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GLOBAL MACRO VIEWS

Ripping up the rule book: politics, power and portfolios in 2026

Geopolitics has long been treated as an episodic risk, something that flares up, disrupts markets briefly and then fades into the background. Yet recent years have challenged that assumption. As power dynamics shift and long-standing beliefs about global stability erode, investors face a more complex environment, in which geopolitical, political and fiscal risks are no longer easily separated.

In this environment, geopolitics are becoming an increasingly persistent feature of the investment landscape, shaping not only near-term volatility but longer-term assumptions around institutions, alliances and policy credibility.

In this Q&A, Laura Cooper, Head of Macro Credit at Nuveen, speaks with Mark Patrick, Head of Macro and Country Risk at TIAA, about the surprises of 2025, why 2026 may prove more pivotal and how investors should adapt.

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Head of Macro Credit, Nuveen

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LC: Despite political disruption in 2025, most risk assets ended the year strongly. What did this reveal about the global order and why did markets appear so resilient?

MP: One of the biggest surprises of 2025 was precisely that contrast. On the political side, we saw considerable disruption, trade tensions, more aggressive immigration enforcement, rhetorical attacks on allies and a more overt use of tariffs and coercive tools by the U.S. Much of this was highly visible. Yet markets largely absorbed it and the macro backdrop remained benign. There were no major systemic disruptions, and risk assets proved resilient.

Markets were still operating within an inherited framework, one built over decades

That resilience shouldn't be mistaken for stability. What it really reflects is that markets were still operating within an inherited framework, one built over decades, underpinned by deep liquidity, institutional credibility and assumptions about how far political shocks would be allowed to travel. Those assumptions haven't fully adjusted to this new reality yet.

Markets stayed calm not because the underlying order is intact, but because the consequences of its erosion are still unfolding. Longer-term outcomes remain difficult for market players to assess. Political change often moves faster than market repricing, until it doesn't.

LC: Has the post-war, rules-based global order simply weakened, or has it effectively ended? And what is replacing it?

MP: I think it's fair to say that the old system has ended. Since the end of World War II, global security and economic relations were anchored in a rules-based framework, largely underwritten by U.S. leadership. That framework has been fraying for some time from the Russian invasion of Ukraine to challenges to U.S. security protections. But in recent years, and particularly now, it has crossed a threshold.

What's replacing it is not yet fully formed, which is part of the challenge. We are moving away from a world governed primarily by shared rules and institutions toward one where power, leverage and precedent matter more. The use of force or coercion, whether military, economic or political, has become a more accepted tool of statecraft.

Recent actions, such as U.S. intervention in Venezuela or heightened pressure around issues like Greenland, should be understood less as isolated events and more as signals. They reflect a willingness to test boundaries and establish new precedents in an environment where constraints are weaker, and norms are less binding.

This shift has important implications for alliances. Institutions like NATO may continue to exist, but credibility, rather than formal structure, becomes the key issue. Once credibility is questioned, the stabilizing function of those alliances diminishes.

LC: Looking ahead, does 2026 stand out as a particularly pivotal year for geopolitics and markets?

MP: What makes 2026 different is not any single geopolitical event, but the convergence of several structural forces. In the U.S., it coincides with midterm elections, which will shape domestic and foreign policy behavior. Historically, periods of heightened domestic political tension tend to spill over into international posture, and that relationship feels stronger now than in previous years.

Europe is arguably not adequately prepared for a scenario where U.S. support becomes more conditional, or less predictable.

There is also a broader institutional and fiscal backdrop. Rising deficits, pressure on governance and debates around the rule of law are no longer abstract concerns. They increasingly feed into perceptions of stability and, ultimately, into market confidence. Domestic politics has become a geopolitical variable.

Externally, Europe and the transatlantic alliance face a critical test. Europe is arguably not adequately prepared for a scenario where U.S. support becomes more conditional, or less predictable. Rearmament and greater strategic autonomy are widely discussed, but execution is uncertain, and time is not on Europe's side. The risk is that Europe becomes more of an arena for great power rivalry than an independent actor.

In Asia-Pacific, similar dynamics are emerging. U.S. treaty allies face growing ambiguity around long-term commitments, while regional cohesion remains limited. With less clarity and fewer constraints, the likelihood of localized conflicts and spillovers increases.

Taken together, 2026 is not just another year of elevated volatility. It is at a point where political, fiscal and geopolitical pressures converge.

LC: Given this environment, how should investors reassess risk and diversification today?

MP: The most important point is what not to do. This is not an argument for retreating from global markets or pulling back wholesale into domestic assets. In fact, greater uncertainty makes diversification more important, not less.

What does need to change is how investors think about risk. Traditional models that rely heavily on historical correlations and past crises are less reliable in a world where political and geopolitical regimes are shifting. Investors need to place greater emphasis on scenario analysis, asking not just what is likely, but what is plausible and how portfolios would behave under less familiar conditions.

This environment may not manifest as constant volatility, but rather as sharper regime shifts – where correlations are changing, policy assumptions are challenged and diversification behaves differently precisely when it is most needed.

Importantly, this does not imply an inevitable destabilization of the U.S. investment landscape. It is entirely possible that by the end of 2026, markets look much like they did in 2025: functional, investable and resilient, albeit more uncertain. Capital can still flow; businesses can still operate and returns can still be generated.

At the same time, institutional clarity and confidence can no longer be taken for granted. Even core markets, including the U.S., must now be assessed with a more critical lens. That reflects erosion in predictability rather than imminent crisis.

The challenge for investors is not anticipating the shape of a new world order but recognizing that stability is unevenly distributed and adjusting risk frameworks accordingly. Scenario analysis, geographic diversification and disciplined portfolio construction remain essential tools in navigating this environment.

Investors cannot predict every outcome, but we must acknowledge that the rules of the game have changed. Those who adapt their frameworks, rather than rely on the assumptions of the past, will be better positioned to navigate what comes next.

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Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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