

BMI
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Political And Geopolitical Risks

Q4 2026-2028

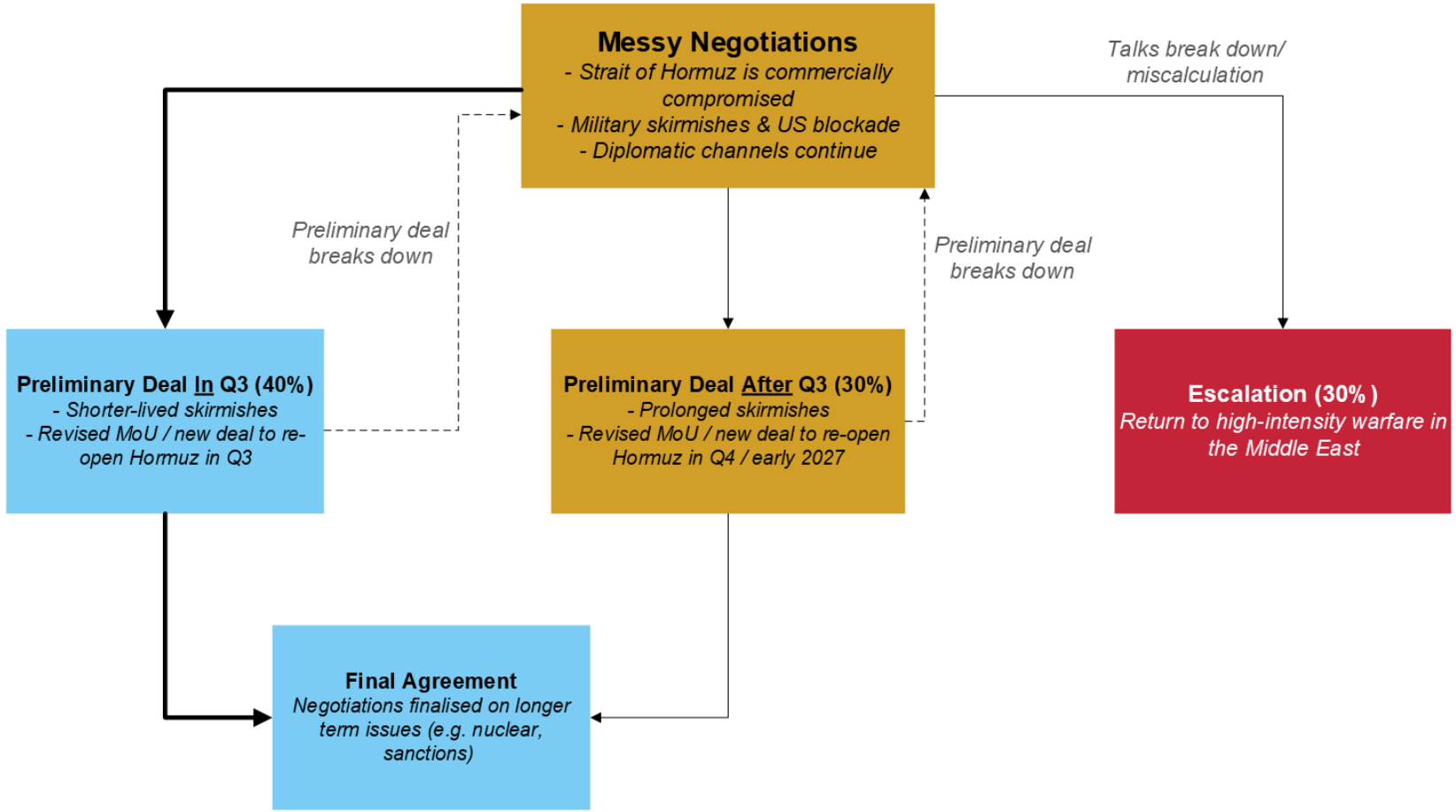
BMI & GeoRiskSignals (GeoQuant)

October 2026

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US-Iran Conflict: Scenarios In Q4 2026-2027



Source: BMI

Key Considerations

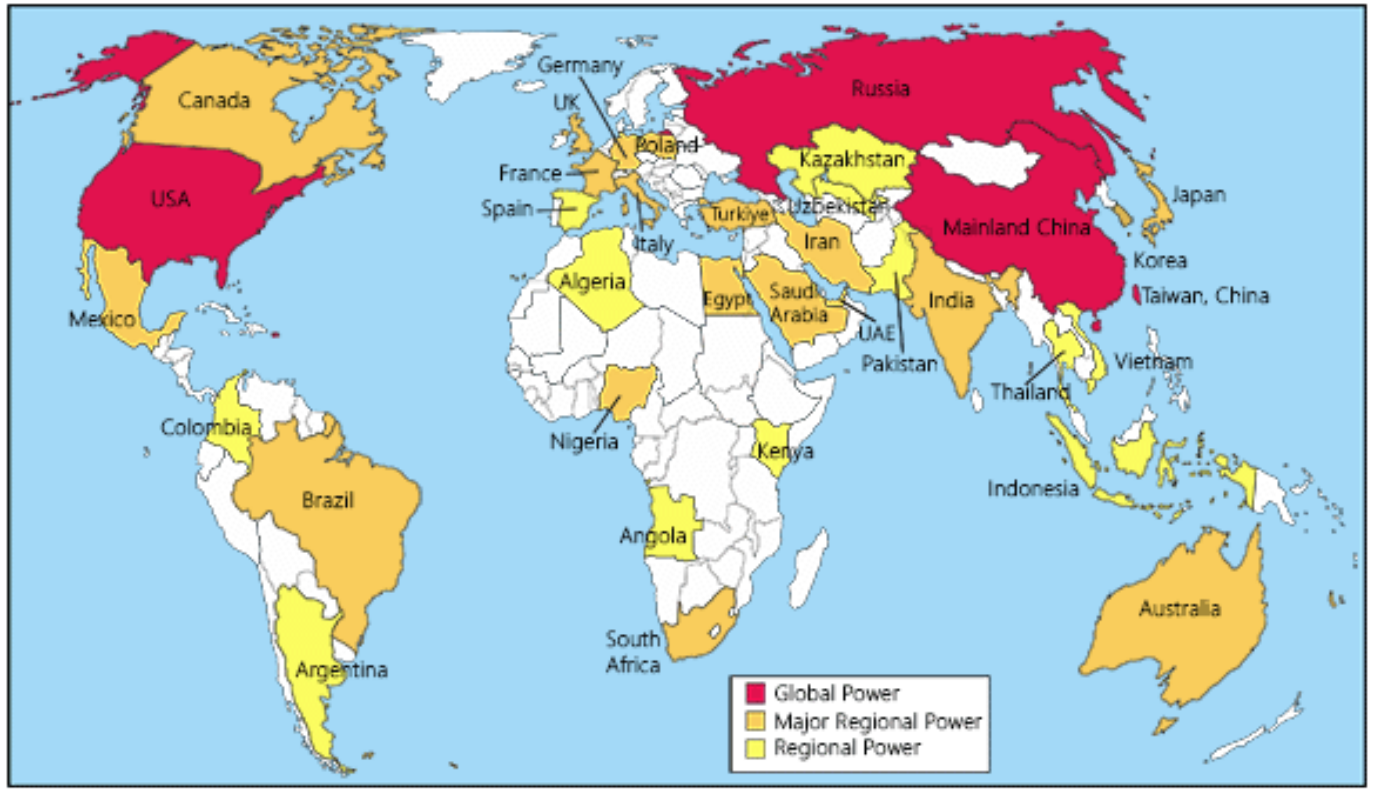
- US likely wants to avoid major escalation, due to risks/costs
- US is reportedly at risk of ammunition shortfalls
- Extended conflict would further distract US from European and Asian security
- Extended conflict could worsen Iran's economic conditions
- Even once a deal is struck, it could remain fragile
- A deal on Hormuz would still need to be followed by contentious nuclear negotiations
- There is a risk of conflict escalation from miscalculation or misjudgement

US-Iran War Accelerating Geopolitical Shifts

- US-Iran war is fifth big shock to global economy since 2020, underscoring supply chain risks
- US use of force against Iran reinforces 'hard power' and further undermines global rules
- US is seen as instigator of economic instability by many allies and adversaries
- China and Russia could benefit from diversion of US attention away from Indo-Pacific and Europe
- China could present itself as more predictable, stable, and reliable global partner than the US
- Europe's criticisms of US further strain NATO ties after trade tariffs, Ukraine, and Greenland
- Indo-Pacific reliance on Middle Eastern energy will accelerate diversification drive (with limits)
- 'Middle Powers' will strengthen ties to reduce reliance on US (and avoid reliance on China)
- US-Iran 'deal' could reshape Middle East and could allow US to gain leverage against China

