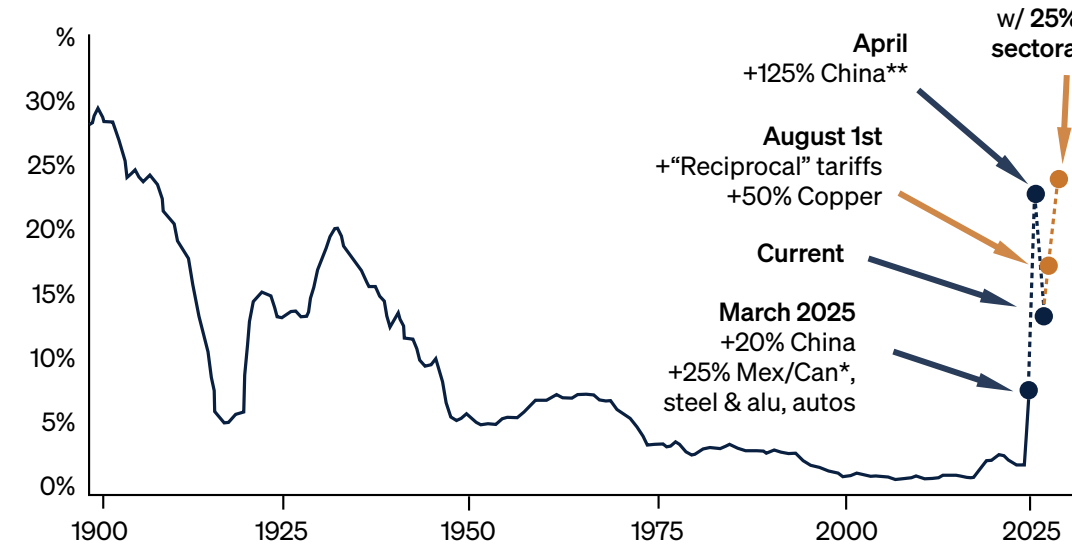
America's Trade Policy: Historical Blip or the New Normal?

August 2025

Center for Geopolitics Report

The second Trump administration has taken the most aggressive approach to trade policy since the 1930s, and J.P. Morgan's Global Economic Research team believes it is increasingly likely that the U.S. effective tariff rate will settle close to the 22% rate initially announced on April 2 (see figure). This has already begun to generate significant revenue—as of July 2025, a little over \$100 billion—but will also have profound impacts across the U.S. economy. For example, a recent report by the JPMorganChase Institute found that **the implementation of full universal tariffs announced on “Liberation Day,” (April 2) could add up to \$187.7 billion in direct import costs for midsize firms—more than six times the cost of earlier tariffs in place at the start of 2025.**

Back to the Future: U.S. Average Tariff rate since 1900



Source: J.P. Morgan Global Economics. *25% tariff on non-USMCA compliant goods, 10% Canada energy. **In addition to the prior 20%. 2025 uses 2024 trade basket weights.

Tools of the Trade

- **The International Emergency Economic Powers Act (IEEPA)** was used as the basis to impose country-specific tariffs on “liberation day” and August 1. The use of IEEPA has been challenged by some courts that have found the administration exceeded its authority. One of these cases is currently with a U.S. federal appellate court, and we eventually expect the case to make its way to the U.S. Supreme Court.
- **Section 301** allows the president to use tariffs and non-tariff measures to combat unfair trading practices from other countries upon conclusion of an investigation that can take up to one year. Section 301 was used in the first Trump administration to put tariffs on China, and most recently the U.S. Trade Representative announced an investigation focused on a number of Brazil's trade practices.
- **Section 232** of the Trade Expansion Act of 1962 allows the U.S. President to impose tariffs on imports threatening national security and gives the administration latitude to define what constitutes a threat. Once an investigation is launched, the Department of Commerce puts together a report that can take up to 270 days to conclude, and then makes a recommendation to the president to restrict imports accordingly. The Trump administration's use of the statute has survived several legal challenges over the years in part due to the detailed process requirements underpinning a 232 investigation. The rigor of a 232 investigation stands in contrast to the administration's use of the **IEEPA**.
- **If the U.S. courts rule the tariffs cannot be authorized under IEEPA, we expect the administration to pivot to other legal mechanisms like Section 301 and Section 122—which allows the president to impose tariffs up to 15% for 150 days to address large and serious balance-of-payments**

deficits. This would open the space for further negotiations but will likely end up with similar results.

The emergence of this new more protectionist policy impetus will have staying power, bringing with it implications beyond those that are purely economic. The below list is far from exhaustive but touches on what we see as key issues facing an altered global trade landscape.

1. Post-World War II Economic Multilateralism is (Nearly) Dead

The long-held belief that free trade fosters prosperity and reduces conflict is waning. Geopolitical tensions, including a major European war, Middle East instability, and deteriorating U.S.-China relations have weakened multilateral institutions like the WTO, leaving them ineffective. In recent years, G20 meetings have failed to produce cooperation on substantive issues—struggling even to agree on joint statements. Similarly, Asia-Pacific Economic Cooperation (APEC) meetings have been overshadowed by geopolitical tensions and failed to produce any tangible outcomes on trade and investment, development, or cooperation on key foreign policy issues. Finally, while a lot of ink has been spilled about more countries joining the BRICS as an alternative to the current western-led institutions, BRICS countries have their own internal geopolitical tensions, and different strategic aims of BRICS countries will only make it more unwieldy and harder to reach consensus on any issue. Most recently, the Trump administration's approach to trade negotiations has departed from the long-standing principal of Most Favored Nations—the cornerstone of the multilateral trading system. All of this, combined with governments increasingly designating more and more goods as imperative to national security, is leading to a world that is increasingly fragmented.

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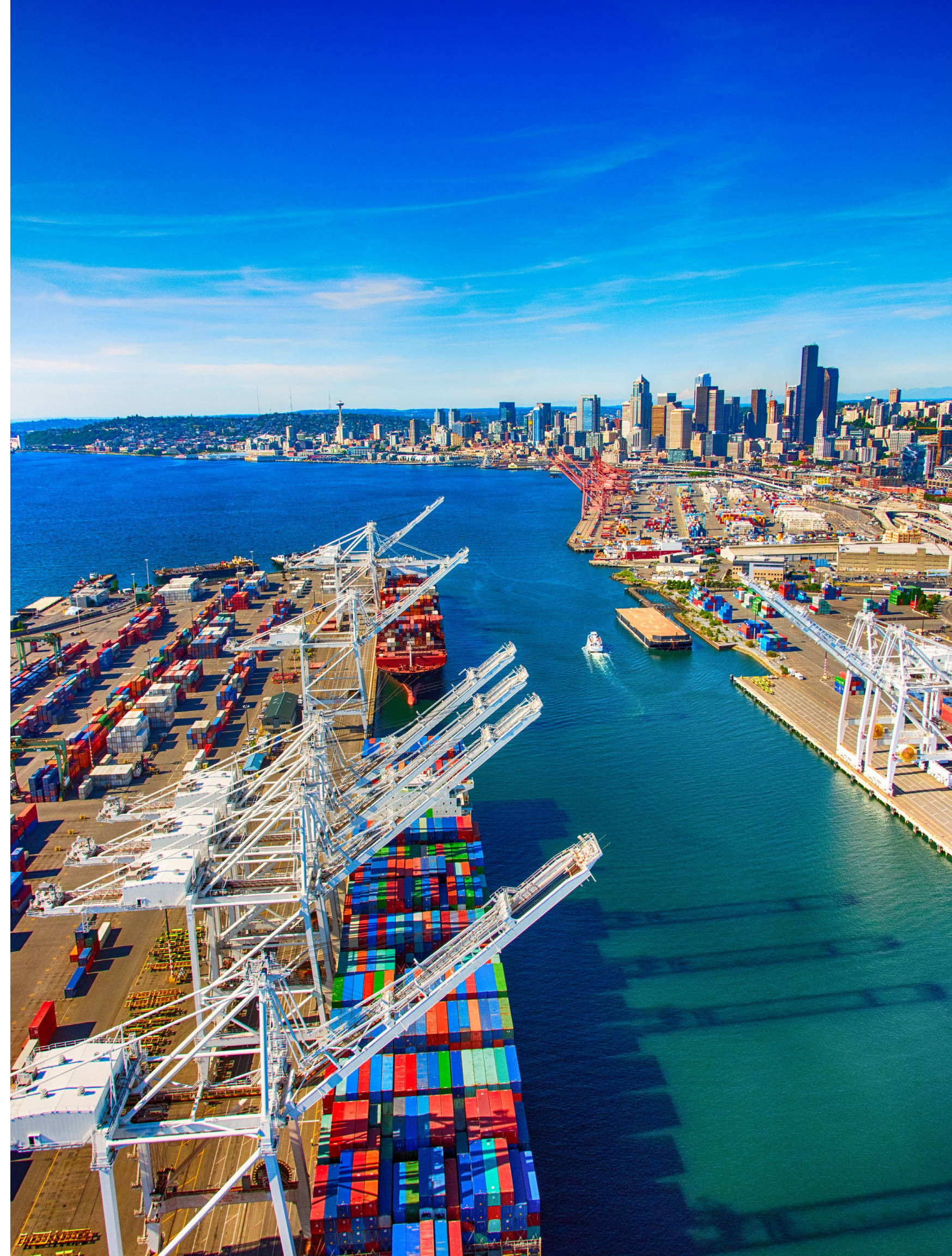
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2. Traditional U.S. Allies and Close Trading Partners are Making Alternate Plans

As the U.S. continues to impose new barriers to entry, its allies and close trading partners are accelerating efforts to find alternative markets. When President Trump pulled the U.S. out of the TPP, the remaining countries decided to move forward with the agreement, renaming it the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and welcoming the United Kingdom as a new member. Many other countries, from Uruguay to Indonesia to Ukraine have also indicated formal interest in joining the CPTPP. ASEAN countries recently agreed to an update to their FTA with China, and many countries within the bloc have negotiated or are in the process of negotiating an agreement with the European Union. So even as the U.S. pulls back from free trade, don't expect other countries to follow.

3. A New Approach to Alliances

As supply chains adjust to new tariff realities, U.S. diplomatic relations with traditional partners are evolving. While some see this as a return to isolationism, the reality is more complicated. Instead of an approach to foreign policy rooted firmly in post-World War II alliances and institutions, the U.S. is pursuing more flexible foreign policy strategies, forming new regional and transactional partnerships based on economic and security needs. The Biden administration initiated this shift, particularly in the Indo-Pacific where it embraced a "lattice strategy" of a series of overlapping partnerships with countries like Japan, Korea, Australia, India, and the Philippines. The Trump administration has maintained some of these groupings, like the "Quad," but is clearly taking a different approach that will drive more shifts in alliances. Future U.S. presidents will need to reimagine old alliances to remain influential in the coming decades.



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Window on the World

The auto sector is increasingly where trade, geopolitics, and industrial policy collide. Three storylines worth watching: (1) U.S.–Korea tensions that could jeopardize a flagship investment deal, (2) China’s deepening auto overcapacity and expansion, and (3) the auto sector’s central role in the upcoming USMCA review.

South Korea: Immigration Raid Strains U.S. relationship.

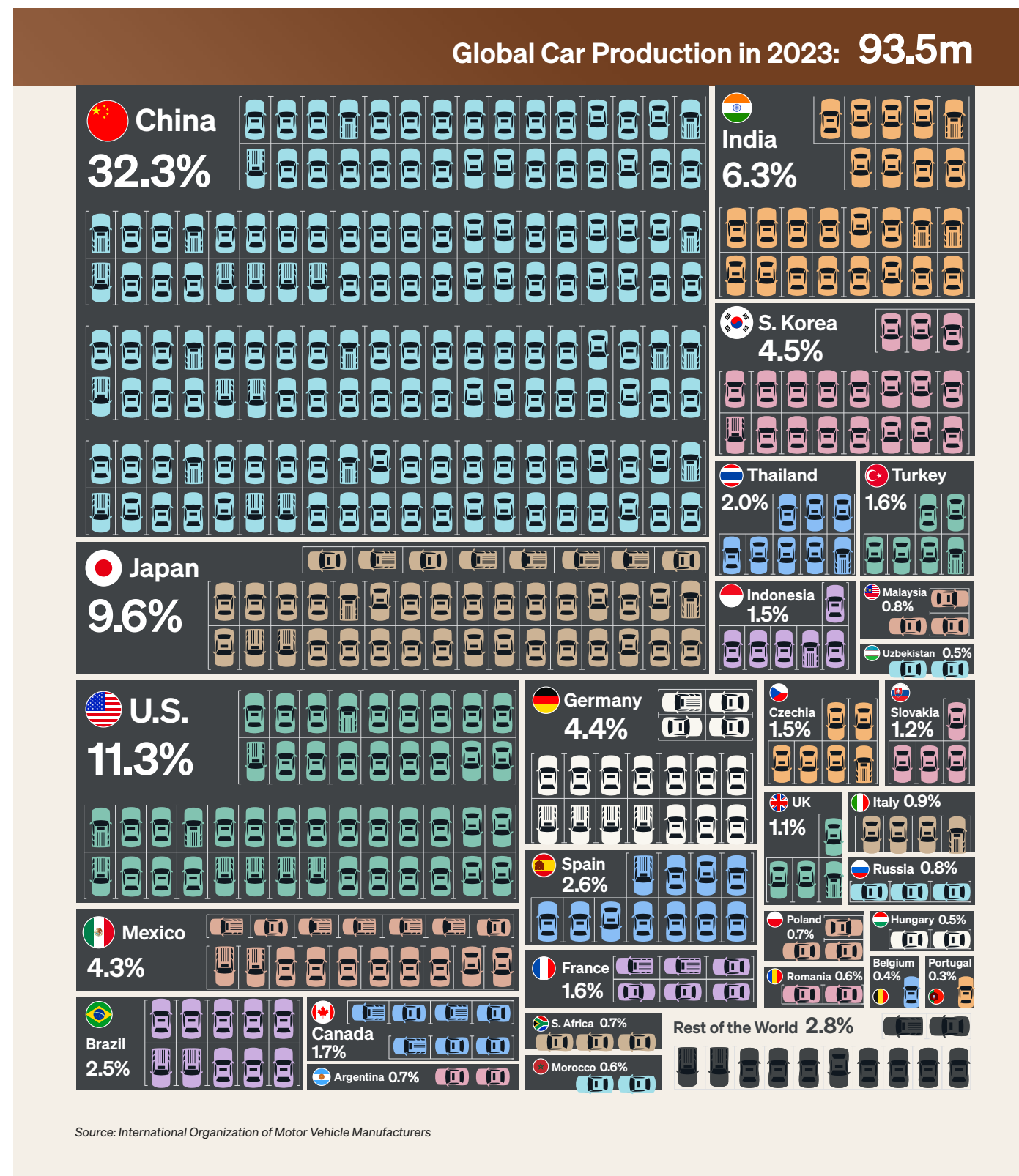
A U.S. immigration raid at Hyundai’s \$7.6B battery plant in Georgia, detaining over 300 South Korean workers, has cast a shadow over **Seoul’s \$350B U.S. investment pledge** in exchange for auto tariff reductions—a centerpiece of ongoing trade talks. South Korean leaders expressed “grave concern” and signaled new projects may be delayed unless Washington eases visa rules for Korean technicians and engineers. Up to \$150B of the investment package is earmarked for U.S. shipbuilding, a sector Washington is keen to revitalize as part of its competition with China. The episode underscores how political frictions can threaten capital flows and industrial cooperation that both governments see as strategically essential.

China: Overcapacity and Expansion.

China’s auto sector is struggling under chronic overproduction at home while continuing to expand abroad. The country now has the capacity to produce nearly three-quarters of the world’s cars annually, with autos and related services accounting for about one-tenth of China’s GDP. Dealers are flooded with unsold inventory, sparking fire-sale discounts, “ghost sales,” and even abandoned car lots.

Yet exports are surging. Chinese automakers—led by BYD—are aggressively capturing market share overseas, buoyed by state subsidies and lower costs. **In September, BYD reported an 880% year-on-year jump in UK sales**, making Britain its largest market outside China. The UK’s absence of EV tariffs has made it an attractive entry point, even as the EU imposes levies of up to 45% and the U.S. maintains near-total import barriers.

Driving the Numbers: Top 30 Auto Producers in 2023



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Beijing is now walking a fine line.

It is confronting severe overcapacity and market distortions but doing so cautiously—attempting to preserve employment and financial stability while nudging firms toward greater market discipline. Officials have acknowledged the risks of excessive price competition and warned automakers against unsustainable discounting or supplier-financing practices that could trigger a broader credit crunch. The result is a policy posture that continues to prioritize production and exports over consolidation, pushing domestic imbalances into global markets and sharpening tensions with trading partners from Europe to Mexico.

North America: USMCA's Auto Test.

Autos will be a flashpoint in the 2026 USMCA review. In an effort to reshore manufacturing, Washington is expected to press for tighter rules of origin that curb Chinese content, including higher North American content requirements for finished vehicles and core components like EV batteries, and raising labor value content requirements.

Even before those talks begin, the Administration's tariff regime is already testing how far "made in America" can stretch. The Big Three automakers—Ford, General Motors, and Stellantis—forecast a combined \$7B earnings reduction in 2025 due to higher import costs, while small and mid-sized suppliers report double-digit increases on machinery and components sourced abroad. **The result underscores a deeper dilemma: Washington's drive to reshore production collides with the reality that U.S. supply chains remain deeply global, and that some inputs simply cannot be replicated domestically at scale or cost.**

In negotiations, **Canada and Mexico** will push to preserve the deal's core tenets and push back on attempts to add U.S. content requirements. The backdrop of China's overcapacity sharpens focus on the sector. Mexico's proposed 50% tariff on Chinese autos highlights regional efforts to more closely align with the U.S. ahead of the USMCA review and shield domestic industries from growing Chinese market share. But the negotiations will also stretch beyond autos, touching on agriculture, digital services, critical minerals, and more—making the sector both a **bellwether** and a **bargaining chip** in how North American trade rules evolve.

Why it Matters.

The auto industry—worth over **\$3T globally** and employing tens of millions—**is becoming a test case for how politics reshapes markets.** Strains in U.S.–Korea ties show how quickly capital commitments can be disrupted by policy friction. China's overcapacity illustrates the risks when state priorities override market discipline, exporting volatility abroad. And the USMCA review

will determine whether North America deepens its role as a secure production hub or fragments under U.S. demands that seek to challenge the premise of a North American trading bloc. For investors, autos are less about vehicles than about where capital flows, which supply chains endure, and how governments balance economic goals with political imperatives. In short: the sector is a leading indicator of how global trade is being rewritten in real time.



