

# MARKET SIGHT LINES



## Relating Issues in the Current Environment: Stifel's Geopolitical Risk Dashboard

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Those following our work know we regularly update our [Geopolitical Risk Dashboard](#), which identifies various risks, gauges their likelihood, and offers some related investment considerations. From trade tensions with China to firmer inflation and concerns about the U.S. being on an unsustainable fiscal trajectory, the developments in today's environment may serve as a catalyst for some of these risks to unfold. In this Sight|Lines, we discuss some of the key issues in the current environment that could lead to economic and market troubles if left unresolved or allowed to worsen.

### THE TAKEAWAY: MANY GEOPOLITICAL TENSIONS ARE INFLUENCING MARKETS

Many issues in the current environment that are affecting markets can be tied back to our [Geopolitical Risk Dashboard](#). In summary:

- 2025 tariff actions and the increased focus on artificial intelligence (AI) illustrate the strong presence of *U.S.-China Competition*.
- Accusations of misbehavior by both China and Russia highlight the risk of *Escalating Cold Wars* and impactful *Cyberattacks*.
- The U.S. passed a spending bill earlier this year that will result in another budget deficit in 2025, increasing the chances of *U.S. Financial Instability* in the future.
- Despite the Federal Reserve (Fed) maintaining a restrictive policy stance, inflation has not cooled to the 2% target, bringing into question the risk of *Structurally Higher Inflation*.
- While we celebrate scientific and medical advances that lead to increased longevity, we must factor in the at least remote possibility of *Aging Population Strain* on the economy.
- Israel and Iran exchanged missile attacks earlier this year, and while the situation appears to be stable, any reescalation could lead to a sustained *Middle East War*.
- President Trump has had discussions with Russia and Ukraine with a focus on negotiations to end that war, but the risk of a direct *Russia-NATO Confrontation* remains.

## IN-DEPTH: NUMEROUS GEOPOLITICAL TENSIONS ARE AFFECTING ECONOMIES AND INFLUENCING MARKETS

Many issues we see in the current environment that are having an economic impact and/or affecting markets can be connected to risks identified in our [Geopolitical Risk Dashboard](#). Going deeper:

- The tensions related to *U.S.-China Competition* can be seen around trade policy and AI:
  - In April, escalation led both countries to impose tariffs in excess of 100%. They were later reset to 30% on Chinese imports and 10% on U.S. imports, with the timing for a final deal extended to November.
  - Chinese company DeepSeek launched an AI model that rivals ChatGPT, costing much less to train and representing a disruptive, competitive alternative.
- Both China and Russia have been accused of actions that highlight the risk of *Escalating Cold Wars* and impactful *Cyberattacks*:
  - China has been accused of large-scale cyber intrusions against U.S. agencies to steal sensitive data and disrupt government operations.
  - Russia has been accused of conducting sabotage and cyberattacks on U.S. interests and infrastructure across Europe.
- The risk of *U.S. Financial Instability* is increased by ongoing budget deficits:
  - The enacted One Big Beautiful Bill Act is expected to result in a \$1.8 trillion deficit this year.
- The Fed's restrictive policy has yet to bring inflation to its 2% target, risking *Structurally Higher Inflation*:
  - The consumer price index (CPI) increased 2.7% over the last year, while the producer price index (PPI) increased 3.3% over that period.
  - New supply chains – like onshoring and nearshoring – can increase costs and consumer prices.
- Innovations leading to increased longevity may result in an *Aging Population Strain* on the economy:
  - Longevity means people collect more Social Security and Medicare, raising fiscal burdens.
- If the Israel-Iran conflict is reignited and escalates, there's increased risk of a sustained *Middle East War*:
  - Top officials from both sides continue to express readiness and the risk of more engagement.
- President Trump is trying to negotiate peace in Ukraine, but U.S. commitments to one side or the other can increase the risk of a direct *Russia-NATO Confrontation*:
  - While Trump presses Ukraine to cede Crimea and stop its NATO bids, he's offered Ukraine future security guarantees and advanced arms.

## CONCLUSION

We talk often about our [Geopolitical Risk Dashboard](#) identifying various risks, their likelihood of occurring, and some related investment considerations. As we monitor the current environment, we see current issues that relate to these risks. If these problems worsen or are left unresolved, the related risks we've identified may unfold. So, with many of these issues, we watch for resolutions to bring us back to a more stable geopolitical environment going forward.

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