'Middle Powers' Have More Incentives To Work Together

Global And Regional Powers



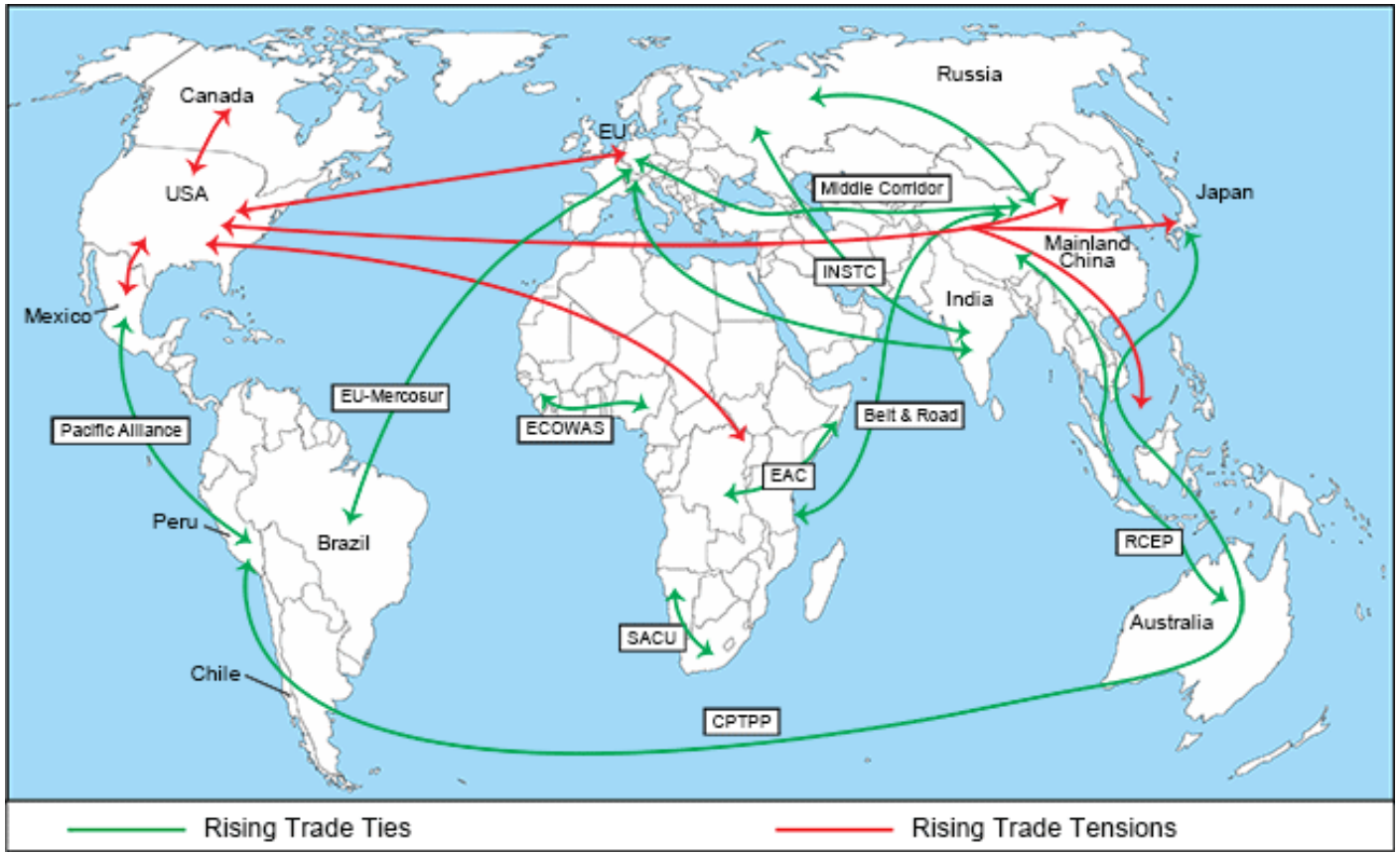
Note: May include territories, special administrative regions, provinces and autonomous regions. In some cases, regional power refers mainly to economic importance. Source: BMI

New Trade Arrangements Could Accelerate Shift To Multipolarity

- US allies, competitors, and adversaries likely to be bewildered by rapidly shifting tariff policy
- This is likely to undermine perceptions of US's reliability as a trade and security partner
- Some hard-hit economies (eg Vietnam, India) are ones which US has been cultivating as partners
- If high tariffs are sustained, this could force certain economies to gravitate towards China
- However, US can still entice them back with new offers or 'deals'
- Indo-Pacific region already has two trading blocs that exclude the US (CPTPP and RCEP)
- US-EU tensions will prompt EU to seek new trade partners, including India and LatAm (Mercosur)
- Canada is seeking closer ties with EU to offset rising tensions with US
- Emergence of new trading blocs that exclude US could ultimately undermine US global hegemony

Less US-Centric Trading Arrangements Taking Shape

Global Trade Developments



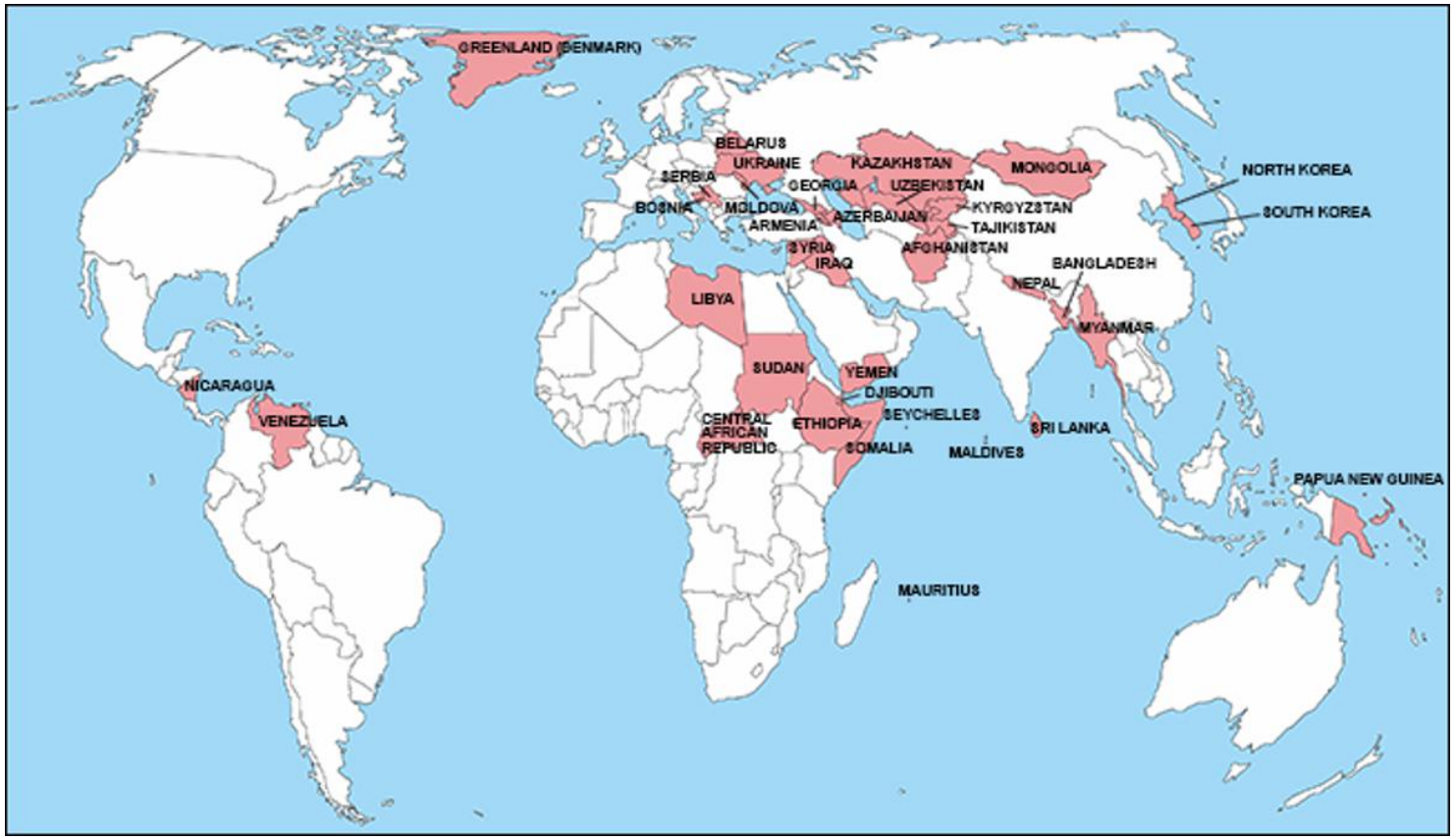
Source: BMI. Arrows represent general direction and may not refer to specific markets