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Earlier this month, the Supreme Court heard challenges to the Trump Administration's use of the **International Emergency Economic Powers Act (IEEPA)** to impose "reciprocal" and fentanyl- and immigration-linked tariffs. The case will help define the legal authorities by which economic escalation can be pursued. Both lower courts ruled that IEEPA does not authorize tariffs, but several appellate judges dissented—arguing that the law's broad language permits presidential action to "regulate importation." Oral arguments in the Supreme Court suggested skepticism toward the Administration's position, though the justices were not uniformly aligned. Some Justices pressed whether striking down the tariffs would unduly constrain the president's foreign policy toolkit—particularly during crises such as the Russia-Ukraine war—while others questioned the breadth of the government's interpretation. **A decision is expected by the end of the year or early next.**

If the Court strikes down the tariffs, the U.S. Treasury could owe refunds to importers, an extraordinarily complicated process. Expect a flurry of lawsuits. But even a ruling against the Administration would not necessarily mean de-escalation. Such an outcome could instead prompt **a rapid reengineering of the current tariff structure** using other authorities—such as Sections 122, 232, and 301—which the Administration already relies on as part of its broader tariff agenda. USTR has been working on a backup plan for months and will be ready to roll it out quickly.

The new mix could re-create much of the existing regime while preserving leverage for future deals. (JPMorgan Chief Economist Bruce Kasman predicts average tariff levels would only drop from 18% to 16.5% under alternative authorities.) Smaller countries will likely benefit under this scenario as USTR will not prioritize them when launching 301 investigations. The White House could also seek new statutory tools granting the president explicit tariff authority under IEEPA if consistent with the Court's decision, though that would face an uphill path in Congress.



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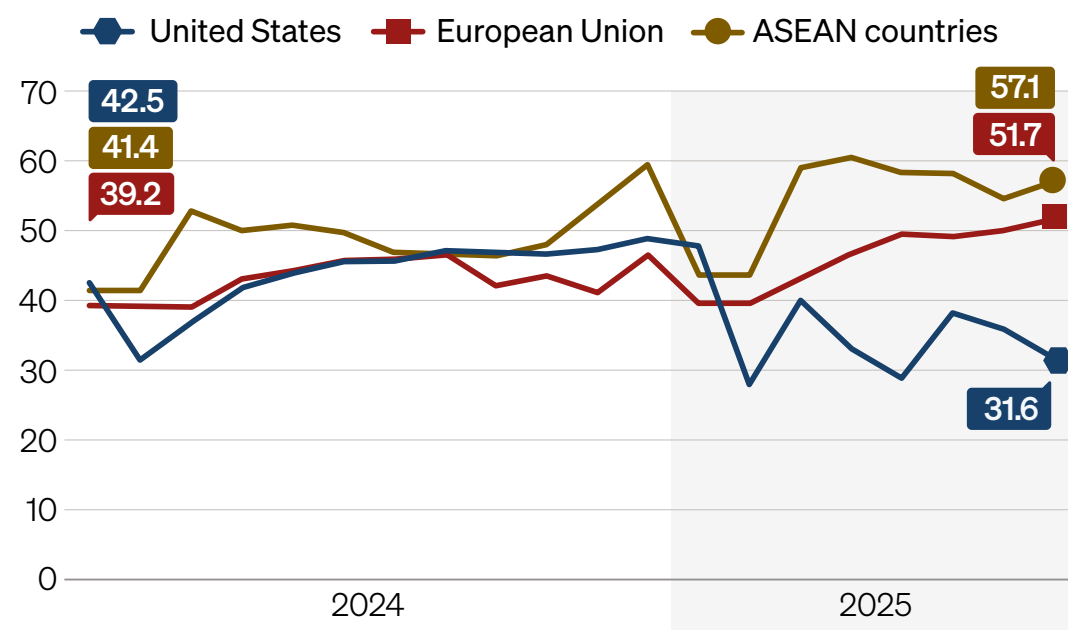
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Window on the World

As the dust settles from this year's tariff shocks, the global trading system heads into 2026 in unsettled but highly active territory, shaped by a pending Supreme Court ruling, on-going negotiations with key partners, and emerging coalitions outside the U.S.–China axis.

Chinese Exports to ASEAN and EU Rise as U.S. Trade Falls

Monthly Chinese exports to the United States, the European Union and ASEAN countries (in billion U.S. dollars)



Source: China Customs Administration, Statista.

China: The Quiet Constant Shaping Every Other Negotiation.

2025 will be remembered for the brinkmanship between U.S. tariffs in excess of 145 percent and China's far-reaching export controls on rare earths. Will 2026 extend the truce? The U.S.–China trade detente has paused escalation but not altered fundamentals: Beijing is doubling down on export capacity, "high-quality growth," and foundational technologies. Washington is finally rebuilding supply chains, Europe is diversifying quietly, and emerging markets are being asked—sometimes uncomfortably—to choose. **In practice: every 2026 trade storyline is downstream of U.S.–China strategic competition.** And as the chart below shows, while the U.S. may be pulling back from trade, China is doubling down.

Expect the intensity of superpower diplomacy to ramp up, especially after the Chinese New Year in early March. The question many are asking is how China and the U.S. will seek to shape the lead-up to the planned April summit—particularly whether either side advances contentious positions ahead of the meeting, betting that the other will prioritize stability and avoid responses that could jeopardize talks. This dynamic has surfaced in past high-level engagements and will test how firmly both countries draw their lines in 2026. The Chinese are feeling especially confident.

What to watch in 2026:

Whether the tactical truce holds through Trump's planned spring visit to Beijing and President Xi's visit to the U.S.; and whether Washington shifts from "de-risking" to something closer to selective decoupling in tech and clean energy.

- **The Emerging "Coalition of the Willing": Early Moves Toward a Parallel Trade Architecture.** As the U.S. continues to upend the post-World War II trade consensus—and the WTO remains effectively paralyzed—other economies are quietly testing whether a new multilateral core can form without Washington or Beijing at the center. The most notable development: the launch of an **EU–CPTPP Trade and Investment Dialogue**, bringing together the EU and the 12 members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The goal is not necessarily a mega-free trade agreement (politically impossible for now) but a high-level framework on rules and principles: commitments to open, rules-based trade; cross-border data flows; transparency on export controls; and

adherence to baseline WTO norms like most-favored-nation treatment.

- A second grouping—the **Future of Investment and Trade (FIT) Partnership**, a 16-country initiative spanning Latin America, Europe, Africa, and the Gulf—aims to do something similar on a smaller scale. Neither bloc can "replace" the WTO, and both remain at an exploratory stage, but together they represent the earliest attempts by like-minded economies to preserve elements of the multilateral system in the absence of U.S. leadership. Their evolution is far from guaranteed, yet the political will behind them marks a notable shift: middle powers are no longer waiting for great-power consensus to stabilize global trade rules.
- Finally, expect to see a final push to ink the historic **EU-Mercosur trade agreement**, capping over two decades of negotiations. This is one of the ambitious trade deals ever, and will cover a market of over 750 million people and close to a quarter of global GDP.

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2026 has begun with sharp rhetoric but limited follow-through on tariffs. The U.S. threatened new duties on countries backing Iran, Canada for its potential trade deal with China, European states supporting Greenland and South Korea over slow implementation of last year's trade deal. So far, however, none of these measures have been imposed. The White House has also lowered tariffs on a number of food products, and quietly suspended a planned tariff increase on kitchen cabinets, bathroom vanities, and upholstered furniture. Per J.P. Morgan Research, the realized tariff rate has been much lower at ~11%, versus expectations of 15%.

Most recently, on February 2, the U.S. reached a trade framework with India, and U.S. tariffs on India will be lowered from 50% to 18% (full removal of the Russian oil tariffs and a 7% reduction of the reciprocal tariffs). Many details still need to be worked out, but in exchange for the lower tariff rate, India will cut tariffs

on U.S. industrial goods and some non-sensitive agricultural goods, and significantly reduce purchases of Russian oil.

Trade policy is shifting toward narrower, more traditional tools. **Recent Section 232 investigations on semiconductors and critical minerals** produced targeted outcomes rather than sweeping barriers. No new tariffs were imposed on critical minerals, with negotiations instead launched with key partners. On semiconductors, the Administration announced a 25% tariff but carved out broad exemptions for chips used in U.S. data centers, R&D, and start-ups, among other things. The pattern suggests a **move away from headline-grabbing tariff walls toward more selective, politically manageable actions**. This is not to say that we won't see some tariff increases but, ahead of the midterm elections, the White House will likely seek to avoid any major tariff spikes on consumer-facing goods.

Legal constraints may also be looming. The Supreme Court may rule later this month on the Administration's tariff authority, with the court set to come back to session on February 23rd.

While markets assume a setback for the White House, many court watchers anticipate a narrower ruling that preserves some use of tariff-related powers under the International Emergency Economic Powers Act (IEEPA)—even if reciprocal tariffs are found to be illegal. The longer the decision is delayed, likely the greater the chance of a partial win for the Administration.

Globally, free trade is fragmenting rather than freezing. As discussed in our December report, "World Rewired," middle powers are gaining influence as they hedge, diversify, and shape emerging standards. After years of sitting on the sidelines, India has recently concluded agreements with Oman, New Zealand, and the United Kingdom—and just concluded a **landmark FTA with the European Union**. The deal is a win-win as both India and Europe are looking to hedge

against the U.S. and find new large markets for their exports.

Members of the CPTPP are also looking to expand the agreement with Costa Rica, currently going through the accession process, and other countries are jockeying to be the next country to join. The **European Union and Mercosur** signed a free trade agreement after over 20 years of negotiations, though the European Parliament voted to send the agreement to the EU Court of Justice for an opinion on whether the agreement complies with EU treaties. Finally, the Prime Ministers of Canada and the United Kingdom recently visited China in an attempt to stabilize political and economic relations. While there were no significant breakthroughs, both visits produced narrow trade and economic deals with an agreement to explore deeper cooperation (see below for more on the implications of revived China-Canada trade relations).

Free trade is not disappearing—it is migrating into smaller, regional, and politically safer blocs.



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PUT INTO CONTEXT

On February 20, 2026, the U.S. Supreme Court ruled 6–3 in *Learning Resources Inc. v Trump* that the President lacks authority under the International Emergency Economic Powers Act (IEEPA) to unilaterally impose tariffs.

While there is no doubt that the Supreme Court's ruling was a significant rebuke of the current tariff strategy, the reality is that **the Administration will be able to replace a substantial portion of the tariffs that were previously put in place using the International Emergency Economic Powers Act (IEEPA). The President emphasized this point in his State of the Union address, and though he did not spend much time discussing tariffs, he signaled that as of now he does not intend to go to Congress to codify any of his trade policies.**

Step 1: Invoke Section 122 (Universal Baseline Tariff)

Hours after the Supreme Court's ruling, **the President signed an Presidential Proclamation that authorizes a 10% universal tariff starting on February 24, under Section 122 of the Trade Act of 1974.** Section 122 permits the president to impose tariffs up to 15% for up to 150 days against one or more countries that have "large and serious" balance-of-payment surpluses with the United States. The President has threatened to raise the baseline tariff to 15%, in line with his maximum authority and USTR Jamieson Greer said the U.S. will sign a supplemental proclamation to raise certain tariff rates to 15% "where appropriate."

Opinion is split on whether or not the U.S. truly faces a balance of payments crisis, so the possibility of litigation cannot be discounted; however, it is unlikely that any legal challenge would be concluded before the 150 day period terminates in late July. Furthermore, in the litigation around the IEEPA tariffs, the lower courts and the Supreme Court allowed the tariffs to remain in place while the legal process took place, so there may be very little chance that the Section 122 tariffs would be suspended as a result of any legal challenge. It should also be noted that when

the Court of International Trade (CIT) ruled that the IEEPA tariffs were illegal last year, the court explicitly stated that the president could use Section 122 as the basis for reciprocal tariffs as they "respond to an imbalance in trade."

Limitations of Section 122:

This is the first time tariffs have been imposed under this authority. Aside from the 15% tariff ceiling, the biggest limitation is that after 150 days, Congress must vote to extend the tariffs. It is highly unlikely that Congress will vote for an extension as Democrats and a number of Republicans are opposed to universal tariffs and the Republicans have a very narrow majority in the House of Representatives. As a result, using Section 122 is best viewed as a one-time stop-gap measure to help buy time for the Administration to move forward with other country-specific tariffs under Section 301.

Step 2: Launch Section 301 Investigations (Country-Specific Tariffs to Address Unfair Trade Practices)

In the coming days, USTR will begin to announce a slew of Section 301 investigations. While Section 301 investigations can take several months (and up to a year), and require hearings, consultations, and a public report before tariffs can be imposed, most of the steps can be taken quickly as the statute is not overly prescriptive.

Typically, the longest part of the process is the work that USTR needs to do to prepare a public report that establishes a fact pattern of unfair trade practices. However, in this case, the Administration has already done much of the work to compile instances of the unfair trading practices of major trading partners. Many of these unfair practices can be found here—in the annual National Trade Estimate report. In the past, there have been legal challenges to Section 301, but the courts have sided with the Administration.

Limitations of Section 301:

The main limitation of Section 301 is that it requires significant staff work, and USTR is a small agency with limited resources. As a result, **the Administration will prioritize major trading partners, meaning that smaller countries will likely benefit from this approach.** Another limitation of Section 301 compared to IEEPA is that the once the tariffs are in place, any adjustment of the rate or addition of new tariff lines must be tied back to the specific unfair trade practices identified in the Section 301 investigation. It is likely that the Administration will be able to find creative ways to link any tariff adjustments to unfair trading practices, however, this could make the tariffs more vulnerable to litigation.

Step 3: Continue To Utilize Section 232 (Sectoral Tariffs to Address National Security Threats)

Yet another trade tool for the administration is Section 232 of the Trade Expansion Act of 1962. A number of these tariffs are already in effect, and the Administration is in the process of conducting several investigations. In order to make up for the loss of the IEEPA tariffs, the Administration can raise the rates of the existing sectoral tariffs and accelerate efforts to conclude the numerous ongoing investigations. Like Section 301, there is precedent for using Section 232 and, the Court of International Trade and the U.S. Court of Appeals for the Federal Circuit upheld (in the first Trump Administration) the ability of the Executive branch to impose tariffs using Section 232.

Limitations of Section 232:

Similar to Section 301, Section 232 requires significant staff work, and there are already a number of investigations underway with limited staff capacity. Additionally, as Section 232 tariffs are sectoral and applied globally, so while it is possible to exempt countries from the tariffs, Section 232 is not an effective method to target individual countries.

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Window on the World

One year ago was “Liberation Day,” with sweeping tariffs announced for everyone from advanced economies to uninhabited remote islands—**ushering in the most significant shift in U.S. trade policy in nearly a century.** 2025 was the year of “shock and awe” in trade, forcing trading partners, businesses, and investors to reassess core assumptions about America’s role in the global economy.

A negative market reaction prompted the U.S. to walk back some of the highest rates, strike deals with select trading partners, and eventually grant a number of exemptions for consumer-facing goods, including food. **By the end of 2025, the headline tariff rates settled around 15% and the effective tariff rate was 9.4%, according to J.P. Morgan Research**—lower than expectations on Liberation Day, but far above the average effective tariff rate of under 2% in 2016, and under 3% in 2024. **The U.S. global tariff rate over the past 365 days is the highest its been since 1939, per Yale Budget Lab.**

While the Supreme Court ruling in early 2026 was a setback to the

administration, it immediately began to rebuild the tariff wall—something we previewed in February’s Special Edition Window on the World. As expected, the administration’s first step was to use Section 122 of the Trade Act of 1974 to impose a 10% tariff on all countries.

Since then, **the U.S. has initiated two new Section 301 investigations into structural excess capacity in the manufacturing sector and the importation of goods made with forced labor.**

Both investigations are exceptionally broad compared to past investigations that were narrowly tailored to specific issues such as forced technology transfer or digital services taxes.

The excess capacity investigation, for example, will examine a number of issues in the economies of trading partners, including subsidies, suppressing wages, activity from state-owned enterprises, inadequate

labor and environmental protection, and currency manipulation.

These two investigations cover 60 economies and include all the U.S.’s biggest trading partners.

The Office of the U.S. Trade Representative (USTR) has asked for public comments and will hold public hearings in May with **the goal to have tariffs in place by mid-to-late July, before the 10% universal tariff imposed under Section 122 expires on July 24.** The administration also plans to roll out more Section 301 investigations in the coming weeks, including investigations into overfishing, discriminatory digital regulations, and pharmaceutical pricing.

Once all the investigations are concluded and new tariffs are in place, the U.S. effective tariff rate will likely settle somewhere around the December 2025 level of 9.4%.

We expect the U.S. to conclude more trade deals or framework agreements over the course of 2026, and potentially allowing more goods to enter the U.S. at a lower tariff rate.

If the U.S. approach to trade in 2025 was about “shock and awe,” **2026 will be the first year of the**

“new normal.” For now, most trading partners have accepted the new normal, continuing to implement and negotiate bilateral agreements with the U.S. After many delays, the EU is on track to approve and implement the trade deal reached last August, and trade negotiations are proceeding with several countries. **Malaysia and Indonesia are the exceptions,** stating that they want to wait until the completion of the Section 301 investigations before implementing their deals.

The shock of Liberation Day also galvanized the U.S. trading partners to actively shape the new normal, reviving many languishing trade negotiations between traditional U.S. allies and major trading partners.

In the last year alone, we have seen the conclusion of the following Free Trade Agreements (FTAs): EU-Mercosur, EU-Australia, India-UK, India-Oman. The EU-India FTA alone now represents one of the world’s largest free trade zones, covering 2 billion people and close to a quarter of global GDP. Additionally, Prime Minister Carney is leading efforts on behalf of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to work with the European Union to breathe new life into the multilateral trading system.



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A Year of Relative Stability in U.S.-China Competition

We began the year expecting continued escalation in U.S.-China rivalry, but our work soon documented a tactical pause: truce agreements, supply chain recalibration, and episodic cooperation. Throughout, we underscored that beneath this surface calm, strategic competition remains the defining force shaping global business and investment.

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Center for Geopolitics Report

The intensifying strategic competition between the United States and China is reshaping the business and investment environment for countries globally.

As both countries recalibrate their policies, firms are finding it more difficult to operate seamless global strategies and integrated operating models. Commerce is being disrupted across multiple markets even as new pockets of commercial opportunity emerge.

