

MARKET SIGHT LINES



Outlook 2022 Spotlight #3: Geopolitical Tensions

By Michael O'Keeffe, *Chief Investment Officer*

We're into the third week of 2022, and I'd like to once again spotlight an article from our recently published Stifel Outlook 2022 [report](#) and [video](#) on a topic also covered in our [client webinar](#) with Stifel's Chief Washington Policy Strategist, Brian Gardner. We titled our outlook report "Balancing Acts," and we're seeing many balancing acts in the world of geopolitics. Examples include the U.S. and China, the U.S. and Russia, tensions in the EU, and relations between developed and developing countries influenced by pandemic recovery and climate change.

So, in this week's Sight|Lines, we spotlight a related topic from our 2022 Outlook report: *Geopolitical Tensions*.

Our Geopolitical Dashboard

A few years ago, we shared the *Stifel Geopolitical Dashboard* to track possible geopolitical risks or events relevant to the economy and markets. We assess each risk or event's likelihood and potential market impact and describe this in the dashboard. And, of course, the pandemic has magnified many such risks.

U.S.-China Competition

The U.S. and China continue to compete for influence, and each is donating vaccines to developing countries as one means of influence. For example, most countries receiving donations from China are part of the "Belt and Road Initiative," China's program to strengthen economic ties with 139 countries.

The U.S. and China also compete as leaders in technology. Each country is looking to boost its domestic production of semiconductors, components that are increasingly important in our more digital world.

A New Cold War

The "New Cold War" delineates between the strategic competition for economic and social influence and more hostile actions between the U.S. and China and the U.S. and Russia. We've seen cybersecurity attacks, election meddling, corporate espionage, and military assertiveness as possible examples of this idea.

South China Sea

Almost one-third of global maritime trade passes through the South China Sea, making this area an essential commercial gateway for merchant shipping. China has been aggressive, claiming sovereignty over close to 90% of the area, while other nations, like the Philippines, Singapore, and Taiwan, pursue natural resources and fishing there. The U.S. and China have increased their military presence in the area.

Challenges for Emerging Countries

The global response to combat climate change is growing, and emerging countries face some related challenges. Via mechanisms like the Paris Agreement and COP26, new agreements and treaties on climate change are being formed, so emerging countries are seeking financial support to help them conform to these agreements. We see a similar challenge for emerging countries in fighting the pandemic. Their recovery is lagging behind developed nations, much the result of the cost of, and access to, vaccines.

Other Geopolitical Risks

Other geopolitical risks we've identified include:

European Fragmentation: While the pandemic provides nations with a common goal, fragmentation may increase amid EU debt and deficit talks and potential migrant crises.

D.C. Gridlock: The Democrats control the White House and Congress, but we expect the scope for significant legislative changes to be limited. Our focus in 2022 will also shift to the upcoming midterm elections.

North Korea Conflict: North Korea continues to demonstrate its military capabilities and develop its nuclear weapons program, despite calls for diplomacy by the Biden administration.

Major Terror Attacks: Terrorist attacks are unpredictable events that may pose disruption.

Post-Brexit Tensions: Following Brexit, tensions have increased between the EU and the UK as issues remain, including the continued refugee crisis and the potential for tariffs.

Cyberattacks: As society becomes more digitized, the world is more prone to cyberattacks.

Middle Eastern Tensions: Tensions in the region remain heightened, and there is always the potential for things to escalate quickly.

Coronavirus Resurgence: COVID-19 and mutations remain a threat, but we seem to be transitioning from a pandemic to an endemic state as vaccine distribution becomes more widespread.

Russia-West Relations: Russia and the U.S. appear to be coexisting but continue to fight for global influence via proxies. Tensions are unlikely to dissipate materially.

Conclusion

Geopolitics were in focus before the pandemic, and as we learn to live with and do business amid the pandemic, they are coming back into focus once again. At the center of this is U.S.-China competition, but other risks and potential events are worth monitoring. We invite you to check out the Stifel Outlook 2022: Balancing Acts [report](#), [video](#), and [webinar replay](#) to learn more on this and other topics.

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