Geopolitical Tensions To Increase, As Countries Re-Position

- Major powers and regional powers will likely form short-term 'tactical' alliances or partnerships of convenience
- This will lead to a much more unstable world order and erode trust between nations
- Many countries and territories will become subject to greater external 'proxy war' risks
- 'Obscure' areas could suddenly gain global importance
- Faltering of arms control treaties and development of cyber and hypersonic weapons increase risks
- Miscalculation rather than war by intent remains bigger risk
- Global risks would be greatly amplified by simultaneous regional conflicts

Tactical Shifting To Make World More Unstable

Global – Countries And Territories At Risk Of Being Caught In Proxy Conflicts



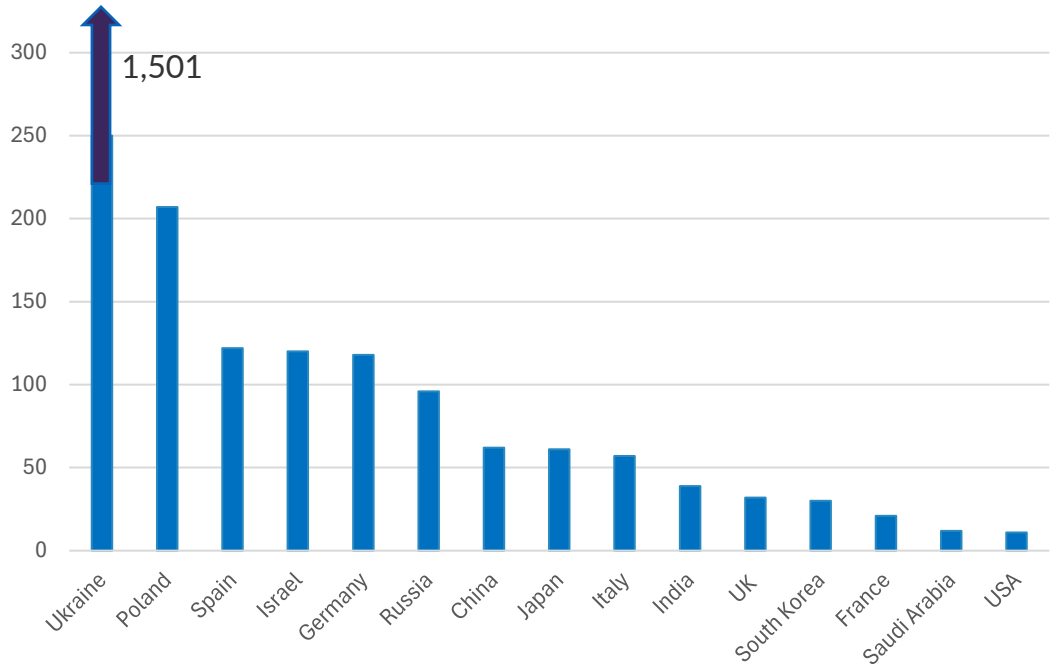
Source: BMI

Global Defence Spending: On The Rise, But With Constraints

- The increasingly adversarial geopolitical environment is prompting ‘great’ and ‘middle’ powers to raise defence spending
- European states in particular are boosting defence spending to counter Russia and reduce reliance on a highly unpredictable US
- France , Germany, and the UK look set to play leading roles in strengthening European defence, via a ‘coalition of the willing’
- Japan is raising defence spending to counter China and North Korea and become more self-sufficient
- Japan is positioning itself to be a major arms exporter, seeking catch-up with South Korea and Turkiye
- India is raising defence spending to counter China and secure its increasing interests overseas, especially in the Indian Ocean rim
- However, a future global recession could temporarily delay planned increases in defence spending
- Rapid population ageing and high debt burdens in Europe and Japan will act as significant checks on defence spending
- China and Russia are also facing ageing populations, and could be forced to rein in defence spending

If You Want Peace, Prepare For War

Global – Top 15 Defence Spenders, Change In Real Spending 2016-2025 (%)



Source:: SIPRI, BMI

US-China Relations: Broadly Stable Going Into Q4 2026-2027

Main Developments Fall 2026

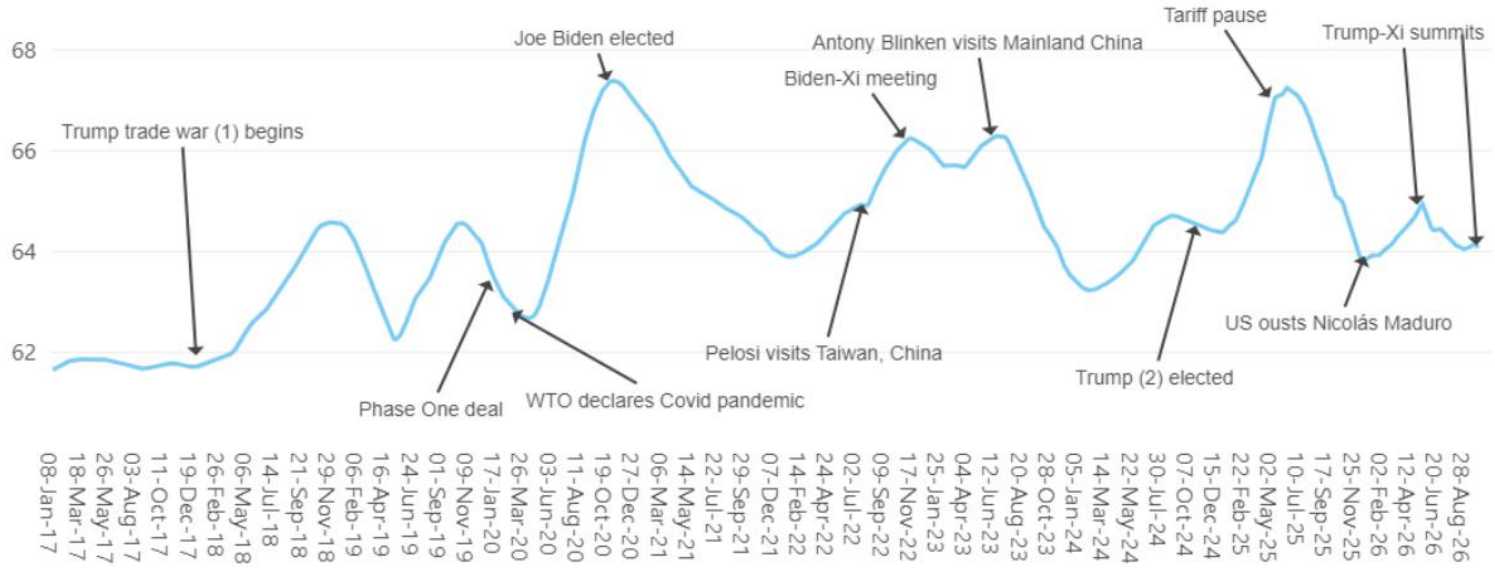
- Extension of trade truce to January 10, 2027
- Amicable summit in Washington, DC, but lacking in substance
- Key disputes unresolved, but new cooperation mechanisms outlined
- Further Trump-Xi meetings expected at APEC (Nov.) and G20 (Dec.) summits

Outlook And Implications

- Relations should be stable going into 2027
- US's delayed USD14bn arms sales package to Taiwan remains a key test in relations
- China retains dominance of rare earths, giving it considerable leverage
- Major disputes remain unresolved, such as Taiwan, China; South & East China Sea; technological rivalry; military competition

Multi-Year Rise In Tensions Followed By Stability

United States And China – Bilateral International Relations Risk



Source: BMI Political Risk Index. Higher score denotes higher risk

US-China Relations To Be Defining Feature Of Next Few Decades

- US and China will increase **economic, military, technological, ideological and 'soft power' competition**
- US and China are actively seeking to reduce their reliance on each other through 'de-risking' or 'decoupling'
- Asian and other countries will seek to delay making a 'choice' for as long as possible, as they hedge their bets
- Domestic tensions could rise in Asian countries between pro- and anti-China political forces
- Watch for new economic and security pacts (e.g. expanded 'Quad', AUKUS, or 'Asian NATO') that exclude either US or China
- Taiwan (China), Korean Peninsula and South China Sea remain most dangerous flashpoints, due to direct US-China confrontation risks
- US-China 'détente' possible, if either or both sides need tactical pause due to simultaneous domestic problems
- India may become most effective counterweight to China, geopolitically and economically
- India's interests could eventually diverge from the West