U.S.-China competition is far from the only geopolitical challenge facing third countries and multinational companies—but it is uniquely persistent and far-reaching, cutting across markets like few others. Indeed, **many of the forces that will drive the evolution of global economy still run through the two countries: from their respective growth outlooks to their influence over the development of artificial intelligence, energy and climate systems, and key technologies that underpin modern industrial capacity.**



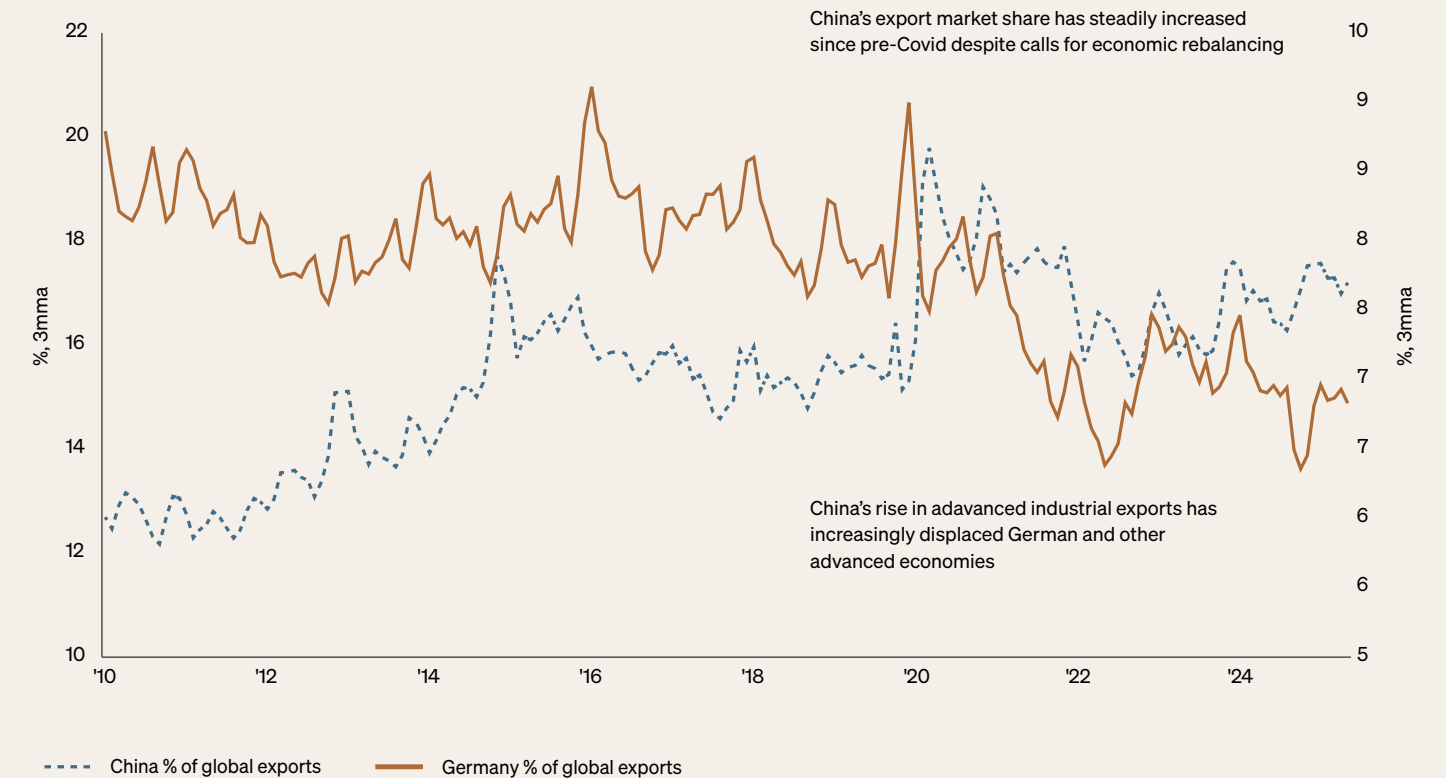
The events of a single week in October 2025 illustrate the scale of these spillovers. As the U.S. and China exchanged threats over new tariffs and rare earth export controls, the most immediate effects were playing out elsewhere. The Netherlands seized control of semiconductor firm Nexperia, amid broader U.S. efforts to slow China's progress, in response to concerns that the company's assets would be stripped by its Chinese owner. American board members resigned from several European shipping firms after Chinese retaliation to new U.S. shipping fees. Chinese authorities also sanctioned the U.S. subsidiaries of a major Korean shipbuilder for allegedly assisting Washington probe Chinese rivals, triggering new port fees.

These impacts are not isolated country-specific episodes but manifestations of broader structural forces set in motion as the U.S. and China compete. This competition is fragmenting

the global marketplace, with market access increasingly conditional on geopolitical alignment. Countries are being exposed to greater, more frequent geopolitical shocks and, in some cases, responding with increased defense spending. Others risk the headwinds of flight to safety if conditions reduce appetite for risk.

For businesses, this environment presents a growing set of trade-offs. Many companies are weighing whether they need to duplicate supply chains to serve increasingly segmented markets or accelerate investments in their own resilience. Decisions previously considered purely commercial—such as payments infrastructure or currency of denomination—are now being evaluated through a geopolitical lens. Firms are both subject to, and increasingly expected to help enforce, a widening array of extraterritorial economic-security measures, from sanctions to export controls.

China export market share



Source: Haver Analytics

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These impacts are being felt across markets as well. Restrictions on market access and a focus on supply chain resiliency are being felt in corporate margins, impacting the share price outlook. In addition, restrictions on public listings and capital flows are reshaping how global investors access international investment opportunities.

U.S.-China spillovers are also no longer confined to technology or other traditionally sensitive sectors. Panama has faced heightened scrutiny over Hong Kong-based CK Hutchison's ownership of key ports along the canal with Panama's Supreme Court recently invalidating the Hong Kong-based operator's concessions. Brazilian soybean farmers have benefited as China shifts purchases away from the United States. Across industries, companies are confronting a more complex, politically conditioned environment for global operations.

Forces of volatility

A set of interconnected forces is shaping the volatility that third countries experience as U.S.-China competition intensifies. Foremost is the uncertainty created by the United States' recalibration of its once-unconditional support for the post-Cold War rules-based international order. As U.S. engagement becomes more selective, negative externalities are emerging in places where American presence or guarantees have receded.

Other countries are being drawn in more directly. Some face coercive pressure because their strategic choices are interpreted as alignment with a geopolitical rival. In others, long-standing territorial or political flashpoints are being reframed through the lens of U.S. alliance commitments. Meanwhile, many economies are encountering indirect spillovers—such as surges of Chinese exports redirected away from the United States by tariffs, affecting local industries and political systems.

Experiences are rarely uniform. **A number of countries are benefiting as de-risking drives the reconfiguration of global supply chains, attracting new investment in manufacturing, logistics, and strategic sectors.** And a select set of countries are being actively courted by the U.S. and China as each seeks to expand influence across regions ranging from Latin America to the South Pacific.

Emerging archetypes

Most attempts to categorize countries along a single continuum of “leaning U.S.” or “leaning China” miss two critical dynamics:

1. the distinct, non-equivalent toolkits both governments use to shape outcomes, and
2. the significant agency of the countries being shaped by U.S. and Chinese influence.

China pairs large-scale initiatives like the Belt and Road alongside instruments including embargoes, informal sanctions, and consumer boycotts. The United States relies on the attractiveness of its domestic market and security guarantees, while increasingly applying tariffs, export controls, investment screening, and other extraterritorial economic-security tools. The expansion of resourcing for the U.S. International Development Finance Corporation is a recent effort to add more options to its toolkit.

An alternative framework that takes into account both the nature of U.S. and Chinese engagement and the agency of third countries yields the following six archetypes:

- **Pressure-zone countries** – facing negative or destabilizing impacts from both the United States and China, with limited options for strategic diversification.

- **Strategic winners** – benefiting economically or politically from U.S.-China competition and actively seeking to maximize those gains.
- **Recalibrating countries** – shifting their alignment incrementally toward one power or the other.
- **Affirming countries** – doubling down on an established orientation, even at the cost of foregone opportunities or tangible penalties from the other side.
- **Hedging countries** – balancing relationships to preserve flexibility and extract value from both powers.
- **Diversifying countries** – intentionally reducing exposure to both Washington and Beijing by broadening partnerships and supply chains.



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PUT INTO CONTEXT

On October 30, 2025, U.S. President Donald Trump and Chinese President Xi Jinping met for roughly 100 minutes in Busan, South Korea.

The recent meeting between Presidents' Trump and Xi agreed to a **limited trade truce** that trims tariffs, temporarily suspends new export controls, and halts several pending investigations—**without resolving deeper structural disputes**. Under the deal, China will suspend for one year its rare-earth export controls announced in October, a global move that relieves pressure on the U.S., EU, Japan, and Korea. But Beijing is now preparing a “validated end-user” licensing system—modeled loosely on a U.S. program—that could still restrict rare-earth shipments to firms tied to Western defense supply chains. Washington, for its part, cut the fentanyl-linked tariff from 20% to 10% and extended a one-year suspension of China's reciprocal tariff rate, leaving most **Chinese imports facing an effective average tariff, per J.P. Morgan Research estimates of about 32%**—lower than those on India or Brazil, but still historically high.

Both sides got something: China maintains its leverage, the U.S. keeps access to Chinese rare earths, and both sides got time. Beijing views the pause as a chance to regroup under its **new five-year plan** focused on “high-quality growth” and technological self-reliance. Xi's team emphasized basic science and semiconductor research as strategic priorities—an **open declaration that China intends to dominate foundational technologies critical to its long-term independence from Western supply chains**. Washington, in turn, sees a window to **strengthen supply chains and reduce dependence on Chinese inputs**, particularly in critical minerals and advanced manufacturing.

With Trump expected to visit Beijing in April and Xi likely to travel to the U.S. later in 2026, the truce offers a measure of stability, but also a countdown: both capitals know this quiet period may prove temporary. For businesses, the message is twofold: volatility remains the baseline, but episodic pauses like this one create windows to stress-test supply chains, diversify exposure to Chinese dependencies, and lock in contractual resilience before the next escalation cycle.



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On his recent visit to Beijing, Canadian Prime Minister Mark Carney inked a preliminary trade and investment deal aimed at expanding bilateral commerce and attracting Chinese capital into Canada. The agreement would allow a quota of 49,000 Chinese electric vehicles to enter Canada at the standard MFN tariff rate of 6.1% (down from the current rate of 106.1%), ease Chinese tariffs on key Canadian agricultural exports (including canola oil, lobster, crab, and peas), and open the door to new Chinese joint ventures in Canada's EV supply chain. Ottawa's stated goal is to boost exports, lower consumer prices, and anchor new auto investment at home.

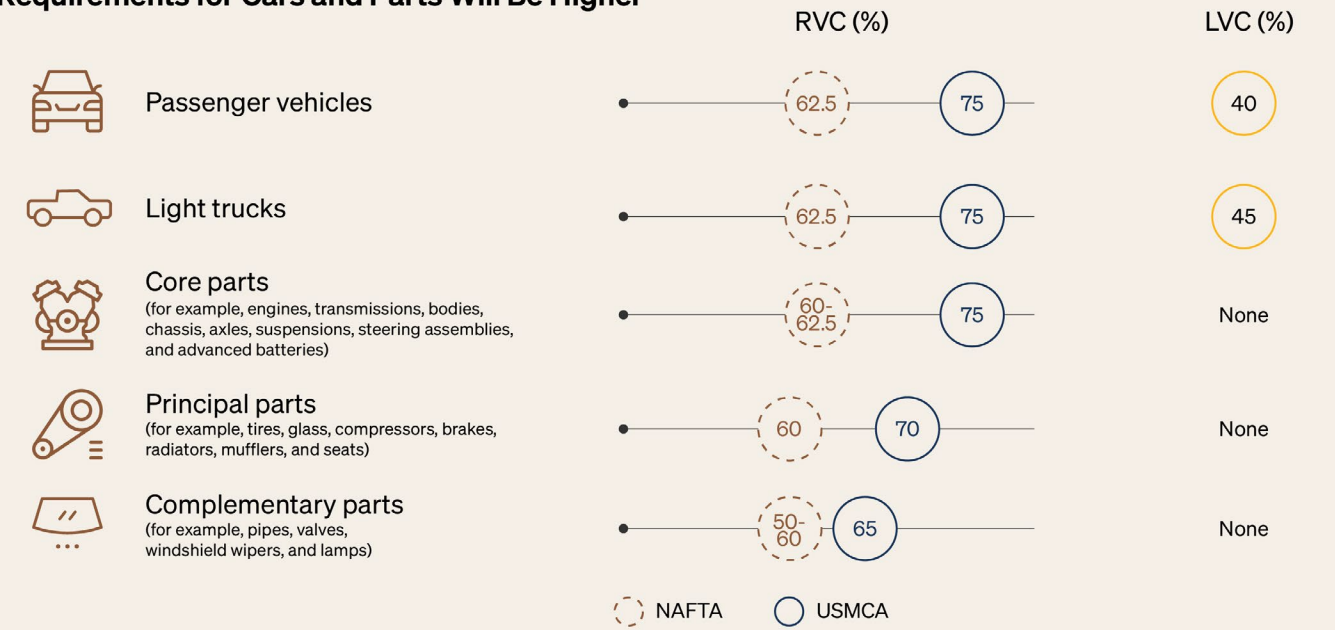
Strategically, the move reflects **Canada's desire to diversify away from dependence on the United States**. Carney made that logic explicit in Davos, arguing that allies must hedge against uncertainty and rebuild "sovereignty... anchored in the ability to withstand pressure." In practice, this marks Canada's clearest signal yet that it is willing to court China economically as a counterweight to U.S. leverage.

That turn lands just as the United States prepares to launch the formal review of the U.S.-Mexico-Canada Agreement (USMCA) this summer. **U.S. officials have warned the China deal could complicate the USMCA talks—particularly in autos**, where they have raised concerns about Chinese content making its way into the North American auto supply chain and the potential for Chinese companies to erode U.S. auto market share in Canada.

What to expect for the USMCA?

The Administration will push for tougher rules of origin and possibly a U.S.-content requirement for vehicles to qualify for tariff-free treatment. Canada and Mexico oppose those changes, which could disrupt existing production networks and jobs. From Ottawa's perspective, opening the door to Chinese EV investment reflects concern that tighter North American rules would squeeze its auto sector.

Under the New Trade Agreement, North American Content Requirements for Cars and Parts Will Be Higher



Note: USMCA = United States-Mexico-Canada Agreement; NAFTA = North American Free Trade Agreement; RVC = regional value content; LVC = labor value content. RVC applies to the net cost method; LVC focuses on high-wage material and manufacturing expenditures. Minimum content requirements are to be met three years after USMCA goes into effect or on January 1, 2023, whichever is later. RVC applies to parts for use in passenger vehicles and light trucks.

Source: Boston Consulting Group and USMCA data

The clash runs deeper than autos.

For the last several years, Washington has been pressing Canada and Mexico to align tariffs against China in strategic sectors, effectively building a North American tariff wall. In 2024, Canada put a 100% tariff on Chinese electric vehicles and a 25% on Chinese steel and aluminum—both consistent with the U.S. tariff rates at the time. In the lead up to this year's USMCA review, some senior U.S. trade officials have raised the possibility of building a common tariff wall that would require all three countries to maintain a minimum baseline tariffs on Chinese imports in key strategic sectors. Canada's decision to lower barriers on Chinese EVs and welcome new Chinese investment cuts against that effort and raises questions about how tightly integrated the three economies will remain.

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The President is scheduled to visit China from March 31 to April 2 for discussions with President Xi Jinping. Despite the flare-up in Iran, reports suggest that Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng will meet in Paris soon to prepare for the visit. **If the conflict in Iran intensifies and significantly impacts the U.S. economy, it is possible the President postpones the trip to later in the year.**

The summit—the first Presidential trip to China since 2017—comes at a moment of relative stability in bilateral ties following last October's Trump-Xi meeting in South Korea, where both sides agreed to a one-year truce pausing new tariffs, export controls, and other competitive actions. Since then, Washington has delayed new arms sales to Taiwan, withdrawn an updated Section 1260H list (a Pentagon “red flag” list of Chinese companies operating in the U.S. suspected of supporting the Chinese military, triggering restrictions on Pentagon contracts and increased scrutiny), and permitted certain advanced semiconductor sales to China.

U.S. objectives appear twofold: extend the truce and potentially reach a broader trade and economic agreement. **The President is expected to press for larger Chinese purchases of U.S. goods** including agricultural, energy, and manufactured products. A similar arrangement was reached during his first term but was derailed by the COVID-19 pandemic. We are hearing that the U.S. and Chinese governments are also discussing **potential increases in Chinese investment in the U.S.**, though this will be politically sensitive and some in Congress may oppose such moves.

Given ongoing economic headwinds, the **Chinese government is likely seeking to maintain current tariff levels and avoid a snapback to higher rates** under alternative trade authorities such as Section 301 of the Trade Act of 1974. J.P. Morgan Research estimates the **current effective tariff rate on China at 27%, down from 32%** following the Supreme Court ruling on the President's use of tariffs under the International Emergency Economic Powers Act (IEEPA).

Looking ahead, Trump and Xi may have at least three more opportunities to meet this year: in the U.S. this summer when Xi makes a reciprocal visit, in Shenzhen for APEC in November, and in Miami for the G20 in December. **Given this, both sides have incentives to maintain stable ties over the coming year while addressing their respective supply chain vulnerabilities: critical minerals for the U.S. and advanced semiconductors for China.**



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We warned in our March *Window on the World* that a prolonged U.S. operation in Iran could make it politically implausible for the U.S.-China summit to take place as originally planned. That has come to pass.

The summit has been rescheduled for May 14–15, although a drawn-out conflict could force it to be postponed further. The longer the summit is delayed, the more time officials will have to prepare (which isn't necessarily bad, as there have been some concerns about the lack of prep), but **continued delays also risk diminishing the momentum from Trump and Xi's last meeting in South Korea last October.**

Lead trade negotiators Treasury Secretary Scott Bessent, U.S. Trade Representative Jamieson Greer, and Chinese Vice Premier He Lifeng met in Paris last month to set the agenda for the summit and take stock of their respective progress in implementing the "truce" reached in South Korea. The U.S. also floated establishing a Board of Trade and a Board of Investment to oversee the bilateral economic relationship. Unlike past commercial working groups, **the two Boards could represent more active government management of the economic relationship.** The Chinese side is likely to welcome efforts to institutionalize a process for implementing agreements reached by the two heads of state.

We anticipate a modest but productive result when the Presidents ultimately meet—they will likely extend the trade "truce" and China may announce purchases of U.S. agriculture, energy, and aircraft.

A more significant economic agreement, potentially including a Chinese commitment to increase investment in the U.S., would likely have to wait for one of the three possible follow-on meetings between the U.S. and Chinese Presidents later in the year.



