

# MARKET SIGHT LINES



## Spotlight No. 4: Outlook 2024: *Embracing Change* Geopolitical Risk Dashboard: A New World

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In January, we've focused on *Outlook 2024: Embracing Change* ([full report](#), [video summary](#), and [client webinar replay](#)), sharing "spotlight" articles like [a report overview](#), [a summary of our outlook](#), and [our bear and bull scenarios](#). In this week's SightLines, we summarize the article *Geopolitical Risk Dashboard: A New World*, including important events that have happened in January.

### THE TAKEAWAY: GEOPOLITICAL TENSIONS HAVE LED TO MORE DEGLOBALIZATION

Our Geopolitical Risk Dashboard reminds us that geopolitics are creating a new world. In summary:

- Increased localization and protectionism is leading to further deglobalization, and a shift from a unipolar world to a multipolar world is making us more divided globally.
- *U.S.-China Competition* remains in focus, as we vie with China for global influence and power.
- We added *Financial Instability* as a new risk, recognizing, for example, that increased levels of debt and higher interest rates are together driving a [Fiscal Transition](#) across our economy.
- We amended our risk *Middle East Tensions* to *Middle East Conflict*, recognizing the new and potential perils of the Israel-Hamas war.
- With the potential to reshape the geopolitical landscape, over 40% of the world's population goes to the polls in 2024, beginning with results in Taiwan and the start of the U.S. primaries.

### IN-DEPTH: GEOPOLITICAL RISKS AND TENSIONS HAVE LED TO MORE DEGLOBALIZATION AND A SHIFT TOWARD A MORE MULTIPOLAR WORLD

We maintain and monitor a Geopolitical Risk Dashboard (see page 3), providing regular updates, including in our annual outlook report. Geopolitics are changing our lives, creating a new world. Going Deeper:

- In our report, we discuss important overarching themes:
  - As companies and countries regionalize supply chains, we're seeing increased localization and protectionism, with Southeast Asia and Mexico likely beneficiaries.
  - China continues to compete with the U.S. for power and influence, driving a shift from a U.S.-based unipolar world to a multipolar one, making us more divided globally.

- So, *U.S.-China Competition* remains in focus. We see:
  - China continuing to strengthen relations with countries all around the world.
  - Increasing focus on U.S.-China trade, with agreements in focus during the U.S. election.
  - Ever present military posturing and tensions in places like the South China Sea.
- We added *Financial Instability* as a new risk, driving a [Fiscal Transition](#) across our economy:
  - Our economy has added almost \$38 trillion in debt since the Great Recession, which was less impactful in the lower interest rate environment that followed.
  - But with elevated inflation, Federal Reserve policy and market dynamics have driven rates have back up to pre-Great Recession levels, increasing the cost of that debt going forward.
- We changed *Middle East Tensions* to *Middle East Conflict* as the Israel-Hamas war continues:
  - With escalation seen as a remote but dangerous risk, we're keeping an eye on things like the recent strikes in and around the Red Sea between the U.S. and the Houthis, a Yemeni rebel group aligned with Iran.
  - While most expect the economic impact to be limited, especially in the U.S., some freight carriers are adjusting shipping routes to avoid areas of conflict, and companies like Tesla and Volvo have announced related production delays.
- Over 40% of the world's population votes in 2024, with the prospect to drive real change:
  - In January, William Lai Ching-Te of the Democratic Progressive Party (DPP) won Taiwan's presidential election, signaling a desire for the status quo focused on sovereign, democratic continuity.
  - However, the DPP lost its majority in the legislature (the Legislative Yuan) to the Kuomintang, the Nationalist Party favored by China, resulting in a divided government.
  - The U.S. presidential primaries began in January, with Donald Trump winning in both Iowa and New Hampshire, Ron DeSantis dropping out, and a 2020 rematch in the general election still likely.

## CONCLUSION

Earlier in January, my team and I released **Outlook 2024: *Embracing Change*** with a [full report](#), [video summary](#), and [client webinar replay](#). As is our practice, we included an update to our *Geopolitical Risk Dashboard*, this year highlighting how change is creating a new world.

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## Geopolitical Risk Dashboard

EVENT	LIKELIHOOD	MARKET IMPACT	DESCRIPTION
U.S.-China Competition	10	7	Competition for global leadership will impact markets; tech will continue to play an important role. The U.S. Department of Defense sees China as the "most consequential strategic competitor."
The New Cold War	8	8	The Russia-Ukraine war continues to solidify alliances and competing geopolitical blocs. U.S.-China and U.S.-Russia competition for influence is increasingly hostile.
Emerging Market (EM) Political Uncertainty	8	5	EM countries are still facing elevated inflation and political instability, potentially contributing to inequality, political interference, and populist ideas. Key elections in 2024 will shape the trajectory of these challenges.
Cyberattacks	8	5	Growing digitalization of our world heightens the risk of more sophisticated cyberattacks, which pose risks to individuals, organizations, and national security.
Washington, D.C. Gridlock	7	7	A divided Congress heading into the 2024 elections likely means the prospect for significant legislation remains limited. The repeated debt limit standoffs also add to uncertainty.
Financial Instability	7	7	The significant buildup of debt since the Great Recession and higher rates are leading to a <i>Fiscal Transition</i> , putting pressure on consumers, corporations, and governments.
Major Terror Attacks	7	4	Unpredictable terrorist attacks may create disruption. The various conflicts around the world have amplified the risk of a resurgent terrorist threat.
Climate Policy Error	6	7	Net zero commitments and regulation without economic and societal readiness risk triggering elevated spending, inflation, economic inequality, and a consequential economic slowdown.
South China Sea Military Conflict	6	7	China maintains a strong air and naval presence in the area, even as the U.S. upgrades airfields and other strategic infrastructure. There is potential for a military clash.
European Fragmentation	6	6	Europe's solidarity since the pandemic is being tested again with regard to Ukraine funding, China relations, refugee migration, and fiscal rules.
Middle East Conflict	5	7	Elevated tensions in the region following the Israel-Hamas war raise the risk of conflict. There's concern that other nations, notably Iran, may become involved, escalating the situation into at least a regional crisis.
North Korea Conflict	5	4	North Korea continues to improve and expand its nuclear missile capabilities. Military cooperation with Russia has strengthened, with some speculating North Korea has provided military equipment to Russia in exchange for advanced technologies.
Structurally Higher Inflation	5	8	The effects of the pandemic, the war in Ukraine, U.S.-China competition, shifting demographics, and climate change could lead to a prolonged period of structurally higher inflation.
Russia-West Conflict	4	8	Russia has repeatedly threatened retaliation for NATO's supplying of military equipment to Ukraine. Ukraine and NATO funding will likely be politicized heading into 2024 elections.

\*Likelihood and Market Impact on scale of 1 to 10 with 1 being least likely/low market impact and 10 being most likely/high market impact.

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