Trump Inherited Stronger Alliances From Biden

Indo-Pacific Region – Geopolitical Alignments



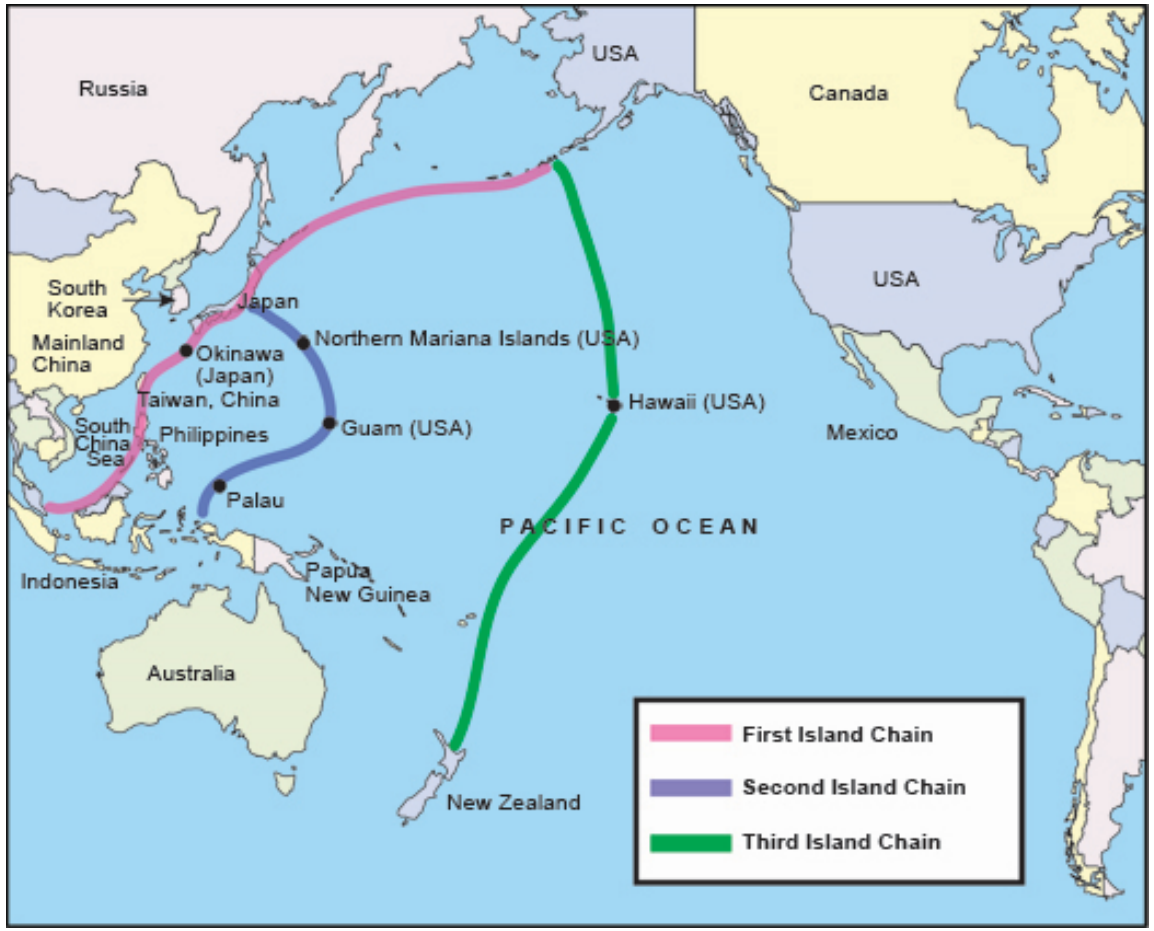
Note: May include territories, special administrative regions, provinces and autonomous regions. Alignment may refer to formal or informal alignment. Source: BMI

Taiwan, China: The Biggest Flashpoint For US And China

- Mainland China is likely to step up political and economic pressure on Taiwan, China, over the coming years, with the aim of making the island more accommodating towards Beijing
- Trump appears to view US support for Taiwan in transactional terms, as a 'bargaining chip' against Beijing
- Mainland China might adopt increasingly assertive tactics, such as military posturing near Taiwan's outlying islands
- Russia's military difficulties in Ukraine will likely have been noted by Mainland China's defence planners
- Full-scale invasion of Taiwan is still unlikely in next few years, due to operational challenges
- **Hypothetical worst-case scenario is Mainland launching missile attacks and/or naval blockade against Taiwan** to pressure it into concessions, or even stage full-scale invasion
- US would face a major dilemma over whether and how far to intervene; intervention would risk conflict with China
- If US fails to defend Taiwan (amid a hypothetical invasion), the credibility of its entire alliance system could be questioned

Taiwan Forms Barrier To China's Naval Reach In Pacific

Indo-Pacific Region – Island Chains



Source: BMI

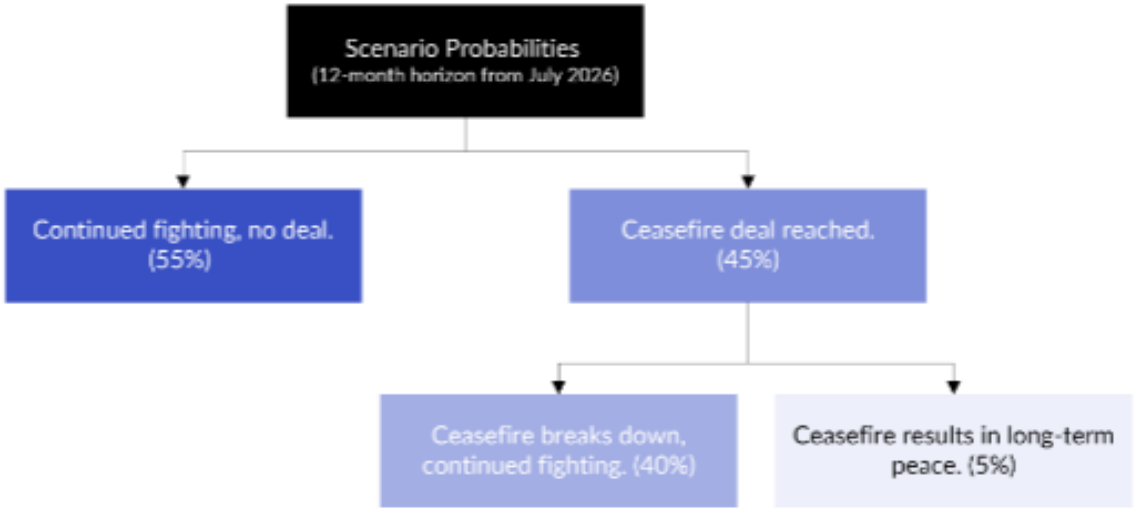
Russia-Ukraine: Conflict To Extend Into 2027

Core Scenario: Long-Term Stalemate As Endgame

- Russia is still not ready for peace, as it seeks to maximise territorial gains and weaken Ukraine militarily
- Further intense fighting likely, mainly in Eastern Ukraine, but neither side has enough power to fulfill objectives
- Trump's war on Iran further distracts US/Western attention away from Ukraine battlefront
- Fighting will likely reduce in intensity in 2027, as Russia and Ukraine face greater resource constraints (troops)
- **Ceasefire could eventually emerge**, but would collapse over 1) terms/conditions, 2) implementation, and 3) violations
- Russia could further test European defences through airspace violations or probing measures on land or at sea, and sabotage
- Trump may be more flexible than EU to easing sanctions on Russia and seek economic cooperation (eg resource development)