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A for Attendance

Earlier this month, we predicted the Trump and Xi summit in Beijing would amount to more pomp than substance. That proved largely correct: the two presidents spent most of the summit exchanging pleasantries, announcing modest commercial deals, and agreeing to meet again in the fall.

The most significant outcome was that the meeting happened at all, demonstrating that Washington and Beijing can still talk at the top, even as they compete on nearly everything else. The détente established by the two Presidents in South Korea last October remains intact. **But it remains fragile: China's support for Iran, U.S. arms sales to Taiwan, and diminished Chinese rare earth exports didn't derail this summit, but the summit didn't resolve any of them either.**

It is possible that the two sides are saving more meaningful deliverables for the next summit, before the U.S. midterms in the fall. **But Beijing won't be willing to give Washington something big like a bilateral investment commitment unless the U.S. gives something in return,** and Beijing has clearly set its sights on U.S. concessions on Taiwan.

He said, Xi said

After summits like this, joint statements serve as a carefully negotiated record of what both sides are willing to formally endorse together. The absence of one here isn't altogether new—previous Biden-Xi meetings didn't produce joint statements either—but it underscores how little room for agreement there is on the core issues shaping the relationship.

Instead, **the two sides released their own version of events and the divergence was striking,** allowing each to highlight its own priorities without directly challenging the other's narrative.

The clearest point of convergence was the shared reference to establishing a new framework for U.S.-China relations based on “**constructive strategic stability.**” While this three-word phrase won't change the underlying frictions that shape the relationship, it helps reinforce the common denominator that **both sides want to maintain stability, each for their own reasons.**

- **Beijing benefits from optics and time:** stability with Washington signals to audiences at home and abroad that China is a responsible actor that can manage great power competition. The détente also gives Beijing breathing room to shore up supply chain vulnerabilities in technology and a backstop against renewed trade tension.
- **Washington's calculus is more immediate:** containing the blowback from the Iran war and preserving access to China's critical minerals. “Constructive strategic stability” is, for now, an acceptable price of admission.

That's where the convergence ends.

Washington's readout reflected the premium it currently places on the economic relationship, focusing on:

- **Dialogue mechanisms:** As expected, the White House announced the establishment of the new Board of Trade and Board of Investment, providing a platform for future economic negotiations. China's Commerce Ministry later confirmed the establishment of the two Boards. But Washington's emphasis on the Boards suggests it views them as more of a win than Beijing does.
- **Commercial deals:** Washington announced that China will continue to allow exports of critical minerals and purchase 200 Boeing planes—a lower number than many had anticipated. The White House also detailed a commitment by China to buy \$17 billion in agricultural products, on top of its previous commitment to purchase 25 million metric tons of soybeans annually through 2028. Even if China achieves its target, though, it will still represent fewer Chinese agricultural imports than as recently as 2024. The Chinese Commerce Ministry stated that these commercial deals were “preliminary,” and that continued working-level dialogue will be needed to finalize them.
- **Iran:** Washington stated the two sides agree that the Strait of Hormuz should be opened, that no country can charge maritime tolls, and that Iran cannot have a nuclear weapon. While Beijing's readout did not mention Iran, China's Foreign Ministry later confirmed its longstanding position that the Strait should remain open. We maintain our low expectations that China commits significant political capital to mediate any differences between Tehran and Washington. Instead, China is likely to continue engaging diplomatically at arm's length through Pakistan.

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Beijing's readout, by contrast, emphasized *security and sovereignty*:

- **Taiwan:** Xi Jinping used more forceful language than past presidential summits, warning that Taiwan could become a source of “conflict” if not managed properly. The White House has not made a decision regarding the \$14 billion arms package for Taiwan (proposed by Congress and approved by Taiwan's legislature). The President indicated a shift in the traditional U.S. policy of dual deterrence—where Washington opposes unilateral changes by both sides of the Taiwan Strait—and only highlighted concerns over Taiwan with regard to recent cross-Strait tensions.
- **The President's restraint on support for Taiwan, coupled with Beijing's renewed engagement with the island's opposition party, could lead the mainland to moderate potential destabilizing actions in the near term.** That said, Beijing's strategy to capitalize on the President's unconventional approach to Taiwan could backfire. For instance, the President also said he may need to discuss U.S. arms sales with Taiwanese President Lai—an unprecedented move that would surely anger Beijing.
- **Defense Dialogue:** After the summit, China's Ministry of National Defense announced that the two sides would resume military-to-military dialogue following Xi's call to strengthen military communication. This was notable because Washington has historically been the party pushing for defense talks, again underscoring Beijing's interest in maintaining stability. Even so, China's willingness to engage will likely hinge on diminished support for Taiwan: China delayed a visit by Undersecretary of Defense for Policy Elbridge Colby, which was meant to lay the groundwork for a future visit by the Secretary of Defense, pending clarity on arms sales to Taiwan.
- **AI Dialogue:** As we previewed before the summit, U.S. officials expressed interest in establishing “minimal guardrails” to manage potential AI risks. After the summit, China's Foreign Ministry confirmed the establishment of an “intergovernmental dialogue” on AI. But notably, the Chinese stressed a discussion of AI development rather than security, suggesting that Beijing wants to focus on removing barriers to its AI development (export controls) rather than establishing guardrails. Whether this dialogue produces anything beyond a press release is another question, but it's a start.

Washington and Beijing always have different priorities going into summits. But the divergence in their readouts this time suggests both sides came to stabilize, not to build. Washington and Beijing are playing defense, focused on preventing further deterioration rather than expanding cooperation. That will probably remain the case going into Xi's return visit to Washington.





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A Year of the “Donroe” Doctrine in the Western Hemisphere

Closer to home, the year was defined by a U.S. pivot to a more assertive, interventionist doctrine in the Western Hemisphere—the “Donroe Doctrine” in action. We analyzed the risks of strategic drift and the complexities of rebuilding state capacity in Venezuela and chronicled the administration’s designs to run a similar play in Cuba.

A YEAR OF THE “DONROE” DOCTRINE IN THE WESTERN HEMISPHERE

Strikes and Signals in Venezuela

October 2025

Window on the World

The U.S. has launched at least five lethal strikes on alleged drug-trafficking boats since early September. The operations mark a **shift toward a more kinetic counternarcotics strategy**, backed by an expanded U.S. naval presence in the Caribbean—intended both to pressure President Maduro and to curb his external sources of funding, while also safeguarding U.S. energy interests in nearby Guyana and Trinidad and Tobago. The Administration has formally told Congress that the U.S. is now in an **“armed conflict” with cartels**—an unprecedented legal framing that critics view as shaky and dangerous.

- In a sign of how contested the issue has become, Senate Republicans last week blocked a Democratic measure to bar the Administration from using military force in the Caribbean. Caracas has denounced the strikes as regime-change efforts, and Maduro is moving to tighten his grip on Venezuela’s security forces and weigh emergency measures, amid swirling speculation of a U.S. invasion.
- Inside Washington, **the balance of power appears to have tipped toward the hardliners**: following weeks of internal debate, President Trump ended back-channel diplomacy, instructing envoy Richard Grenell to halt outreach to Caracas—a move widely seen as a victory for Secretary Rubio and others who view Maduro as an illegitimate, criminal leader. That shift sidelines officials who favored more transactional cooperation on issues like energy and migration, even as the recent Chevron license allowing Venezuelan crude exports to U.S. refiners remains in effect.



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2026 Latin America Outlook: Resources, Risk, and Realignment

December 2025

Window on the World

Latin America enters 2026 as the world’s slowest-growing region, but also one with some of the greatest untapped potential. Beneath sluggish averages lies a complex mix of political churn, geopolitical competition, resource opportunity, and long-delayed trade agreements that may finally conclude. With elections across Peru, Colombia, and Brazil—plus a renewed U.S. focus on asserting dominance throughout the Western Hemisphere, including via military action—the next year will signal whether the region leans into its opportunities or slides deeper into volatility. For global firms, Latin America presents a combination of openings and challenges: its abundance of critical minerals, energy, agricultural capacity, and talent that align with global demand—but political pathways to unlock them vary widely.

Rising U.S. Pressure on Venezuela with Unclear Strategic Aims

U.S. military operations around Venezuela have moved into a more kinetic and unpredictable phase, with over two dozen strikes on suspected drug-smuggling vessels since September, a drastically expanded naval footprint in the Caribbean, and the U.S. declaring a “complete blockade of sanctioned oil tankers.” While activity has remained offshore, we think it is likely that 2026 brings some form of land-based action—whether targeted strikes on cartel-linked airfields and logistics hubs or more assertive interdiction operations. The historical analogies floating around the Beltway—U.S. invasion of Grenada in 1983 and Panama in 1989—don’t map neatly onto today’s situation but signal how far this could go.

While the U.S. has openly rejected the legitimacy of Maduro’s regime, the strategic objectives remain unclear: countering drug flows, pressuring Maduro’s regime, safeguarding energy assets in the region, or some blend of the three. Meanwhile, the political climate in Washington—already on edge due to the Administration’s novel “armed conflict” framing—has been further complicated by uproar over the recent “second strike” that killed survivors of an initial missile hit, raising questions about potential violations of the laws of war.

The Broader Region: Elections, hedging, and the long-awaited moment for resources.

Latin America heads into the new year with a crowded electoral calendar—Peru, Colombia, and Brazil all vote between now and late next year. Across the region, the economic fundamentals remain compelling—energy, lithium and critical minerals, agriculture, and a growing talent base—but governance will determine whether those resources translate into durable growth.

Brazil’s election looms especially large.

Bolsonaro’s imprisonment has fractured the right, President Lula has regained political momentum, and the outcome will help shape how Brasilia positions itself between Washington and Beijing at a moment when tariff tensions with the U.S. remain unresolved and Washington increasingly sees Brazil as a strategic test case for supply chain diversification of critical minerals.

Argentina is also entering 2026 as a potential geopolitical swing state in the region.

A new \$20 billion Treasury swap line and expanded market access for Argentine beef give President Milei’s government breathing room as it pursues aggressive disinflation—and U.S. political and economic backing comes with strong expectations around limiting China’s footprint in critical minerals, telecoms, and energy. How Buenos Aires navigates these pressures will shape both its recovery and its strategic orientation.

Most countries will continue hedging.

China remains a top trading partner across the region, with two-way trade exceeding \$500 billion, while the U.S. is re-engaging after years of drift but still faces credibility challenges. Mexico remains the outlier—deeply aligned with the U.S. through USMCA, which is up for review in 2026 and will be a major North American focal point. The **EU-Mercosur** deal, provisionally reached but not yet in force, will be the biggest upside swing factor.



A YEAR OF THE “DONROE” DOCTRINE IN THE WESTERN HEMISPHERE

Venezuela: Tactical Success,
Strategic Uncertainty

January 2026

Window on the World



PUT INTO CONTEXT

On January 3, 2026, U.S. special forces conducted a raid to capture Venezuelan President Nicolas Maduro and his wife Cilia Flores. Maduro was transported to New York City to face narco-terrorism and drug trafficking charges.

One thing is clear: the United States has removed an unpopular strongman—but in doing so has assumed greater responsibility for an outcome it does not fully control. There is clearly opportunity in a post-Maduro Venezuela. But absent a clear endgame, Venezuela risks long-term strategic inertia: manageable in the short term, some modest upside, but increasingly costly over time.

Key Takeaways

The “Donroe Doctrine”: the U.S. reasserts hemispheric primacy.

Venezuela has become a proving ground for a more muscular U.S. regional doctrine—one that prioritizes control, deterrence, and resource security over traditional diplomacy. The message to regional capitals and external powers alike seems clear: **Washington views the Western Hemisphere as its exclusive sphere of influence.**

Precedent is thin.

The Maduro operation represents the most significant U.S. intervention in Latin America in over three decades. The closest analogue is the 1989 Panama operation—but that was a short, troop-heavy intervention in a small country with a clear endgame. Venezuela is larger, more complex, and harder to assert influence remotely. Unlike Panama, there are no U.S. troops on the ground and no U.S. embassy in Caracas, which has been closed since 2019.

What does it mean to “run” Venezuela?

The apparent U.S. objective is not deep involvement via occupation but a pliant regime operating under sustained pressure. Maduro is in jail, but the regime is otherwise intact. Washington has allowed the new leadership under Delcy Rodriguez to consolidate domestically while maintaining leverage through sanctions and maritime controls. Whether the U.S. ultimately recognizes the interim government, pushes a power-sharing arrangement with the opposition, or demands a democratic transition remains unresolved.

U.S. demands are expansive and open-ended.

Secretary of State Rubio has made clear that U.S. sanctions and maritime pressure will remain in place until American demands are met. Washington wants Venezuela’s oil industry “run for its people,” with promises of U.S. investment and access. The Administration is also pressing for cooperation on migration, a crackdown on drug trafficking and gangs, and a sharp reduction in the influence of Iran, China, and Russia. All three nations have denounced U.S. actions, but how they recalibrate their interests in Venezuela and the hemisphere remains uncertain.

Oil is central, but not a near-term—or cheap—fix.

Venezuela holds the world’s largest proven oil reserves, yet production has collapsed to roughly 1 percent of global output due to mismanagement, sanctions, and underinvestment. Even under optimistic assumptions, meaningful production recovery will take years, leaving Washington exposed politically long before economic benefits materialize. A leaked document in 2021 from Venezuela’s state oil company said its pipelines had not been updated in 50 years. Recent estimates have placed the cost to repair the country’s oil infrastructure at around \$100 billion—equivalent to an entire year’s worth of

all the global capital spending by the world’s five major oil companies combined. And as our J.P. Morgan Research colleagues have noted, further complicating profitability margins is the “heavy” chemical nature of Venezuela’s oil—which makes it more expensive to produce and refine.

A push from the U.S. government on industry to restart operations.

The White House hosted oil industry representatives today to explore restarting operations. The oil industry will be seeking a concrete roadmap from the White House on sanctions normalization, blockade easing, and U.S. government guarantees to de-risk any potential multi-billion dollar infrastructure investments they make in the country in order to ensure bankable returns.

Opposition pathway unclear.

Washington has also stressed the need for a democratic transition and rule of law, but timelines are unclear and the administration has sidelined Venezuela’s opposition for now. While this may reflect a pragmatic calculation and recognition that the regime will not step aside easily, it risks alienating a significant portion of the Venezuelan public and could sow the seeds of future instability. All this could change when Maria Corina Machado meets with President Trump soon.

Escalation is the backstop—but likely a bargaining tool.

The Administration intends to maintain its military posture around Venezuela. If Venezuelan authorities stall or partially comply with U.S. demands, Washington faces a hard choice: escalate, sustain coercion indefinitely, or recalibrate—raising questions about whether escalation is a credible plan or primarily leverage. One area to watch is how long the U.S. can sustain its military presence around Venezuela without incurring major costs or risks elsewhere.

SIX
A Year of the “Donroe”
Doctrine in the
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May 2026

The baseline trajectory is drift, not resolution.

Political and economic dynamics point toward prolonged limbo: a regime focused on survival, a sidelined opposition, limited reform, and persistent instability without acute crisis. Venezuela is likely to fade from headlines without meaningful progress.

Venezuela could be a sustained drain on U.S. political and strategic bandwidth. Maintaining leverage over Venezuela will not be cost-free. With no clear endgame, the issue risks crowding out attention to other priorities—Ukraine, Taiwan, the Middle East, and major domestic policy battles—while Congress intensifies scrutiny over legal authority, costs, and duration. The Senate passed a procedural motion on a war powers resolution restricting further military intervention in Venezuela. While pundits assess chances are slim for the bill to actually become law—after the Senate, the bill would need to pass a highly-skeptical Republican-led House before almost certainly facing a presidential veto—the resolution places impetus on the White House to consider the political costs of further kinetic action.



A YEAR OF THE “DONROE” DOCTRINE IN THE WESTERN HEMISPHERE

Venezuela Navigates a New U.S. Playbook... How Long Will It Last?

February 2026

Window on the World

In the weeks since Nicolás Maduro’s stunning removal, the Caracas leaders “formerly known as the Maduro regime” struck a dual tone: defiant domestically while projecting pragmatism and a readiness to work with Washington—cracking down on journalists, criticizing the U.S., freeing political prisoners, ramping up migration cooperation, making efforts to launch market-oriented economic reforms, and appointing business-friendly officials. The U.S. has moved quickly to take over by remote control, pursuing a hard-nosed, transactional approach in which stabilizing Venezuela’s economy and infrastructure come first—a move Washington frames as a national security priority.

Caracas recently passed its most significant hydrocarbons law in 25 years, dismantling the state oil monopoly and allowing private companies to independently explore, produce, and export crude without routing activity through state-owned PDVSA. Some oil proceeds have begun flowing back to Caracas, including roughly \$300 million that the interim government has used toward stabilizing the economy. Washington also expanded authorizations for U.S. companies to participate in oil-related activities in Venezuela. Beyond oil, the U.S. is also keen to modernize the electricity grid, telecom networks, and other critical infrastructure with Western technology.

For investors, however, the path remains uncertain. Some energy firms are signaling cautious optimism though others see weak legal protections, unresolved sanctions exposure, and questions about the legitimacy of the former Maduro government ahead of any new elections as concerns. Washington has made clear that **sanctions relief remains conditional on continued cooperation**, reinforcing a system in which political reform is subordinated to economic stabilization. For now, the incentive structure favors compliance over transformation.



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A YEAR OF THE “DONROE” DOCTRINE IN THE WESTERN HEMISPHERE

A Deal on the Horizon? U.S. Turning Up Pressure on Cuba

March 2026

Window on the World

Keep an eye on Cuba. For over six decades U.S. leaders have dreamed of bringing change to Cuba; that now may be coming into reality. A **U.S.–Cuba bargain increasingly appears to be in the offing** as Washington escalates pressure on Havana amid a deepening economic and energy crisis. In late January, the Administration threatened tariffs on countries supplying oil to Cuba—a move that, combined with the effective cutoff of Venezuelan oil to Cuba following U.S. actions in Venezuela, has further squeezed the island’s already fragile economy.

The Cuban government faces a stark choice: cling to the status quo and risk a worsening humanitarian situation that could spiral into disorder or offer concessions in exchange for urgently needed economic relief.

At this stage, a deal seems increasingly likely, particularly if Washington is willing to accept a phased accommodation similar to the approach the U.S. has taken in Venezuela—a transitional arrangement in which Havana implements economic reforms and limited political concessions first, with more comprehensive political change to be negotiated later. **Call it the “Delcy solution.”**

There are early signs that the U.S. Administration is moving in that direction.

U.S. officials are reportedly holding quiet talks with de facto leader Raul Castro’s influential, business-minded grandson, and U.S. Secretary of State Rubio recently affirmed that Cuba “doesn’t have to change all at once.”

Such a strategy would be a shift for Rubio and other prominent Cuban-Americans who have long sought the full and rapid dismantling of the communist regime. But continuing to tighten the screws, especially in a country with no organized political opposition waiting in the wings, risks triggering a new wave of outbound migration—unpalatable in an election year.

Washington likely calculates that a deal compelling Cuba to improve the climate for U.S. business interests and settle claims tied to the expropriated properties of U.S. investors and Cuban Americans would begin to satisfy the politically influential diaspora’s demands—at least until more substantive political change becomes feasible.

The U.S. Administration is also likely betting that a deal would ultimately pave the way for a more friendly government willing to cooperate on migration, law enforcement, and curbing Chinese and Russian influence, key goals of this president’s Latin America policy.



A YEAR OF THE “DONROE” DOCTRINE IN THE WESTERN HEMISPHERE

Cuba Deal Coming— Back to the Future?

April 2026

Window on the World

Last month, we flagged that a **U.S.-Cuba bargain was moving from possibility to probability**, with Washington eyeing a Venezuela-style playbook: get a different leader at the top, try to reboot the economy, and pursue fundamental political change later. The U.S. has pointed to Cuba’s alignment with Russia, China, and Iran as the primary justification for its pressure campaign, though Florida politics is certainly a factor here, too. And after worsening blackouts in March sparked violent anti-government protests, Havana is under pressure to reach a *détente* with Washington—and **momentum is now measurable**.

Two of our key indicators of a deal have since materialized:

Havana has

1. publicly acknowledged talks with the U.S., and
2. announced that Cubans abroad will be allowed to own businesses and invest.

The second is largely symbolic for now—Americans remain barred from doing so—but it signals at least some receptivity to economic opening.

So, if there *is* a deal, what might it look like?

Step One: Remove the Leader, Not the Regime.

Washington is reportedly pressing for President Diaz-Canel to step aside. We think there are good odds he’ll leave power. His exit would be more symbolic than substantive, as the Castro family remains the real power behind the throne. But the U.S. would frame it as a political win and bilateral reset.

Washington will likely seek other concessions, such as loosening restrictions on private enterprise, preferential treatment for U.S. businesses, and freeing some political prisoners.

Step Two: Sanctions Stay, Licenses Rule.

In return, Washington would roll back the crippling oil export ban imposed in January, easing the humanitarian crisis, and likely remove Cuba from the State Sponsor of Terrorism list, which removes bans on U.S. foreign assistance and relaxes some of the most stringent export controls.

But don’t expect wholesale normalization. Most sanctions will likely remain in place—just with more licenses and workarounds. That’s partly strategic: it preserves U.S. leverage and enables Cuba’s conversion into a client state. It’s also structural: the embargo is codified in U.S. law and can’t be lifted by executive action alone. Initial moves will focus on areas where the President has latitude—travel, remittances, and specific trade carveouts.

Where does that leave us?

Expect any deal to be incremental and transactional, not transformational. At least for now, it’s more a rewind to the Obama-era thaw than a new dawn. **The impact will be felt most on the island—and make waves in South Florida politics.**

But given Cuba’s isolation, especially since Maduro’s ouster, the broader geopolitical impact will be modest.

Still, it may cast a not-so-subtle shadow and shape Washington’s calculus in other arenas. After all, the U.S. Administration has held up Venezuela as a model for its foreign policy elsewhere, including Iran. Cuba could be the next case in point.



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Venezuela’s Opening: Opportunity, Risk, and the “Regime 2.0” Question?

May 2026

Window on the World

Four months after the U.S. military’s capture of former President Nicolas Maduro, there has been dramatic change in Venezuela—along with striking continuity.

Washington is moving quickly: it restored diplomatic relations with Delcy Rodríguez’s government and began unwinding sanctions on key sectors, including banking. For her part, Rodríguez has replaced some key ministers and presented herself as the primary interlocutor for both Washington and business.

The early results are tangible, if modest. **Venezuelan oil production is already up 25% year-over-year, according to J.P. Morgan Research, with the bulk of exports now flowing to the U.S. and India rather than China.** New hydrocarbons and mining legislation offers clearer terms, international arbitration provisions, and greater scope for private operators—a clear pitch to investors.

Most recently, the IMF has re-engaged for the first time in years, potentially unlocking access to billions of dollars in special drawing rights, which authorities have signaled could support imports of food and medicine, among other priorities. The ripple effects could potentially extend beyond Venezuela’s borders: easing migration pressures, improving regional health outcomes, and creating new trade flows across Latin America.

But the more things change, the more they stay the same. Much of the old authoritarian architecture remains intact. Corruption and military-run illicit networks are alive and well. Outside Caracas, armed groups control parts of the mineral-rich Orinoco region, and formal debt restructuring hasn’t started—both factors that will deter capital and raise risk premiums. Even the oil upside is constrained: most estimates suggest returning to 1998 production levels would require upwards of \$100 billion or more over a decade or longer, along with sustained investment and consistent policy.

Meanwhile, households continue to endure extreme inflation (still the world’s highest), depressed real incomes, and scarce hard currency. The brain drain has yet to reverse, depriving the country of badly-needed expertise. And while opposition leader Maria Corina Machado says she will return from exile this year, there is still no credible electoral roadmap in sight.

Bottom line: the interface has changed, but the operating system hasn’t—at least not yet. Venezuela is more open and commercially active than it has been in years, and the momentum

shouldn’t be dismissed. But access without institutional assurance will cap investment and limit how much economic recovery can precede political reform. Whether the U.S. playbook of “stabilize first” is ultimately followed by democratization—or whether today’s opening hardens into regime 2.0—remains a defining question. **That will in turn shape whether Venezuela can reassert its pre-1980s role as prosperous regional powerhouse or slides back into a net exporter of instability that fueled the last decade’s migration crisis and helped tilt the region’s politics to the right.**





7

A Year of Transatlantic Tension

The transatlantic alliance had a tough year. We traced the escalation of U.S. ambitions in Greenland, the diplomatic pushback from allies, and the delicate balancing act European capitals are navigating to keep both the transatlantic alliance and their dignity intact. Despite the churn, we argued the relationship will prove more enduring than many expect—albeit in a more transactional and redefined form going forward.

A YEAR OF TRANSATLANTIC TENSION

The Future of Europe

May 2025

Center for Geopolitics Report

Shifts in U.S. policy on Ukraine and other issues are super-charging European calls for greater “strategic autonomy” from its most important ally and top trading partner. How we got here:

Twin shocks

Russia's full-scale invasion of Ukraine shocked the continent from its post-Cold War complacency and sparked bold changes to European security, energy, and economic policies in support of both Kyiv and the post-war international order the conflict has come to represent.

The second shock was **the abrupt shift in U.S. policy** as exemplified by President Zelenskyy's visit to the Oval office on February 28, 2025. The acrimonious visit, preceded days earlier by a U.S. vote in the United Nations against a resolution condemning Russia's aggression and then followed by the temporary suspension of U.S. military and intelligence aid to Ukraine, was a thunderclap across Europe—raising fears about America's abandonment of its principles and position as leader of the free world.

Tipping point

Whether this signal was intended or not, there is now broad acknowledgment in European capitals that greater “strategic autonomy” is needed to correct for the continent's over-reliance on the United States—a deep and fundamental interconnectedness built by design and over decades. Reflecting wider sentiment, the new Chancellor of Germany and long-time transatlanticist, Friedrich Merz, has declared that his “absolute priority” will be to “**achieve independence from the USA**” and has pledged significant defense investments.

While the conversation around such autonomy is not new—it has been building since U.S. President Barack Obama began a “pivot to Asia” in 2012—we are at a tipping point, with **more European states moving from a position of hedging to de-risking**. The recent introduction of new U.S. tariffs is amplifying calls for greater European protectionism and has made transatlantic cooperation across a range of key issues more difficult.

What happens now:

Consensus remains elusive on precisely how to establish greater independence from the United States, to what degree, at what cost, and to whose benefit. The EU has stated its commitment to enhancing competitiveness, deepening financial integration, coordinating an energy policy, investing in defense, and diversifying diplomatic and economic relationships. Becoming a true counterweight, however, will depend on whether it can come together both internally and with the UK—a task made more difficult by the lack of a clear leader and some members states (like Hungary) more sympathetic to the new U.S. agenda.

Urgent challenges

Some of the most pressing challenges for which Europe will need quick answers are in the security and defense realm, namely: (1) how to ensure Ukraine continues to have the materiel support and, importantly, the security guarantees it needs to reach a just and lasting peace with Russia (something Beijing will be closely watching), and (2) how to strengthen its own territorial defenses against rising geopolitical and hybrid threats (which blur the lines between war and peace) in a way that credibly compensates for America's unclear commitment to NATO's Article 5 collective defense agreement.

Need to grow the DIB

The strength of Europe's defense industrial base (DIB) will be important, if not dispositive, in both cases and it is not currently fit for purpose—a matter of increasing urgency in London, Paris, and, notably, Berlin, where Chancellor Merz championed an historic spending deal exempt from debt restrictions. There are also serious efforts underway in Brussels to address structural deficiencies to rearmament, including relaxing EU deficit spending rules and opening new avenues for borrowing, but whether individual member states—many of which are managing brittle governing coalitions, fiscal constraints, and populist headwinds—will have the political will and capacity to introduce tough trade-offs, particularly to beloved social welfare programs, remains to be seen. In 2024, EU member states' collective defense spending totaled €326 billion or 1.9% of EU GDP, a 30% increase since 2021, but still just four-tenths that of the United States at almost \$900 billion. As Europe moves from a “post-war” to a “pre-war” footing, this will be an important space to watch.

The Future of Europe
May 2025

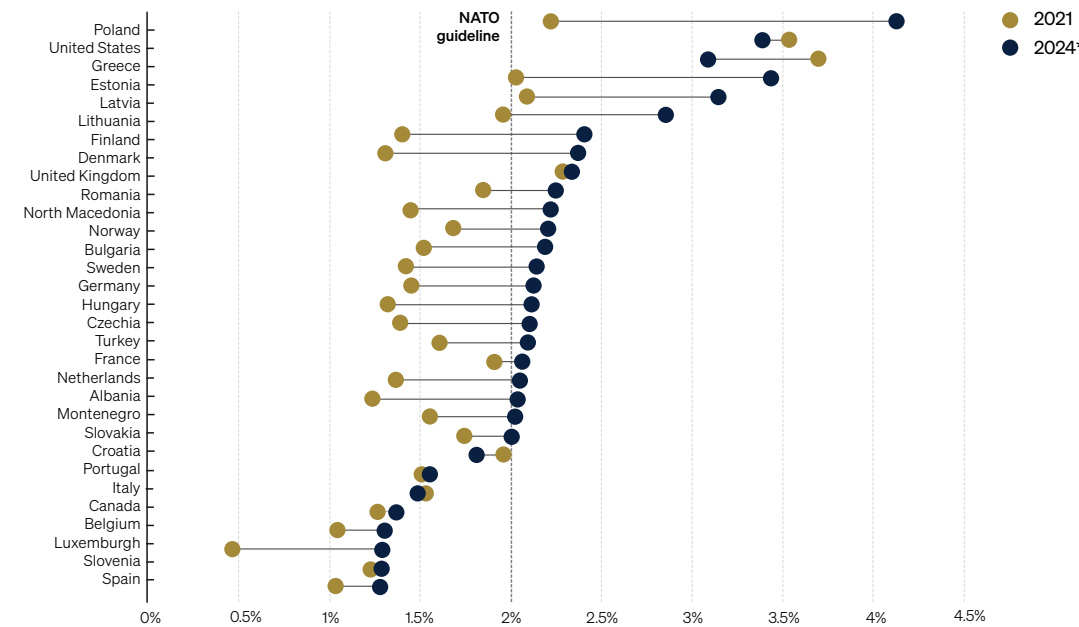
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Strategic Autonomy
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May 2026

Defense spending as share of real GDP (%)



*2024 numbers are estimates. Iceland excluded as it does not have a standing army
Source: NATO, Atlantic Council

Why it matters

The transatlantic relationship has been a cornerstone of modern geopolitics, and the implications of a break are severe for both sides and, indeed, for the world as a whole.

1. The security and prosperity of the United States remains tightly linked to that of the Euro-Atlantic area. No other economic relationship is as integrated with as great an ability to shape and steer the global economy. The EU is America's largest trading partner, and their combined economies represent close to fifty percent of global GDP. The dollar and the euro are two of the world's most important reserve currencies.
2. European militaries remain the United States' most capable partners in confronting international challenges, and Europe is a primary basing hub enabling the American military's global reach.
3. Transatlantic coordination within multilateral institutions and forums, such as the United Nations and G7, have galvanized global action on some of the world's most intractable challenges.
4. It is the absence of conflict in Europe that has allowed the United States to focus its attention and resources elsewhere, including in the Indo-Pacific. And it is the combined strength of Europe and the United States that has formed the essential barrier to imperial and revisionist powers seeking a return to the pre-1945 world order—a world defined by spheres of influence and predatory land grabs by bigger countries against smaller neighbors.

Too early for last rights

After 80 years, no one should be rushing to eulogize the transatlantic alliance, which has proven remarkably resilient and underwritten the longest period of peace and global prosperity in history.

European leaders are courting the Trump administration in an effort to preserve the transatlantic relationship and the U.S. role in Europe, an acknowledgement of both its intrinsic value and irreplaceability over the near- to mid-term—a timeline that extends well beyond Russian military reconstitution estimates of 5–10 years.

So there is still a chance, though seemingly remote, to steady the ship.



A YEAR OF TRANSATLANTIC TENSION

2026 Europe Outlook: Peace Talks and Power Shifts

December 2025

Window on the World

For Europe, 2026 opens with a mix of possibility and peril: Russia-Ukraine peace talks gaining momentum but far from settled, continued rise of populist parties, and U.S.-EU relations barreling off the rails. The choices Europe makes in the coming year—on defense, diplomacy, and economic policy—will reverberate well beyond the continent.

Russia-Ukraine War: What's the price of peace?

The war is entering what could be its diplomatic endgame—or just another iteration of a now-familiar cycle: a surprise U.S. gambit that alarms Europe and Kyiv; a hasty scramble to influence Washington; a partial recalibration and renewed unity; and then a stall as Moscow refuses to compromise. The U.S. really wants a deal, but at what cost? Despite accelerated talks, the revised proposal has not shifted Russia from its maximalist position, buoyed by incremental battlefield gains and a sense of growing U.S.-European divergence. Ultimately, nothing is agreed until everything is agreed—and the fighting will continue in the background until that moment arrives. The risk remains one we flagged earlier this year: that a war can end without delivering a just and sustainable peace.

Yet even when these cycles fail to deliver diplomatic breakthroughs, they have repeatedly had a secondary effect—galvanizing Europe to step up, whether through higher defense spending, coalitions of the willing, or now the push for a reparations-backed loan using frozen Russian assets. The draft U.S. peace plan accelerated EU urgency by suggesting alternative uses for those assets, spurring Brussels to act before any U.S.-brokered deal redirects them.

The EU is now racing to finalize a loan worth up to €210 billion and repayable only if Moscow eventually covers war damages. European leaders have already agreed to permanently immobilize the Russian assets, removing the need for six-months renewals, and are using that step to clear

the way for consensus. For Kyiv, the stakes are acute: they need the money to bridge its 2026 financing gap. The European Commission has warned that Ukraine could face default as early as April without additional support.

Transatlantic Relations: Between dependence and divergence.

U.S.-Europe relations are ending the year on a particularly sour note. The White House's new National Security Strategy—foreshadowed by Vice President Vance's February speech in Munich—casts Europe as underperforming on defense spending, economic dynamism, and democratic resilience. The document underscores a blunt reality now shared quietly on both sides of the Atlantic: Europe thinks it can no longer rely on the U.S. as it once did, and Washington seems increasingly comfortable with that.

European defense budgets are rising quickly, but industrial capacity, procurement coordination, and

political cohesion lag behind. Domestic politics add further uncertainty: populist movements are gaining ground in France, Germany, the U.K., and parts of Central Europe, raising questions about Europe's ability to maintain unity on the difficult decisions ahead. Meanwhile, regulatory frictions, disputes over tech and digital rules, and differing views on "strategic autonomy" will continue to test the U.S.-EU relationship. **Yet the relationship also remains indispensable for deterrence, for supply-chain security, for the health of both economies, and for Ukraine's survival—leaving 2026 as a year in which alignment and tension will coexist in equal measure.**



A YEAR OF TRANSATLANTIC TENSION

The U.S. Tests the Waters on Greenland

January 2026

Window on the World



PUT INTO CONTEXT

In early 2026, President Trump ignited a transatlantic crisis by repeatedly threatening to take control of Greenland, a semi-autonomous region of NATO ally Denmark.

Greenland is not “Venezuela 2.0,” but it is firmly back on Washington’s strategic radar.

In the wake of the U.S. operation in Venezuela and provocative rhetoric from the White House, questions are swirling about whether Greenland (population 56,000) could be next—and European capitals are on full alert. The answer is more nuanced: Greenland matters enormously to U.S. security, but the most likely scenarios stop well short of coercion or force.