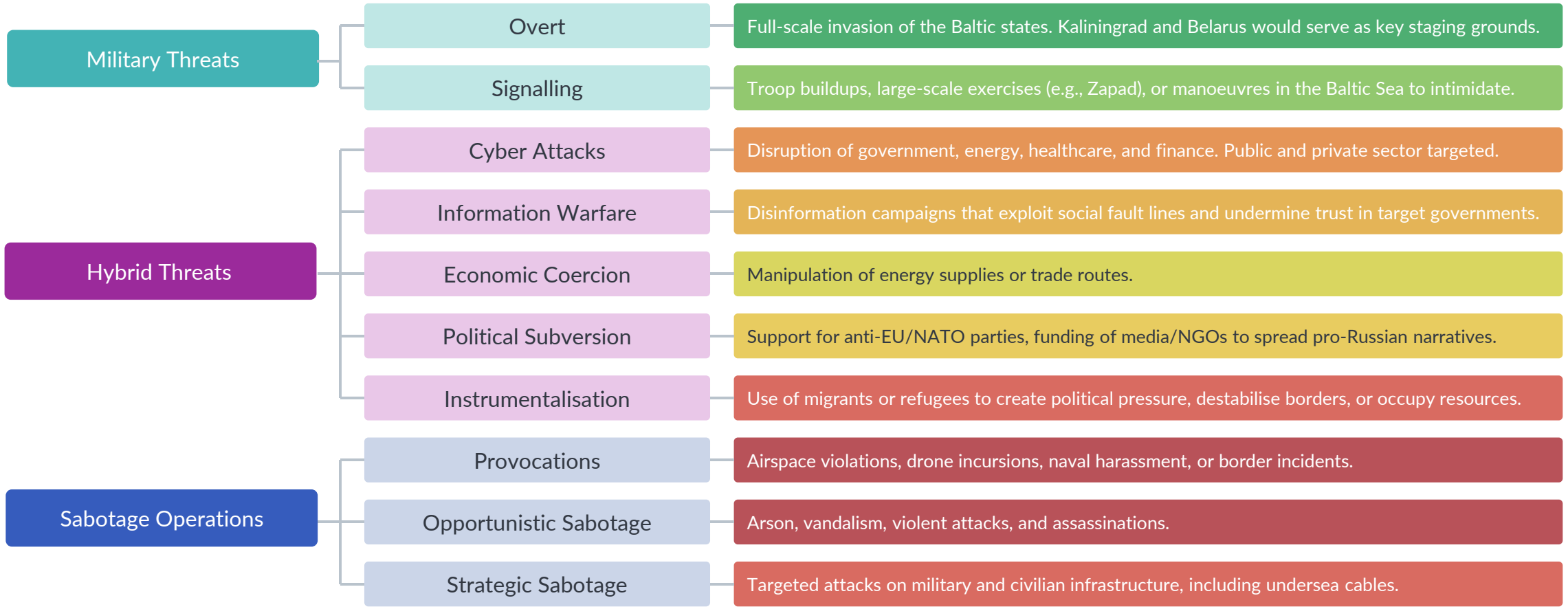
A Sustained Peace Is Still Some Way Off

Russia-Ukraine Pathways Of Conflict In 2026-2027



Source: BMI

Russia: Range Of Threats To Baltic States (Credibility Scale)





Threat Credibility: Low ↔ High

*Combines assessments of Russian **intent** and **capability**.*

Source: BMI

Russia: How Might It Behave Once The Ukraine War Ends?

Factors Pointing To Further Russian Aggression

- Russia has gained significant combat experience in modern warfare in Ukraine
- Russia has adapted its economy to wartime production and conditions
- Russia may view incursions into Baltic states as means to test NATO's resolve
- Russia could seek to destabilise Balkans, e.g. Kosovo or Bosnia, via ties with Serbia and Bosnian Serbs

Factors Limiting Russian Aggression

- High casualties (200,000 killed and '00,000s injured) may exacerbate demographic pressures
- Hard-hit ethnic regions (e.g. North Caucasus, Siberia) could become more restive
- War economy may not be sustainable indefinitely
- A safer course of action would be for Russia to pursue 'peace through strength'

A Wide Range Of Outcomes

Scenarios For Russia's Geopolitical Posture, 2025-2035



Source: BMI

Elections In Q4 2026-2027: Considerable Uncertainty Persists

Geography	Event	Date	Continuity Of Govt/Party?	Policy Implications
Brazil	Election (Presidential & Legislative)	4 & 25 October 2026	No	Centre-right policy shift
Israel	Election (Legislative)	27 October 2026	Too uncertain	Too uncertain
United States	Election (Legislative - Mid-Term)	3 November 2026	Yes	Policy gridlock
South Africa	Election (Municipal)	5 November 2026	Yes	Too uncertain
New Zealand	Election (Legislative)	7 November 2026	Too uncertain	Too uncertain
Nigeria	Election (Presidential & Legislative)	16 January 2027	Yes	Policy continuity
France	Election (Presidential)	18 April 2027	Too uncertain	Too uncertain
Mexico	Election (Legislative - Mid-Term)	6 June 2027	Yes	Too uncertain
Greece	Election (Legislative)	by 25 July 2027	Too uncertain	Too uncertain
Angola	Election (Legislative)	by August 2027	Yes	Policy continuity
Kenya	Election (Presidential & Legislative)	10 August 2027	Yes	Policy continuity
Spain	Election (Legislative)	by 22 August 2027	No	Centre-right policy shift
Argentina	Election (Presidential & Legislative)	24 October 2027	Too uncertain	Too uncertain
China (Mainland)	Party Congress	October or November 2027	Yes	Policy continuity
Poland	Election (Legislative)	by 11 November 2027	Yes	Too uncertain
South Africa	Party Congress	December 2027	Yes	Policy continuity
Italy	Election (Legislative)	by 22 December 2027	Too uncertain	Too uncertain

Source: BMI. Some election dates and expected outcomes are subject to change

United States: Mid-Terms To Determine Trump's Future Influence

Outlook

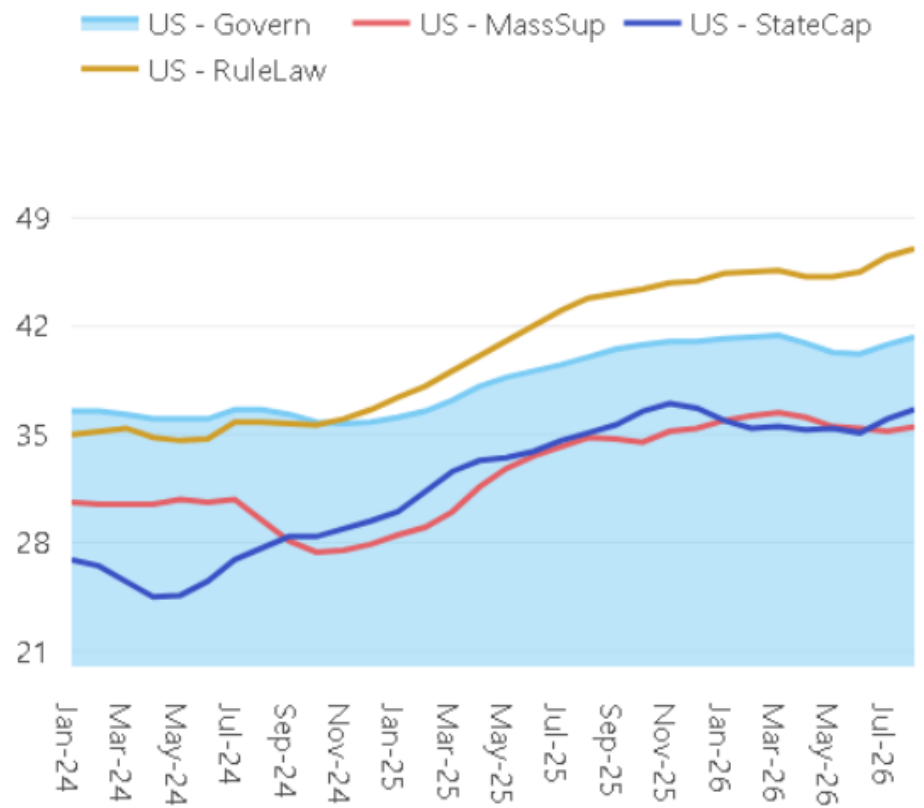
- Trump, already unpopular, could lose further support due to continuation of Iran war
- The Democrats are likely to win control of the House of Representatives, but are unlikely to win the Senate
- From January 2027, there is a greater risk of policy gridlock, raising political tensions

Implications

- Democratic obstructionism could force Trump to rely even more on Executive Orders
- Democrat-led House could start new investigations into Trump or seek to impeach him again
- If Trump retains control of Congress, he would be emboldened to pursue further deregulation, deportations, and protectionism
- Trump has considerable leeway on foreign policy, and could pursue 'deals' with China, Russia, Iran, and North Korea
- Post-November 2026, attention will increasingly turn to 2028 presidential election/Trump's succession