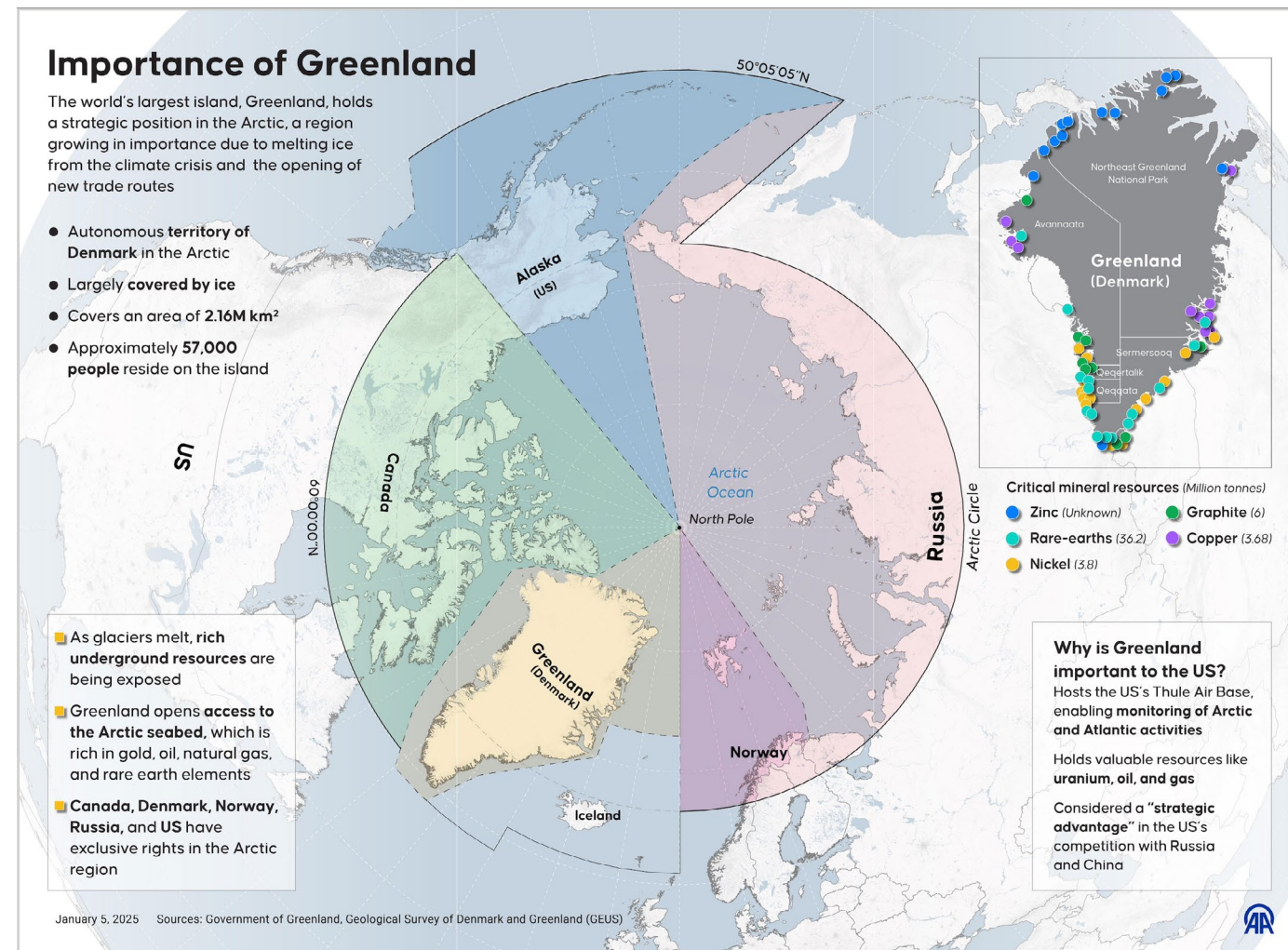
Inflating the risk of a U.S. “invasion” serves Washington’s leverage strategy.

Our assessment is that much of the Administration’s rhetoric on Greenland is better understood as pressure designed to force negotiation (particularly around security and critical minerals), not preparation for conquest. The U.S.

already maintains a small military presence and diplomatic consulate on the island, and Denmark has signaled openness to accommodating Washington’s demands on most issues short of sovereignty, which it cannot legally concede.

U.S. interest rests on three pillars: security, resources, and politics.

Strategically, Greenland underpins U.S. homeland defense through missile-warning and space-surveillance systems. Economically, it offers long-term optionality in critical minerals as Washington seeks to diversify away from China. Politically, President Trump has framed Greenland as a “large real estate deal” and a once-in-a-generation territorial opportunity, reflecting his long-standing interest in map-changing and legacy-making outcomes, akin to the Louisiana purchase or the acquisition of Alaska.



Administration messaging has been uneven and unsettling to allies.

Secretary of State Marco Rubio has emphasized that the U.S. “wants to buy” Greenland, echoing earlier diplomatic overtures. By contrast, White House senior adviser Stephen Miller has refused to rule out the use of force, noting in a recent interview that the U.S. is a “superpower” and will act like it. Meanwhile, last month, the President appointed Louisiana Gov. Jeff Landry as special envoy to Greenland, who expressly stated that his goal was to “make Greenland a part of the U.S.” The rhetoric has fueled European anxiety more than any single policy move, and the level of concern feels as high as during the lead up to the Iraq war in 2003.

Europe moves quickly to draw red lines, de-escalate.

European leaders have coalesced behind Denmark, stressing that any security concerns

must be addressed collectively through NATO and that Greenland “belongs to its people.” At the same time, European officials are seeking to calm tensions, keep the issue within alliance channels, and avoid a spiral that could damage transatlantic cohesion and cooperation on Ukraine. Copenhagen has launched an intensive diplomatic push, engaging members of Congress directly over recent days. Expect this to be a prominent topic at upcoming international forums such as Davos and the Munich Security Conference. (Trump plans to be at Davos, and Rubio at Munich.)

Public opinion in Greenland may constrain U.S. options.

While many Greenlanders favor eventual independence and stronger ties with Washington, there is overwhelming opposition to becoming part of the United States. Any durable outcomes would run through Nuuk (Greenland’s capital) and Copenhagen.

A YEAR OF TRANSATLANTIC TENSION

Bargain Reached on Greenland...For Now

February 2026

Window on the World

The still vague U.S.-European framework agreement on Greenland stepped us back from the brink, but we don't expect the issue to be fully resolved. The nascent deal **would significantly expand U.S. military rights in Greenland and strengthen NATO's Arctic posture.** The outcome tracks closely with the most likely scenario outlined in our recent Special Edition on Greenland: a negotiated bargain that deepens U.S. security and economic access under the 1951 U.S.-Denmark defense agreement—without formally changing Greenland's sovereignty.

So far, so good—but big political hurdles remain. Danish and Greenlandic leaders have raised sovereignty and legal concerns and rejected any suggestion that NATO can negotiate on their behalf. Greenland's autonomous status means that **parliamentary approval—and potentially a referendum—may be required** before any agreement can take effect. For Nuuk, the core issue is whether enhanced U.S. security guarantees come at the cost of meaningful control over territory and resources. Moreover, we expect that U.S. interest in territorial acquisition of Greenland will be back during the next three years—so this may be a momentary calm in the storm.

The European Parliament is expected to revisit ratification of the stalled U.S.-EU trade agreement.

Today, the EU voted to extend its suspension of €90 billion in retaliatory tariffs on U.S. exports for another six months—setting a new deadline of August 6th.

The possibility of reactivating these tariffs was seen as potent leverage for the EU against Washington if negotiations over Greenland faltered.



A YEAR OF TRANSATLANTIC TENSION

Strategic Autonomy and Strategic Constraints: Europe's Transatlantic Tensions

May 2026

Window on the World

King Charles' visit to Washington this week is diplomacy at its most choreographed—a performance staged to signal that the 'special relationship' still has gravity and the transatlantic alliance that remade Europe after WWII remains essential. But the real show is happening offstage: Washington is subtly rewriting the alliance's terms, shifting it from standing commitments to conditional support. **European capitals are improvising the best they can—rearming, coordinating, swallowing indignities, and hedging all at the same time—but its constraints mean the gap between ambition and capacity remains wide.**

Security is the transatlantic alliance's sharpest fault line and where Europe is most exposed. European allies' reluctance to engage in Iran has sharpened Washington's "freeloader" critique and generated public hints that the U.S.'s NATO commitments may not be ironclad. We read these threats as leverage to push Europe to spend more on defense and align more closely with U.S. policy on Iran. But once Article 5 ("an attack on one is an attack on all") even starts sounding conditional, deterrence frays. For their part, Europeans cite U.S. threats toward Greenland—NATO territory—as a profound breach of trust and a reminder that dependability is a two-way question.

With diplomatic fence-mending efforts producing limited returns, European capitals are reaching for a lever they control: building out their own capabilities. Here, **Germany is both Europe's bellwether and a microcosm of its response.** NATO's original organizing logic—"keep America in, Germany down, and the Soviets out"—no longer fits. Berlin released its first-ever standalone military strategy last week, explicitly aiming to field the strongest conventional army in Europe by 2035—marking the formal end of the "Germany down" era. That shift isn't politically settled: rearmament at this scale cuts against deep postwar pacifist instincts domestically, and is sure to stir unease among neighbors with long memories.

Germany's rearmament is also part of a broader continental preparation for a leakier U.S. umbrella: higher defense spending, renewed indigenous industrial capacity, and greater readiness. The test now is execution—whether budgets, procurement, manpower, and capabilities catch up to the rhetoric—and if it happens fast enough to matter strategically.

A similar dynamic is playing out in the economic relationship. The EU and the UK are tolerating uncomfortable shifts in U.S. trade policy at the same time as they strike a flurry of Free Trade Agreements with other trading partners to diversify their exposure going forward.

Europe's constraints make a balance unavoidable: even collectively, it can't replace U.S. military guarantees or market power on the timelines that politics now demand. Europe is as dependent on U.S.-anchored finance and the American tech stack as it is on the U.S. security umbrella. **The result is adaptation, not separation—cutting deals and incrementally building "strategic autonomy."**

Internal politics compound the challenge. For years, Hungary's Viktor Orbán personified the notion that a single government could weaponize the need for consensus in the EU to obstruct strategy and dilute policy. His recent defeat may unclog decisions and create space for more ambitious coordination, but it also underscores the deeper constraint: **a diverse bloc that governs by consensus will keep producing veto players and watered-down outcomes.**

That's a growing liability, as the problems that matter most—supporting Ukraine, deterring Russia, adapting to technological revolutions, improving competitiveness—demand rapid, collective action. With populist pressure building ahead of key elections—France and Italy in 2027, and Germany by 2029—Europe's ability to turn "strategic autonomy" from slogan into execution in the face of challenges that require a collective response could shift quickly.





8

A Year of Clarity on the Defense Imperative

This year highlighted long-standing vulnerabilities in the defense industrial base and the urgent need for modernization in the face of global rearmament. We chronicled the acceleration of reforms, the impact of new conflicts on supply chains and capacity, and the growing recognition of resilience gaps in the defense industry.

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A YEAR OF CLARITY ON THE DEFENSE IMPERATIVE

An Era of Global Rearmament and the U.S. Defense Industrial Base

May 2025

Center for Geopolitics Report

One of today's defining geopolitical trends is global rearmament—which is arguably the most consequential shift in military affairs since the end of the Cold War. **Accelerated by rapid technological advancement and an increasingly volatile geopolitical landscape, this transformation will have broad impacts to national economies and redefine the contours of great power competition.**

Defense procurement and modernization are poised to become key engines of domestic growth, influencing investment patterns, industrial policy, and workforce dynamics across advanced economies for the next decade or more.

Three key dynamics are defining this era:

1. Technology as kingmaker

Technological superiority has always been a military differentiator—but today, its pace and impact are revolutionary. Artificial intelligence, autonomous systems, and commercial off-the-shelf technologies are collapsing traditional kill chains (“see-assess-decide-act”) and empowering more agile, distributed forms of warfare.

- Ukraine has served as a proving ground: cheap drones and consumer-grade satellite imagery are being fused with Western-made precision weapons to challenge a larger adversary.
- Meanwhile, asymmetric conflicts like the Houthi campaign in the Red Sea expose a troubling cost imbalance: the U.S. regularly spends millions per intercepting missile (the SM-6 costs up to \$4.3 million each) to counter Houthi drones that only cost between \$2,000 to \$50,000.

This innovation gap is shining a harsh light on the U.S. Department of Defense's (DoD) long-standing procurement challenges—rigid budgetary cycles, protracted production timelines, risk-averse contracting, and insufficient surge manufacturing capacity. The Pentagon's traditional acquisition model struggles to adapt to commercial technology cycles measured in months, not years. Companies like

Anduril, Palantir, and SpaceX have shown that dual-use tech firms can deliver cutting-edge capabilities at speed, but integrating them at scale remains an uphill battle. In this environment, the ability to adapt—to field, iterate, and mass-produce emerging technologies—will be as decisive as raw military power.

2. Great power competition

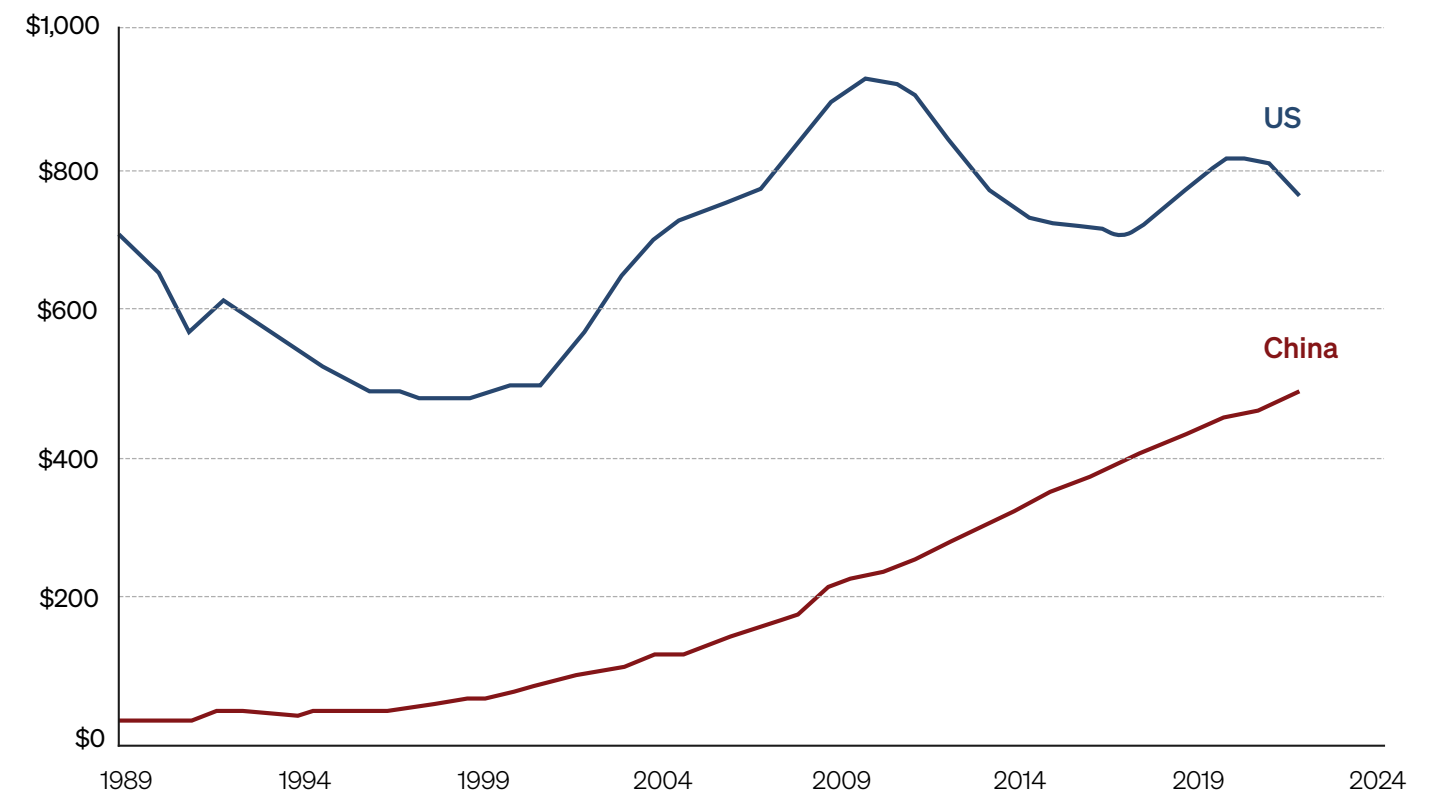
Strategic rivalry is back at the center of defense planning, with the U.S.-China competition as the primary axis. Beijing's military modernization is not just about catching up—it is about leapfrogging the U.S. and neutralizing its long-held advantages. From hypersonic glide vehicles to anti-satellite capabilities and shipbuilding volume, China's state-directed defense ecosystem is operating at a tempo the U.S. struggles to match. According to

the Pentagon's 2024 China Military Power Report, China now has the world's largest navy by ship count and is rapidly expanding its nuclear arsenal.

Compounding the challenge is the tightening alignment among China, Russia, Iran, and North Korea—sometimes referred to as the “CRINK” axis. This emerging bloc is exchanging technology, intelligence, and access to critical resources, allowing mutual circumvention of Western sanctions and export controls. **While U.S. regulatory tools like the CHIPS Act and ITAR restrictions can slow diffusion, they cannot prevent the strategic convergence of adversaries. For defense companies, this raises the stakes for secure supply chains, IP protection, and the geopolitical calculus of where—and with whom—they do business.**

U.S.-China Defense Spending, Inflation and PPP Adjusted

Billions of 2022 US\$



Source: OMB, FRED, SIPR, IMF, 2024

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3. Allied entropy

For decades, the U.S. has been the anchor of global defense cooperation. But that gravitational pull is weakening. Faced with the dual threats of Russian aggression and Chinese assertiveness, traditional allies are rearming at speed—Germany's €100 billion Sondervermögen (its "special fund" freed of a debt brake) and Japan's doubling of defense spending to 2% of GDP are just the beginning. Yet, this rearmament is not necessarily a boost to American dependency. Increasingly, allies are seeking strategic autonomy: national production lines, domestic R&D pipelines, and decoupled supply chains. The implications for U.S. defense firms could be profound. Arms sales—which topped \$300 billion in 2024—have long benefited from the "Buy American" halo-effect and interoperability advantages. But if allies begin to view U.S. systems as expensive, slow to deliver, or politically unreliable, they may look elsewhere.

Already, there is growing interest in allied alternatives, such as the Franco-German-Spanish Future Combat Air System (FCAS) and the British-Italian-Japanese Global Combat Air Programme (GCAP), or in homegrown solutions built with local content requirements. Certain products are already gaining traction, either because they are less exquisite (like Türkiye's Baykar UAVs) or because they can leverage a robust domestic industrial supply chain (like South Korea's Hanwha missiles). Japanese and South Korean defense firms are among the fastest growing in the world, with annual revenues rising by 25% since 2022 compared to American firms' 15%. **In this context, over time the U.S. defense industrial base risks losing market share—and with it, strategic influence.**

Moreover, as technology increases range and precision, the U.S. may opt for a smaller overseas presence and more reliance on stand-off, unmanned operations. A shrinking footprint could reduce forward-deployed deterrence and the demand for host-nation integration, further accelerating a shift away from U.S.-led architectures.



A YEAR OF CLARITY ON THE DEFENSE IMPERATIVE

America's Workforce Squeeze Has Become a National Security Threat

December 2025

Center for Geopolitics Report with the JPMC PolicyCenter

America's security challenges are often framed in terms of equipment and investment—strained defense production lines, efforts to re-shore critical supply chains, intensifying competition over cutting-edge technologies, and the need to rebuild core energy, manufacturing, and logistics infrastructure. Yet underpinning all of these issues is a more basic limitation: **the United States does not have enough skilled workers to meet the demand.**

The United States today faces a workforce problem that is bigger than any single sector and more strategically consequential than many realize. This is not a routine labor-market imbalance or a gap in education alone. It is a pervasive talent deficit that constrains the nation's capacity to build, compete, and protect its interests—and it is addressable.