Governance Risks Have Risen Since 2025

United States – Governance Risk Index And Selected Components



Source: BMI Political Risk Index. Higher score denotes higher risk

France: Far Right Gains, As Post-Macron Centre Lacks Clear Successor

Outlook

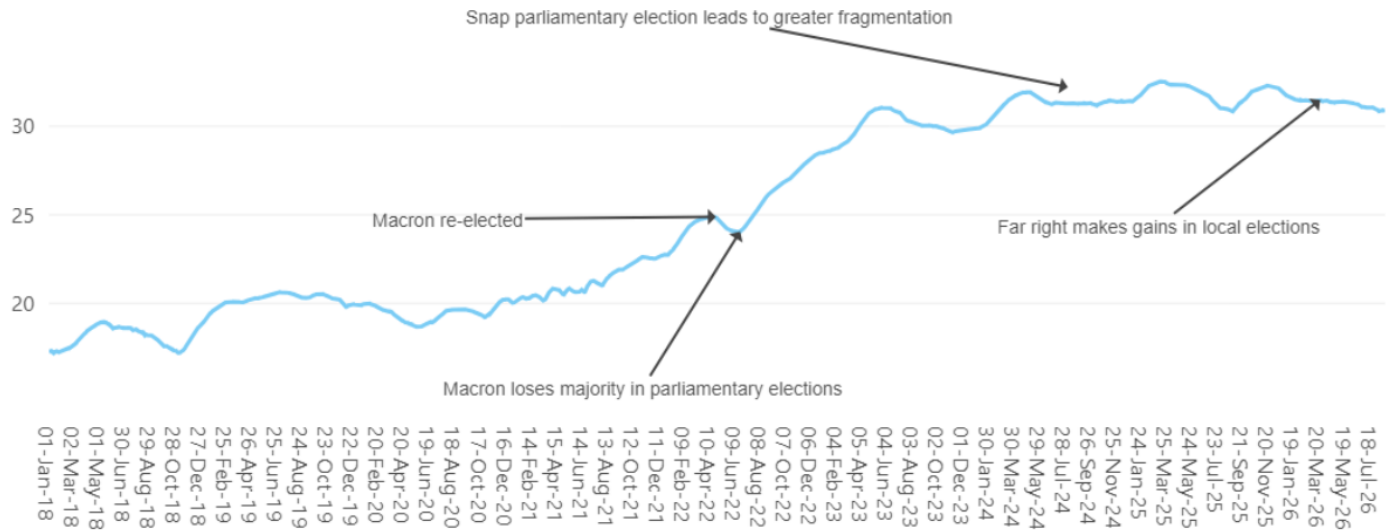
- No clear centrist/centre-right successor, but Edouard Philippe (Horizons) and Gabriel Attal (Renaissance) are most prominent candidates
- Marine Le Pen and right-wing Rassemblement National (RN) have their best chance of winning the presidency thus far

Implications

- Centrist or moderate win would broadly continue Macron-era policies, though weak legislative support could constrain delivery
- A far-right win would bring major shifts on migration, law and order, and relations with EU/NATO relations
- A left-wing victory would push for redistribution, green investment, and a larger state
- Amidst tripolarity in parliament, fragmentation will persist; coalition-building will be key

Mass Support Risk Appears To Have Peaked, But Remains Elevated

France – Mass Support Risk



Source: BMI Political Risk Index. Higher score denotes higher risk

Spain, Poland, Italy Elections: A Mixed Picture

Spain (By August 2027)

- The centre-right People's Party (PP) is likely to defeat the Socialist Party (PSOE)
- The far-right/populist VOX party is also set to make gains
- Government formation could be delayed by a coalition building process, creating uncertainty

Poland (By November 2027)

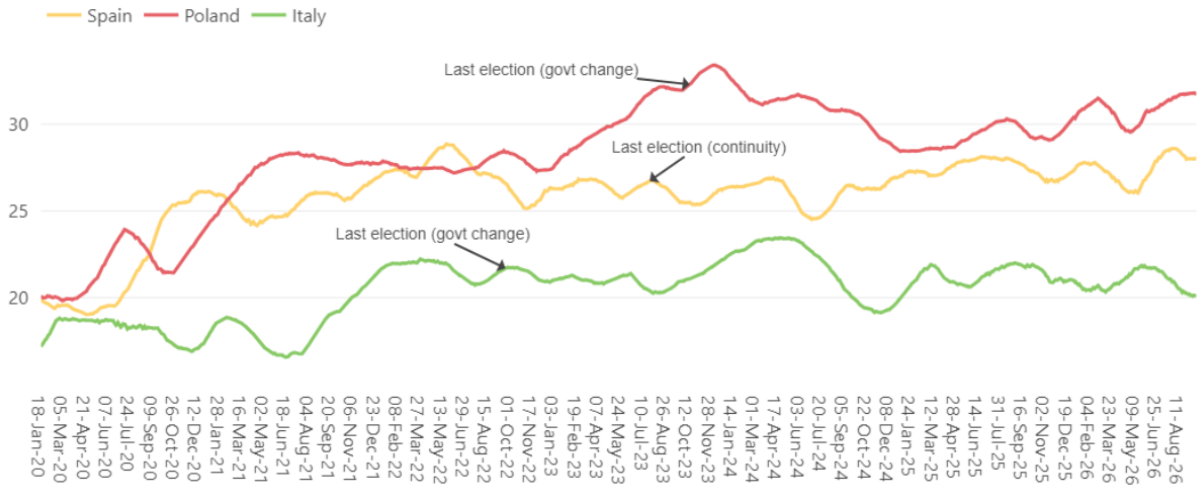
- PM Tusk's unpopular Civic Coalition government will benefit from divisions in the right-wing opposition PiS party
- If Tusk's coalition is re-elected, its reforms could still be blocked by PiS-backed President Karol Nawrocki
- Poland will continue to face geopolitical risks from Ukraine war

Italy (By December 2027)

- PM Meloni's FdI party continues to lead the polls, although much could change before the election
- An opposition-led government would be more ideologically diverse and fragile, resulting in greater instability

Anti-Incumbent Support Is Considerable

Selected Economies – Mass Support Risk



Note: Score out of 100, higher score implies higher risk. Source: BMI

Brazil: Right-Winger Flavio Likely To Win October 2026 Election

Outlook

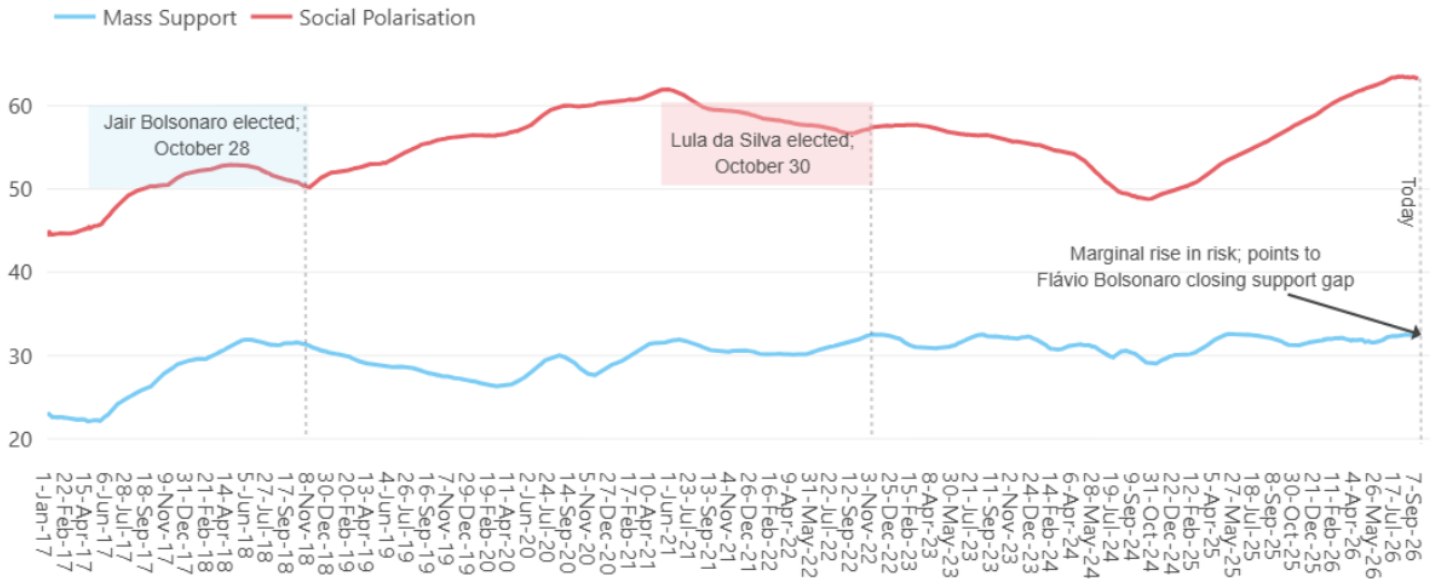
- Polls are tightening, with right-winger Flavio Bolsonaro positioned to defeat President Lula
- Consumer confidence is low, while borrowing costs and consumer debt are high
- Flavio is likely to benefit from a structural shift to the right in Brazil, and South America

Implications

- A Flavio presidency would adopt a more business/market-friendly economic policy framework
- Margin of victory will also be important; 2022 election was very close (1.8% gap), underscoring deeply divided society
- Congress is likely to have rightward leanings, benefiting a Flavio presidency
- If Lula wins re-election, he would retain interventionist economic policy; concerns about his health and succession could rise

Election Outcome Likely To Be Very Close

Brazil – Mass Support And Social Polarisation Risk



Source: BMI Political Risk Index. Higher score denotes higher risk

Nigeria: President Tinubu Most Likely To Win In 2027

Outlook

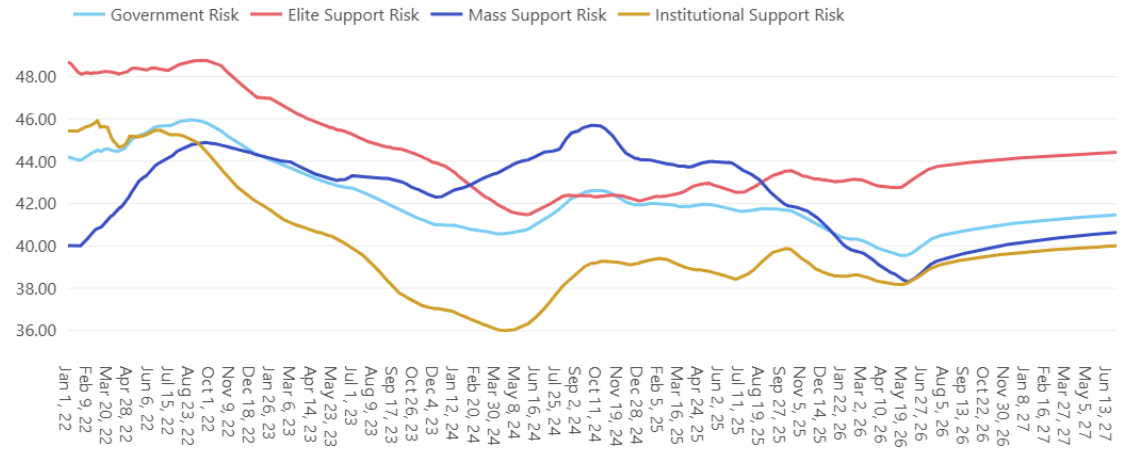
- President Tinubu is likely to win re-election in 2027
- Expected APC control of key institutions suggests continuity as most likely scenario
- Socioeconomic strains could raise Mass Support Risk
- Unified opposition remains main tail risk to continuity

Implications

- Policy continuity under Tinubu will likely support reform and fiscal consolidation
- Socioeconomic pressures may slow reforms, not reverse them
- Markets are more sensitive to implementation risks (fuel, FX, revenue)
- Opposition convergence could drive near-term asset volatility
- Sovereign spreads and FX are most exposed in a tighter race
- Equity and private capital sentiment stronger under continuity
- Subnational fiscal stress may rise with pre-election state support

Low Institutional Support Risk Boosts Incumbent Continuity

Nigeria – Government Risk And Components



Note: Score out of 100, higher score implies higher risk. Source: BMI

US Foreign Policy (1): Allies Likely 'Waiting Out' Trump's Term

Allies' Concerns About Trump

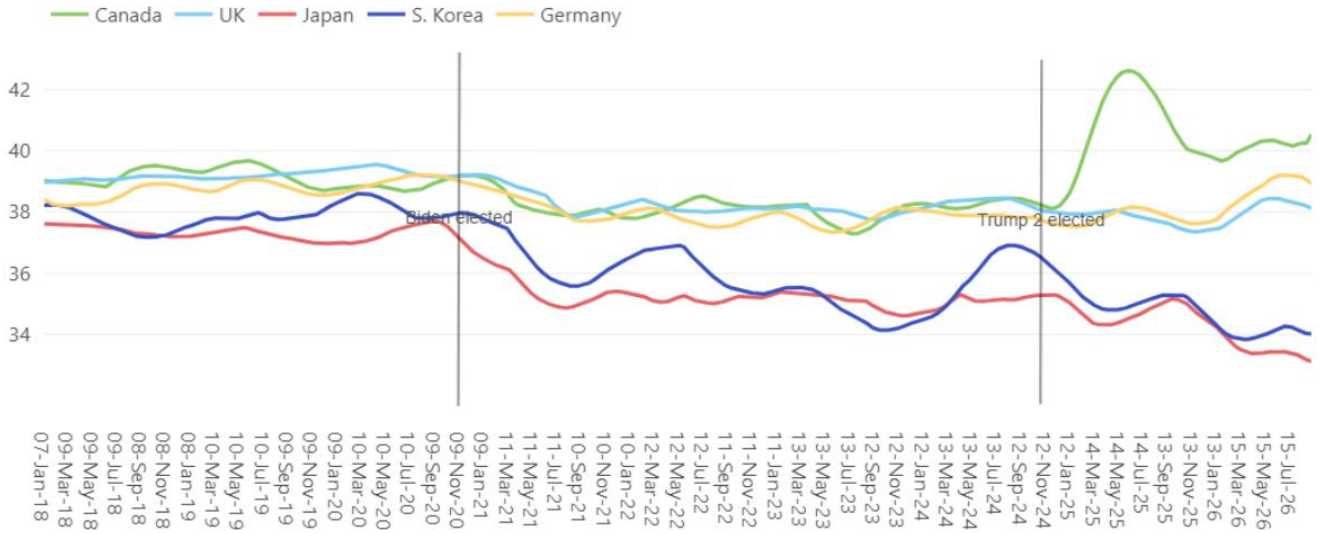
- Europe is concerned about future of NATO, Ukraine, Greenland, and Iran war
- US-Canada tensions are exceptionally high
- Japan is concerned about Trump's stances towards Taiwan, North Korea, and ICC
- South Korea is concerned about US commitment to its security and unilateralism towards North
- Trump's volatility, unpredictability, transactionalism, and habit of linking unconnected issues unnerve allies

Geopolitical Rivals See Opportunities With Trump

- China may see opportunity for 'grand bargain'
- North Korea is unlikely to see friendlier US leader
- Russia is also viewed favourably by Trump
- Trump's tensions with allies weaken the collective 'West' against 'Eastern' powers

Tensions With Some Allies More Pronounced Than Others

US – Bilateral International Relations Risk With Selected Economies



Source: BMI Political Risk Index. Higher score denotes higher risk

US Foreign Policy (2): Looking Beyond Trump's Presidency

If The Republicans Win The 2028 Election…

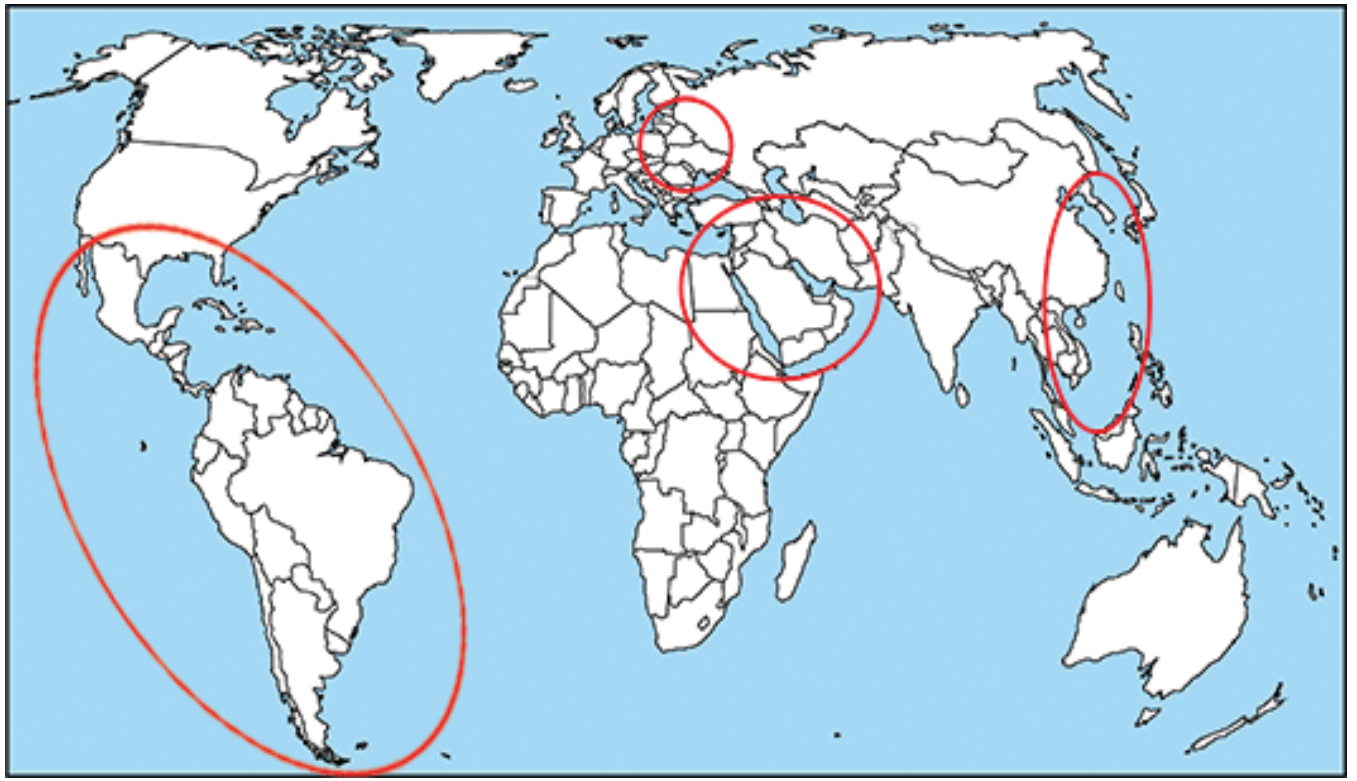
- Vance would be more in line with 'America First'
- Rubio would be more internationalist
- Both would be more conventional in style and tone
- Counterbalancing China would be the US's priority
- Latin America would remain a major focus
- US allies would still be expected to rely less on the US for defence