Across many fields tied to U.S. strength and resilience, the same pattern emerges:

- **Defense and aerospace:** Production lines are slowing because employers cannot find enough precision machinists, systems engineers, welders, and cyber specialists. This includes persistent gaps in depot maintenance and engineering teams that lengthen delivery schedules and extend repair timelines. Stockpile shortfalls in munitions, propulsion systems, microelectronics, and shipbuilding increasingly trace back to workforce shortages—not money or machines. The U.S. has prioritized rearmament, but rearmament without workforce is strategy without means. Nearly every major program cites labor shortages as a top constraint.
- **Energy transmission and grid modernization:** Projects are stalling due to insufficient numbers of electricians, lineworkers, and technicians. Active apprenticeships must rise by 44% just to meet near-term demand of roughly 200,000 workers.
- **Advanced manufacturing and semiconductors:** Multi-billion-dollar semiconductor fabrication plants are being completed faster than companies

can hire the operators and technicians required to run them. By 2033, the sector is projected to need 3.8 million additional workers—and almost half of those roles may go unfilled.

- **AI, cybersecurity, and digital infrastructure:** Skills shortages are deepening just as technological rivalry accelerates. Three-quarters of companies struggle to find qualified talent, and 40 percent of adults lack basic digital skills. Meanwhile, U.S. technology workforce requirements are estimated to grow

at twice the rate of the overall U.S. workforce requirements in the next decade.

- **Local communities:** Many places lack the workforce capacity to take full advantage of new investment or grow small firms, or transition workers into the industries that underpin resilience. For example, Arizona's major semiconductor project has faced delays in part because there are not enough skilled construction workers and technicians to meet demand.

Projected Workforce Shortages and Demands that May Impact Industries Critical to U.S. Security and Resilience (representative)



Cyber specialists

Current 265,000 skilled cybersecurity workers shortage



Microelectronics/Semiconductors jobs

67,000 jobs will go unfilled by 2030



Shipbuilding workers

Demand for 250,000 new skilled shipbuilding workers is expected over the next decade



Electricians

81,000 openings for electricians, on average, annually from 2024–34



Precision mechanics

34,200 openings for machinists and tool and die makers are projected each year, on average, from 2024–34



Welders

320,500 new welding professionals are projected to be needed in the U.S. by 2029

EIGHT
A Year of Clarity on
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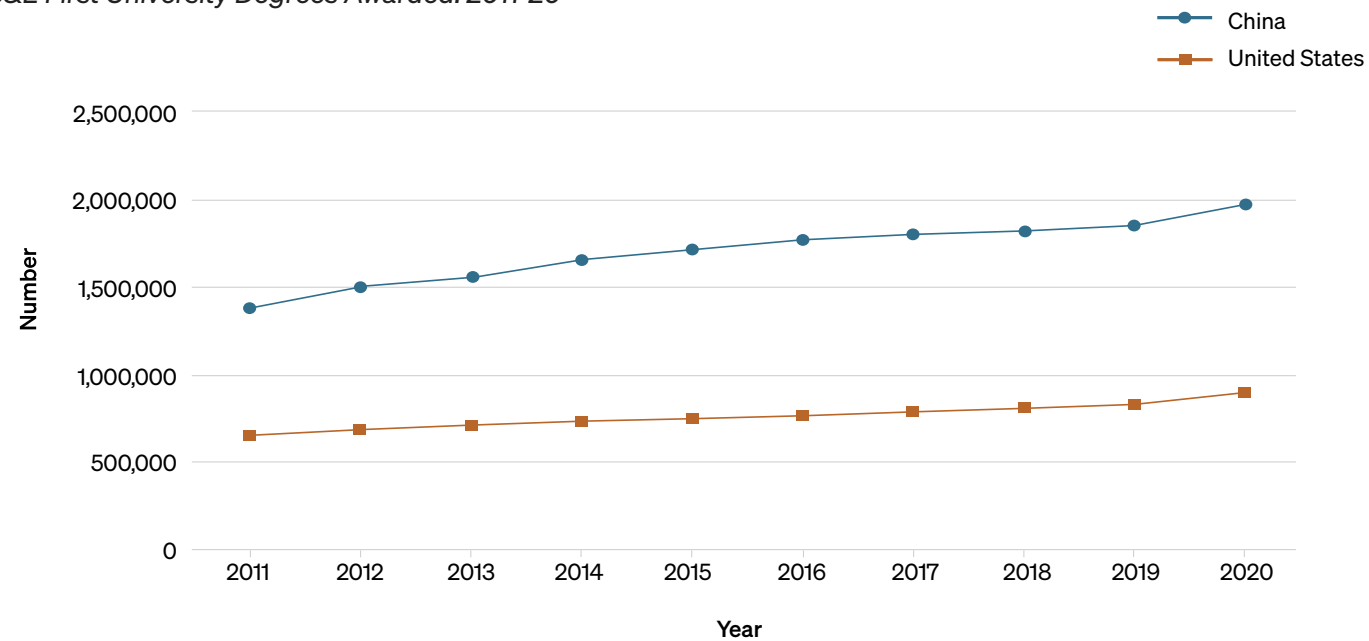
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The result is a distinct and emerging strategic risk: the U.S. can allocate funds, craft ambitious industrial strategies, and pass legislation to expand supply chains—but without sufficient talent, execution will fall short. In practice, this means that America's geopolitical posture increasingly depends on the sophistication and right-sizing of its approach to workforce development, and by extension the strength of its education and training institutions—secondary and post-secondary education, including community colleges, technical high schools, and business leadership and regional industry partnerships—as much as on federal spending.

In any competition, talent ultimately determines advantage—how it is cultivated, where it is located, and how effectively it is mobilized. The U.S. can no longer assume it will remain the world's primary magnet for highly skilled workers. China is producing far more engineers, technicians, and STEM graduates each year than the U.S. (see figure). Meanwhile, allies such as South Korea, Japan, Singapore, and Germany are investing heavily in apprenticeships, AI fluency, and applied technical education. Global companies can now place advanced R&D, production, and testing in jurisdictions where talent pools are deepest—giving those locations outsized geopolitical influence.

America is vastly underperforming China in science and engineering undergraduate degrees
S&E First University Degrees Awarded: 2011-20



Notes: To facilitate international comparison, data for the United States are those reported to the Organisation for Economic Co-operation and Development; these data vary from the National Center for Science and Engineering Statistics classification of fields presented in other sections of the report. Data for Japan are not available prior to 2014.

Source: Organisation for Economic Co-operation and Development (OECD), Education at a Glance; National Bureau of Statistics of China, China Statistical Yearbook; People's Republic of China, Ministry of Education data; Government of India, Ministry of Education, Department of Higher Education, All India Survey on Higher Education. National Center for Science and Engineering Statistics, November 2023.

National Center for Science and Engineering Statistics, November 2023.



A YEAR OF CLARITY ON THE DEFENSE IMPERATIVE

An Era of Global Rearmament and the U.S. Defense Industrial Base (Revised Edition)

March 2026

Center for Geopolitics Report

When we first wrote about the DIB, many of its most acute vulnerabilities were already visible. Support for Ukraine following Russia's full invasion exposed the zero-sum nature of modern deterrence for the kinds of systems the American military spent the post-Cold War period fielding. Transfers of munitions and platforms to partners revealed constraints in replenishment timelines, surge capacity, and supply chain resilience. **The American arsenal of democracy had been exposed as fundamentally underequipped for the task at hand.**

But urgency had not yet caught up with analysis. Some observers of the DIB often felt as though they were “shouting at the rain”—cataloging structural weaknesses without corresponding momentum for systemic change.

That has now shifted.

China's temporary restrictions on exports of critical minerals last year highlighted the fragility of key supply chains and the strategic leverage embedded in industrial dependencies. Recent operations in Iran and the Western Hemisphere reinforced the reality that the United States must continue to be prepared to manage multiple theaters at once.

At the same time, assumptions that underpinned the post-Cold War security architecture—including expectations of allied alignment—are being materially reshaped. Many U.S. allies were already pursuing a stronger sovereign defense capability, but developments in the transatlantic alliance have accelerated these efforts in Europe where countries have accelerated defense spending and are investing more heavily in domestic production capacity. This trend is present in other regions as well. Globally, countries are also diversifying supply chains and cultivating new foreign suppliers to reduce reliance on any single source. **The result is sharper competition and increased pressure on all providers to deliver speed, reliability, and value.**

A Snapshot of the Needs

Acquisition Speed and Program Performance

- The Government Accountability Office's annual assessment said, on average, DoD's major acquisition programs are taking **11 years** to deliver their first capabilities.
- More than **70%** of DoD's major acquisition pathways are behind schedule, with average delays of over two years, and all are over-budget.
- The submarine industrial base needs the capability to produce 3 submarines a year: two *Virginia*-class and one *Columbia*-class. It can currently produce **1.4 a year**.

Aging Platforms and Readiness Strain

- The average U.S. Air Force aircraft is now nearly **30 years old**—the oldest fleet in American history and often older than the pilots flying them.

Industrial Consolidation

- Following the end of the Cold War, a wave of mergers shrunk the defense industrial base from 51 firms to just **5 prime vendors**: Lockheed Martin, Raytheon (RTX), Boeing, Northrup Grumman, and General Dynamics.
- More than **17,000 suppliers** have exited the defense sector in just the past five years, eroding surge capacity across every tier.
- Nearly **50%** of suppliers for precision munitions have exited the market in the past decade, largely due to inconsistent procurement cycles and limited modernization investment.

The Growing Naval Gap—Shipbuilding

- The U.S. accounts for **0.1%** of global shipbuilding compared to China's **53%**.
- China's shipbuilding capacity exceeds that of the U.S. **by a factor of 200**.
- By tonnage alone, a single Chinese shipbuilder built more commercial vessels in 2024 than the entire U.S. shipbuilding industry has since WWII.
- The People's Liberation Army (PLA) Navy has over **370 vessels** (projected to reach **435** by 2030), compared to the U.S. Navy's shrinking fleet of **295 vessels**.

Workforce Erosion

- The defense industrial workforce has collapsed from about 3 million workers in the mid-1980s to approximately **1.1 million** today—a decline of nearly two-thirds.
- The average skilled defense manufacturing worker is now in their **mid-50s**, with retirements outpacing new entrants.

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These dynamics have informed in a series of executive actions, legislative reforms, and industrial initiatives that more directly reflect the scale of the challenge.

The question is no longer whether the defense industrial base requires modernization. It is whether reforms will be sufficient—and fast enough—to match the tempo of strategic competition.

Indeed, since our last edition, a broader recognition has taken hold—across political parties, corporate boardrooms, and capital markets—that defense industrial capacity is not a narrow policy issue but a core pillar of national resilience and central to deterrence itself. The shift reflects the natural culmination of converging and simultaneous pressures that made continued denial untenable. It is for these reasons that, in October 2025, JPMorganChase launched its **Security and Resiliency Initiative (SRI)**, a ten-year, \$1.5 trillion plan to facilitate, finance, and invest in industries critical to economic security and resilience, including defense and aerospace.



The Acquisition System: Demand-Side Constraints and Momentum for Reform

Reliable demand signals are the foundation of industrial capacity. Without them, firms cannot plan, finance, or scale production.

Yet the defense acquisition system has struggled to provide that predictability either for traditional or emerging capabilities.

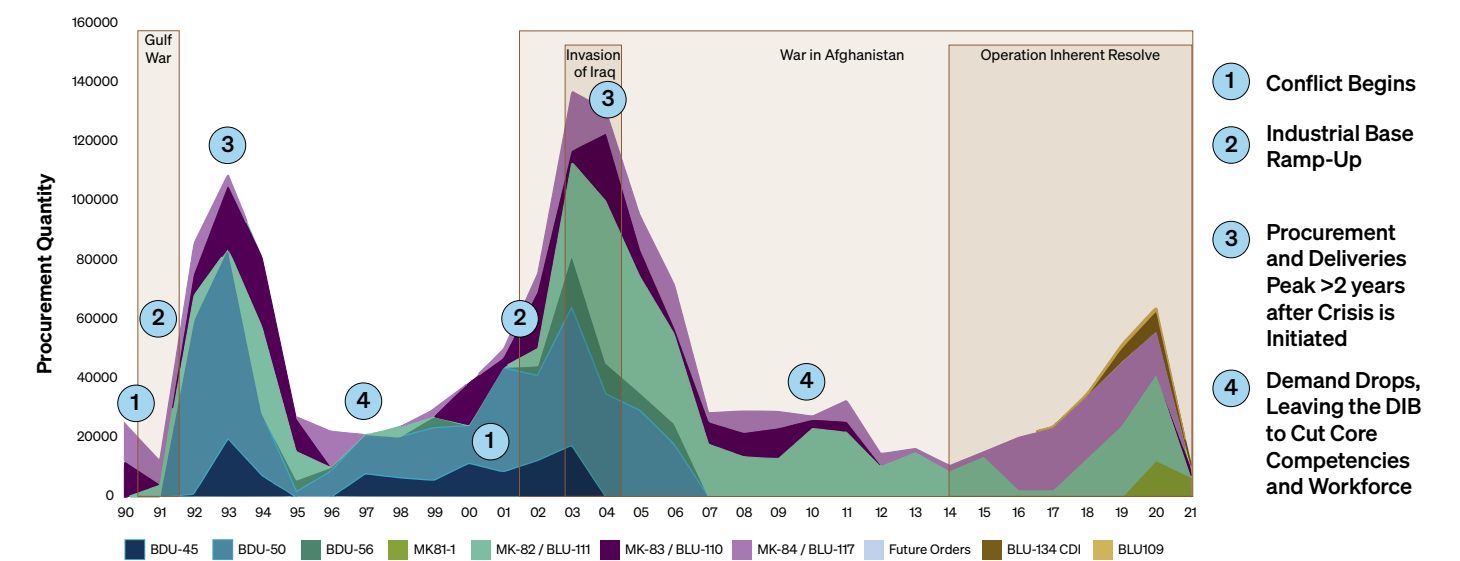
Long development cycles, highly prescriptive requirements, and rigid budgeting processes have left procurement misaligned with the pace of technological change and the realities of modern conflict. The war in Ukraine has demonstrated how quickly battlefield technologies and tactics evolve—requiring rapid iteration, scalable production, and continuous adaptation. The current system is not designed to move at that speed.

At the same time, the Pentagon often buys too little, too late, and too inconsistently (see figure). Production lines are asked to surge after years of under-ordering. Long-lead systems require sustained procurement years in advance. But even critical long-lead systems—such as air and missile defense systems—face persistent shortages because procurement has not kept pace with demand or production timelines.

Budget instability compounds these problems. Continuing resolutions and delayed appropriations discourage long-term investment, workforce expansion, and capacity growth—the very behaviors required to rebuild industrial depth.

Without predictable, sustained purchasing, industry rationally avoids building excess capacity that may never be used.

Always Playing Catch-up: Historical Demand for Munitions, 1990–2021



Source: OUSD(A&S) Joint Production Accelerator Cell

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Production Capacity: Supply-Side Constraints and Industrial Renewal

Reforming acquisition alone will not solve the production challenge. Even with stronger demand signals, **the surge capacity cannot be created simply by placing bigger orders**—it must be built, financed, staffed, and sustained over time. And some systems are simply easier to mass produce than others.

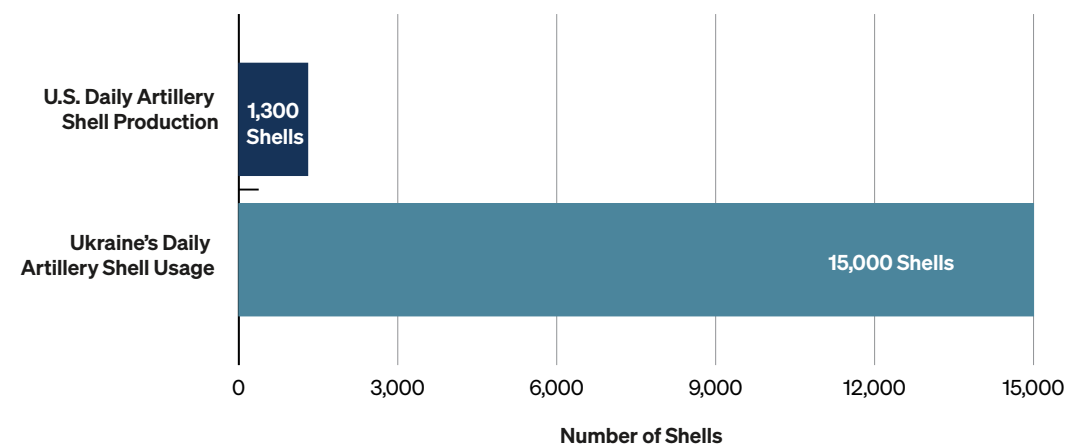
Many of today's supply-side constraints are the downstream result of long-term structural change. Following the end of the Cold War, the Pentagon shifted toward procuring ever smaller numbers of advanced systems, triggering consolidation that reduced the number of major defense primes from dozens to a handful. This consolidation was efficient on paper but brittle in practice. Today, there is only one active production line for many critical systems, from large-diameter solid rocket motors to nuclear submarine propulsion components. Meanwhile, investment in the Organic Industrial Base—the network of government-owned facilities responsible for critical manufacturing and surge capacity—also declined. Over time, this narrowed the industrial ecosystem, reduced redundancy and the number of skilled workers, and concentrated risk across supply chains, creating single points of failure.

As a result, many firms responsible for producing end-use systems lack ready and affordable access to the four foundational inputs required to scale production: (1) physical infrastructure, (2) machines and tools, (3) critical raw materials and sub-tier components, and (4) skilled labor.

Industrial capacity is too thin across all four.

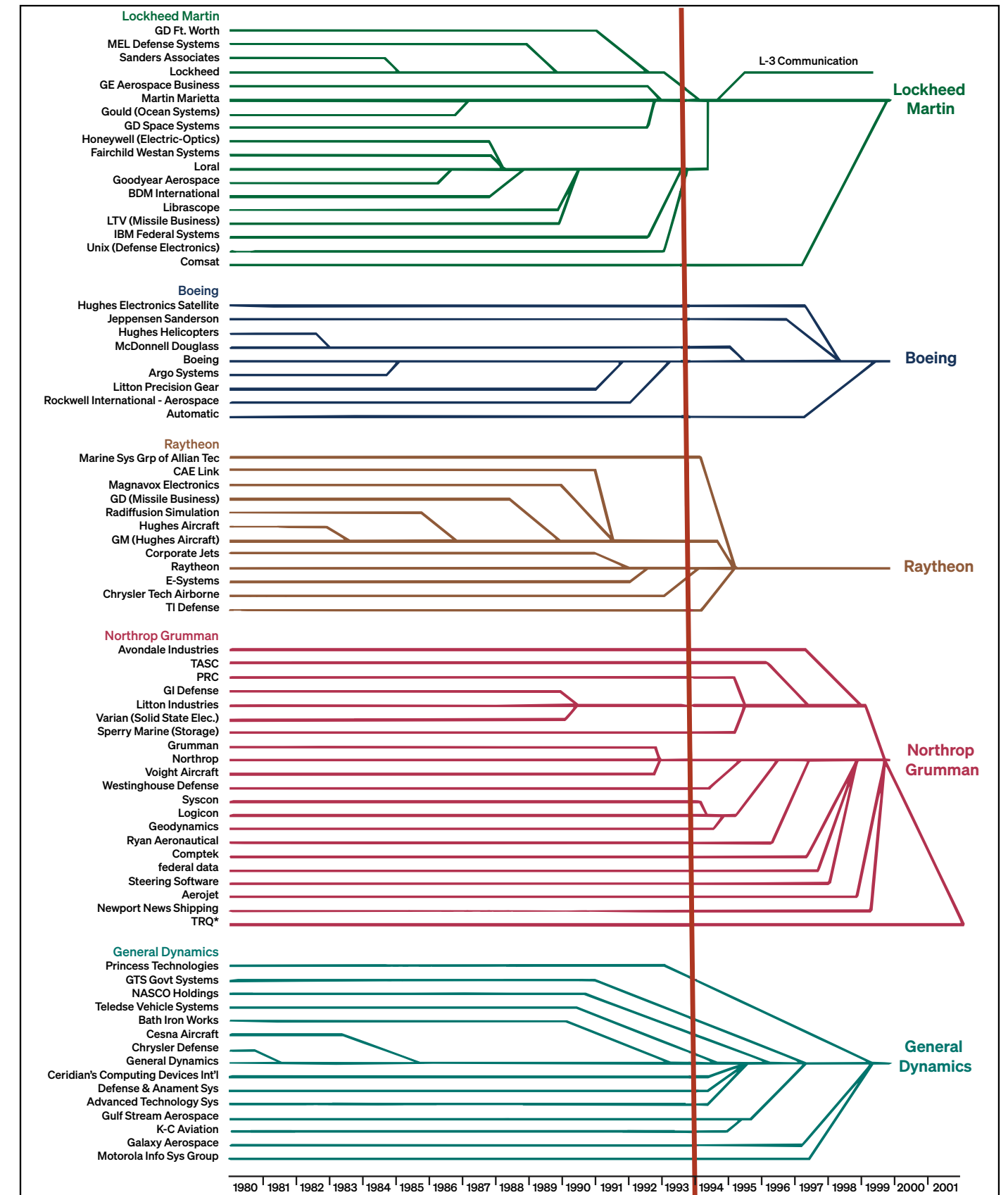
Current U.S. artillery production capacity is insufficient for a modern war

Ukraine's daily burn rate of artillery versus daily U.S. production



Source: American Enterprise Institute and The New York Times.

From 51 to 5: Mapping the U.S. Defense Industrial Base Consolidation



Source: U.S. Department of Defense Report, "State of Defense Industrial Base," 2022.

1993 "Last Supper"

[Access the text version](#)

First, physical infrastructure.

For many critical systems, a single production line remains active—from large-diameter solid rocket motors to nuclear submarine propulsion components. Industry rationally optimizes for steady-state efficiency, which limits idle capacity and discourages upfront investment in facilities that may sit unused. This is especially acute among smaller suppliers, where even modest expansion can require capital, specialized tooling, and risk tolerance that smaller firms often cannot absorb on their own. As a result, industrial capacity reflects current procurement levels rather than potential wartime demand. **If supply continues to be solely dependent on demand, however, surge capacity beyond existing procurement levels may remain perpetually out of reach.**

Second, machines and tools.

Scaling output is often gated by long-lead equipment (such as specialized castings, microelectronics, and rocket motors), qualified tooling, and specialized industrial processes. When those bottlenecks sit several tiers down the chain, prime contractors cannot simply “buy their way out” through larger contracts; the limiting factor is often whether a lower-tier supplier can expand fast enough without breaking quality or schedule.

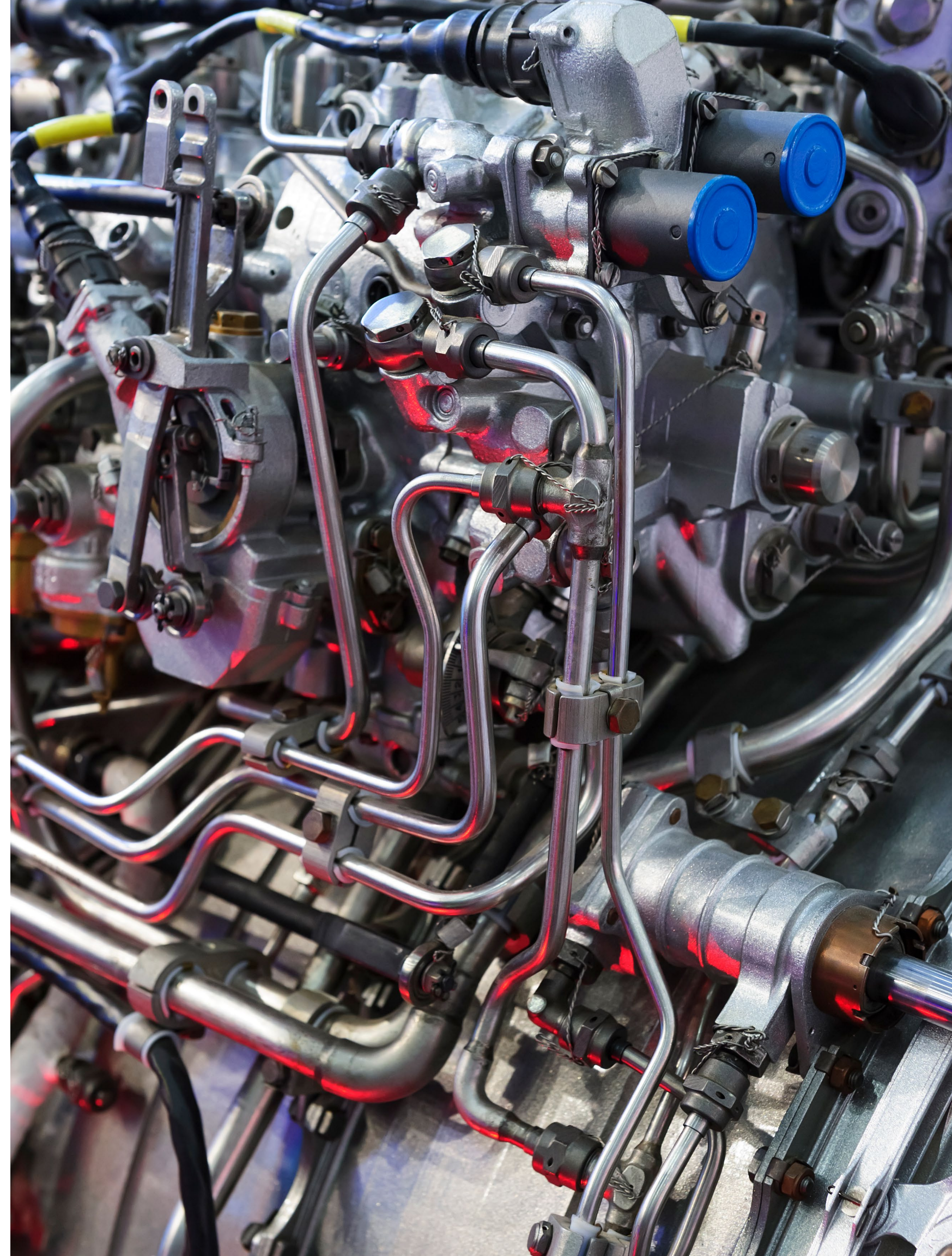
Third, critical inputs and sub-tier components.

The U.S. relies on a narrow set of sources for rare earth minerals, specialty chemicals, propellants, and advanced semiconductors, which drives price swings and schedule uncertainty. Deep in the supply chain, third- and fourth-tier suppliers have become chokepoints—often undercapitalized and workforce-constrained. Disruptions at those levels cascade quickly, turning a localized shortfall into a program-wide delay.

Fourth, labor.

Workforce constraints are now a binding limit on expansion, particularly for machinists, welders, industrial maintenance, and other skilled trades. As our recent report, *Working to Win*, noted, **the U.S. could face a potential shortfall of more than two million manufacturing workers by 2030, costing the economy up to \$1 trillion annually if left unaddressed.** Talent pipelines for advanced manufacturing and defense-related fields remain narrow—only 20% of high school graduates are prepared for college-level coursework in STEM fields—and regional labor shortages, particularly in the Midwest and Southeast, persist even where industrial investment is increasing.

Together, these constraints mean that scaling defense production for existing systems is not one problem—it is a systems problem. Progress requires rebuilding depth across infrastructure, inputs, and labor at the same time.





9

A Year to Come: What We're Watching in the Center for Geopolitics' Second Year

We close each section of our analysis with a list of “what we’re watching” for clues about where things might go next. As we move into CfG’s second year, here’s what our team is looking for over the horizon.

The CfG team in May 2026, left to right by row: (row #1) Lisa Sawyer, Derek Chollet, Paul Haenle, (row #2) Suzana Feo, Kyle Hutzler, (row #3) Radina Belberova, Tom O’Mealia, Isabel Chandler, (row #4) Shantanu Tata, Amalia Bersin, Emily Sullivan, (row #5) Theresa Murphy, Nathaniel Sher, Matthew Keating.

Systemic

- As the United States walks away from a global system anchored in Washington's economic, military, and political leadership, what comes next? And who shapes the rules, norms, and values of the next world order? **(Lisa Sawyer)**

Middle East

- In the wake of the unprecedented Iranian missile and drone attacks, how quickly can the Gulf countries restore confidence in their business model as safe and secure hubs of business, travel, tourism, and frontier tech—and at what expense? **(Derek Chollet)**
- As the UAE-Saudi Arabia relationship grows increasingly acrimonious, what does the trajectory of Gulf power look like? How durable is the emerging Saudi-Turkey-Pakistan-Egypt axis? **(Amalia Bersin)**

U.S.-China Competition

- Does episodic diplomacy between Presidents Trump and Xi meaningfully slow the trajectory of rivalry or simply manage tensions while deeper competition continues, with the risk that an exogenous incident could trigger a sharp snapback to strategic competition? **(Paul Haenle)**
- How will U.S.-China competition reshape the choices of the rest of the world—who hedges, aligns, seeks to profit? And how do the spillovers affect trade, investment, regulation, and strategic partnerships as the next phase of global fragmentation takes shape? **(Kyle Hutzler)**
- Can the rest of Asia sustain its growth momentum while navigating intensifying geopolitical and domestic political pressures? **(Nathaniel Sher)**

Europe

- As the transatlantic relationship continues fraying, who steps up assumes the leadership role of “the rest of the West?” And how uncomfortable does the rest of Europe get when it's a more assertive Germany? **(Tom O'Mealia)**
- Can Europe recapitalize its SAFE program in the years ahead to sustain defense financing, and what political appetite exists given voter demands for social spending to bring down cost of living expenses related to wars in Ukraine and Iran? **(Matthew Keating)**

Latin America

- Following the January 2026 capture of Maduro, will a U.S.-led reconstruction effort in Venezuela be able to rebuild the country while effectively managing the full range of security and infrastructure challenges? **(Radina Belberova)**

Goeconomics

- Will the U.S. increase the use other “sticks” such as sanctions and export controls to achieve its geopolitical goals now that administration cannot quickly impose tariffs using the International Emergency Economic Powers Act? **(Shantanu Tata)**
- How will the U.S. balance its desire to build the global tech stack and win the AI race with its desire to deny malicious actors access to the most advanced technologies? And what will the implications be for where tech hubs develop globally, who builds them, and what governance norms they adhere to? **(Emily Sullivan)**
- How will strategic competition over supply chains—spanning critical minerals, pharmaceutical APIs, and AI compute infrastructure—shape the next stage of U.S.-China rivalry? Will Western coordination build resilient alternatives, or will these chokepoints remain permanent instruments of coercion? **(Isabel Chandler)**

Our Team

Derek Chollet leads the JPMorganChase Center for Geopolitics. Over the course of three decades, he has become one of Washington's leading foreign policy practitioners and thinkers, having served in key positions in the White House, Pentagon, State Department, and several top research institutions.

Paul Haenle is Managing Director and Head of Asia Pacific Policy and Strategic Competitiveness (APPSC). Paul served as China Director on the National Security Council under Presidents Bush and Obama and in leadership roles at the Carnegie Endowment, the National Committee on U.S.-China Relations, TENERO, and RHGM.

Lisa Sawyer is Executive Director of CfG and brings over two decades of foreign policy and national security experience across the public and private sectors. She most recently served as the Deputy Assistant Secretary of Defense for European and NATO Policy.

Kyle Hutzler is Executive Director for Asia Pacific Policy and Strategic Competitiveness. Kyle was previously a consultant with McKinsey & Company.

Radina Belberova is a Vice President and focuses on the Middle East, Latin America, and Africa. She comes to JPMC from Kearney and the Scowcroft Group.

Amalia Bersin is a Vice President primarily focused on the Middle East, Latin America, and Africa. She joined the firm after nearly a decade at the CIA and served as a Director on the National Security Council staff.

Tom O'Mealia is a Vice President covering goeconomic globally as well as Europe and transatlantic relations. He joined JPMC from the State Department.

Nathaniel Sher is a Vice President of Asia Pacific Policy and Strategic Competitiveness. He covers geopolitics in Asia and U.S.-China relations and joined from Carnegie China.

Shantanu Tata is a Vice President covering trade and goeconomics. He joined the firm from the Office of the U.S. Trade Representative.

Matthew Keating is a Senior Associate covering security and defense issues. He was most recently Senior Advisor to the Assistant Secretary of Defense for International Security Affairs.

Emily Sullivan is a Senior Associate covering goeconomics, technology, and Eastern Europe. She joined JPMC from the Chicago Council on Global Affairs.

Isabel Chandler is an Associate covering security and technology issues. She joined JPMC from the Bureau of Industry and Security at the U.S. Department of Commerce.

Data Explanation

Always Playing Catch-up: Historical Demand for Munitions, 1990–2021

Overview:

This chart shows U.S. munitions procurement quantities over time, spanning from approximately 1990 through 2021. The data is displayed as a layered area chart, with total procurement rising and falling across four major conflict periods: the Gulf War, the Iraq War, the War in Afghanistan, and Operation Inherent Resolve. The chart highlights a repeating four-step cycle of demand tied to military conflicts.

Step 1 – Conflict Begins

At the onset of each conflict, procurement quantities start at a relatively low baseline.

- Around the early 1990s (Gulf War), procurement begins below ~20,000 units.
- Similar low starting points appear before the Iraq War (early 2000s) and again prior to later conflicts. This phase represents initial demand before large-scale mobilization.

Step 2 – Industrial Base Ramp-Up

Procurement begins to increase steadily as production ramps up.

- During the Gulf War, quantities rise sharply to roughly 100,000+ units.
- Prior to the Iraq War, procurement climbs again, reaching approximately 40,000–60,000 units before accelerating further. This phase reflects the time required for manufacturing and supply chains to respond.

Step 3 – Peak Procurement (2+ Years After Conflict Begins)

Procurement reaches its highest levels, typically two or more years after the conflict begins.

- The largest peak occurs during the Iraq War (around 2003–2005), exceeding 120,000 units, the highest point on the chart.
- The Gulf War peak is slightly lower but still significant (around 100,000+ units). This phase represents sustained high demand once operations are fully underway.

Step 4 – Demand Drops

After the peak, procurement declines sharply, often returning to lower levels.

- Following both the Gulf War and Iraq War peaks, procurement drops back to roughly 20,000–40,000 units.
- During the Afghanistan and later operations, the pattern continues with smaller peaks followed by declines. This phase reflects reduced demand and a shift away from surge production, often accompanied by a contraction in the industrial base.

[Access the chart version](#)

From 51 to 5 Companies: Mapping the U.S. Defense Industrial Base Consolidation

LOCKHEED MARTIN

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Lockheed + Martin Marietta	1995	Merger forming Lockheed Martin
GE Aerospace	1993	Acquired
General Dynamics (Fort Worth)	1993	Acquired
Loral (Defense Systems)	1996	Acquired
IBM Federal Systems	1996	Acquired
LTV (Missiles & Electronics)	1992–1993	Acquired
Unisys Defense	1995	Acquired
Sanders Associates	1992	Acquired
Ford Aerospace	1990	Acquired
Goodyear Aerospace	1987	Acquired
Fairchild Weston Systems	1994–1995	Acquired
Gould Ocean Systems	1988–1989	Acquired

BOEING

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Rockwell Aerospace	1996	Acquired
McDonnell Douglas	1997	Major merger
Hughes Space & Communications	2000	Acquired
Hughes Electronics (partial)	1997–2000	Defense assets acquired
Litton Precision Systems	1995–1996	Acquired
Argosystems	1995–1996	Acquired
Jeppesen Sanderson	2000	Acquired

RAYTHEON

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Chrysler Technologies Airborne Systems	1996	Acquired
E-Systems	1995	Acquired
Texas Instruments (Defense)	1997	Acquired
Hughes Aircraft	1997	Major acquisition
Beech Aircraft	1980	Acquired
Magnavox Electronic Systems	1995	Acquired
General Dynamics (Missile Systems)	1992	Acquired

NORTHROP GRUMMAN

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Northrop + Grumman	1994	Merger forming Northrop Grumman
Westinghouse Defense	1996	Acquired
Logicon	1997	Acquired
Litton Industries	2001	Acquired
TRW	2002 (just beyond chart)	Acquired
Vought Aircraft	1992–1993	Acquired
Sperry Marine	1990s (early)	Acquired
Ryan Aeronautical	Ryan Aeronautical	Ryan Aeronautical

GENERAL DYNAMICS

ORIGINAL COMPANY	APPROX. YEAR	EVENT
Bath Iron Works	1995	Acquired
National Steel & Shipbuilding	1998	Acquired
Gulfstream Aerospace	1999	Acquired
Cessna	1992	Reacquired
Motorola Information Systems	1997	Acquired
Galaxy Aerospace	2001	Acquired

EVENT	APPROX. YEAR	DESCRIPTION
“Last Supper” (DoD consolidation push)	1993	Triggered rapid mergers across the defense industry

Note: Dates are approximate and derived from the visual timeline of the source chart, supplemented by known historical merger activity. For exact transaction dates, refer to official company records.

[Access the chart version](#)

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