If The Democrats Win The 2028 Election…

- The US would be more multilateralist, with emphasis on alliances
- However, US would still expect allies to be more self-reliant, especially on defence
- A left-wing Democrat could have isolationist views
- A Democratic president might struggle to regain trust in the US

More Emphasis On Americas And Indo-Pacific

Global Regions Of US Geopolitical Interest



Source: BMI

Nuclear Security: Rising Up The International Agenda

US-Russia New START Treaty Expired In February 2026

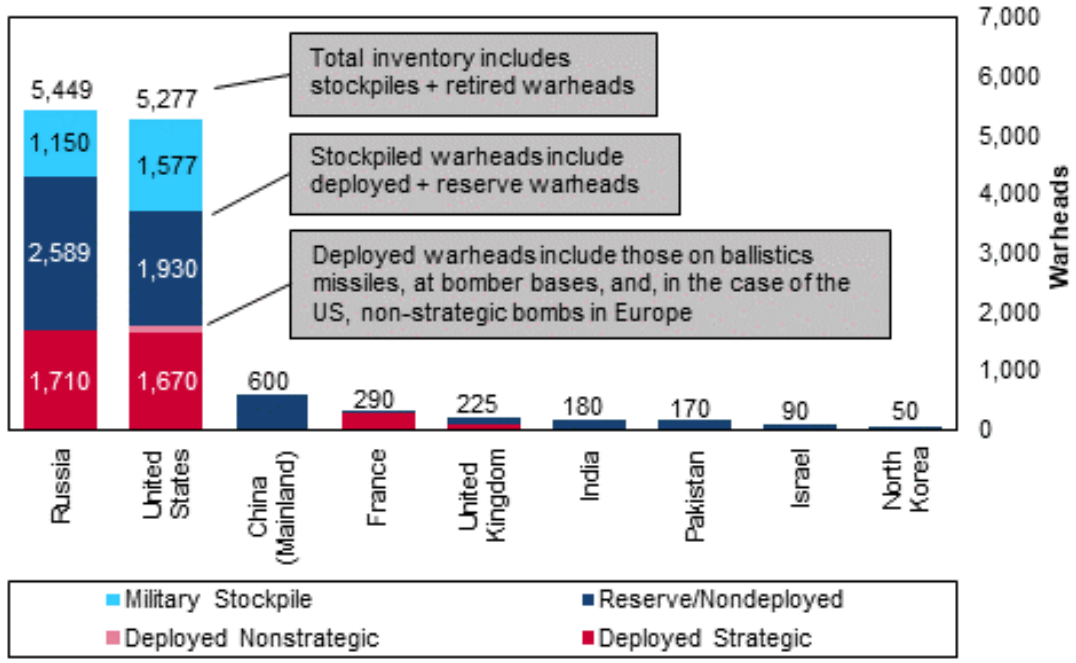
- New START Treaty limited strategic nuclear arsenals of US and Russia
- There is a risk of a new global nuclear arms build-up
- Trump wants China in new arms treaty, but Beijing rejects this
- Both US and Russia have threatened new nuclear tests in some form

North Korea

- North Korea will continue to develop missiles, including ICBMs capable of striking the US
- Trump is likely to pursue renewed engagement with North Korea to get some sort of nuclear deal
- However, North Korea's bargaining position has strengthened, owing to its military pact with Russia
- North Korea will not give up its nuclear arsenal, so the best that both sides can hope for is a 'limited' deal
- Such a deal might involve North Korea freezing its nuclear missile development in exchange for partial easing of sanctions

US And Russia Remain Dominant Nuclear Powers

Global – Nuclear Warhead Inventories, 2025



Source: Federation Of American Scientists, BMI

- Iran's nuclear programme will remain a major international concern

Astropolitics: Space To Become New Area Of ‘Great Power’ Rivalry

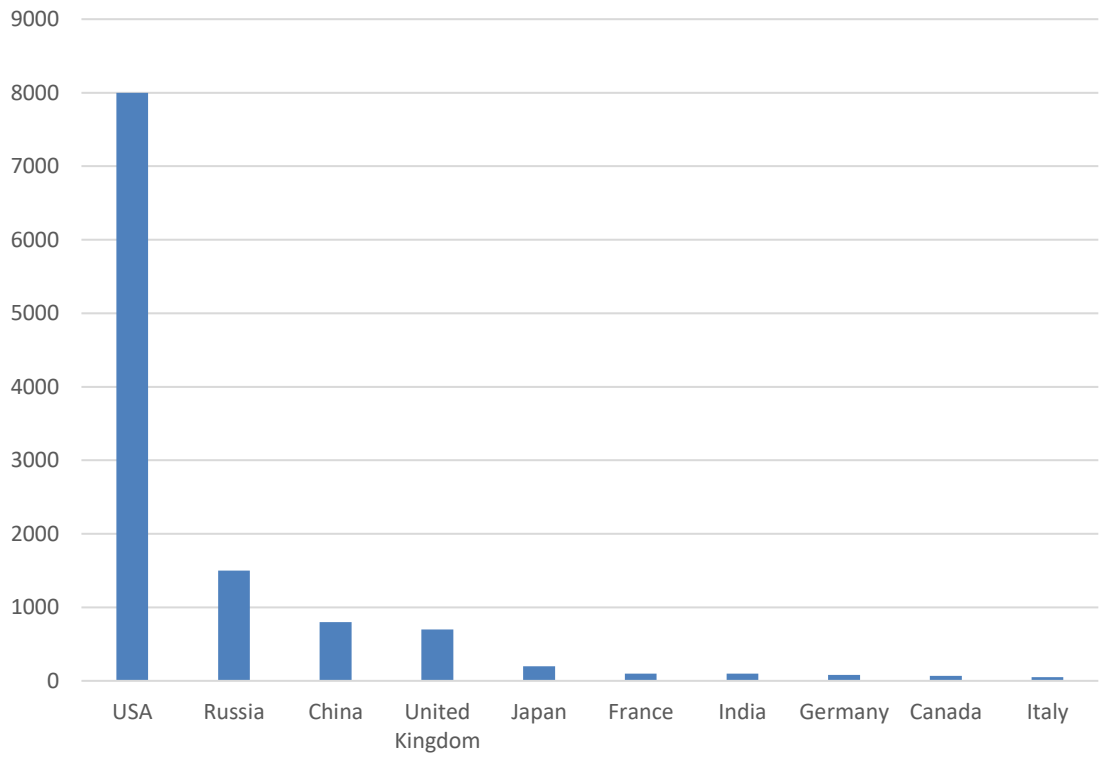
- World will see increased demand for low earth orbit (LEO) satellites
- Other space-based infrastructure (e.g. research facilities, space-based solar power stations) will emerge
- Major powers will seek to deploy space-based weapons for:
  - Defence/offence of satellites and other space-based infrastructure
  - Attacking ground-based targets
  - Attacking ground-launched missiles
- Private sector to play bigger role in space development

New Disagreements Likely To Emerge Over:

- Defining rights over low earth orbit slots
- Future claims to surface of the Moon
- Future claims to asteroids that could be used for mining purposes
- Extent to which space should be militarised

US Maintaining Wide Lead In Satellites

Top 10 Countries With Number Of Satellites In Orbit (Estimated >)



Source: Kongsberg Nano Avionics, BMI. Data as of May 2025

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