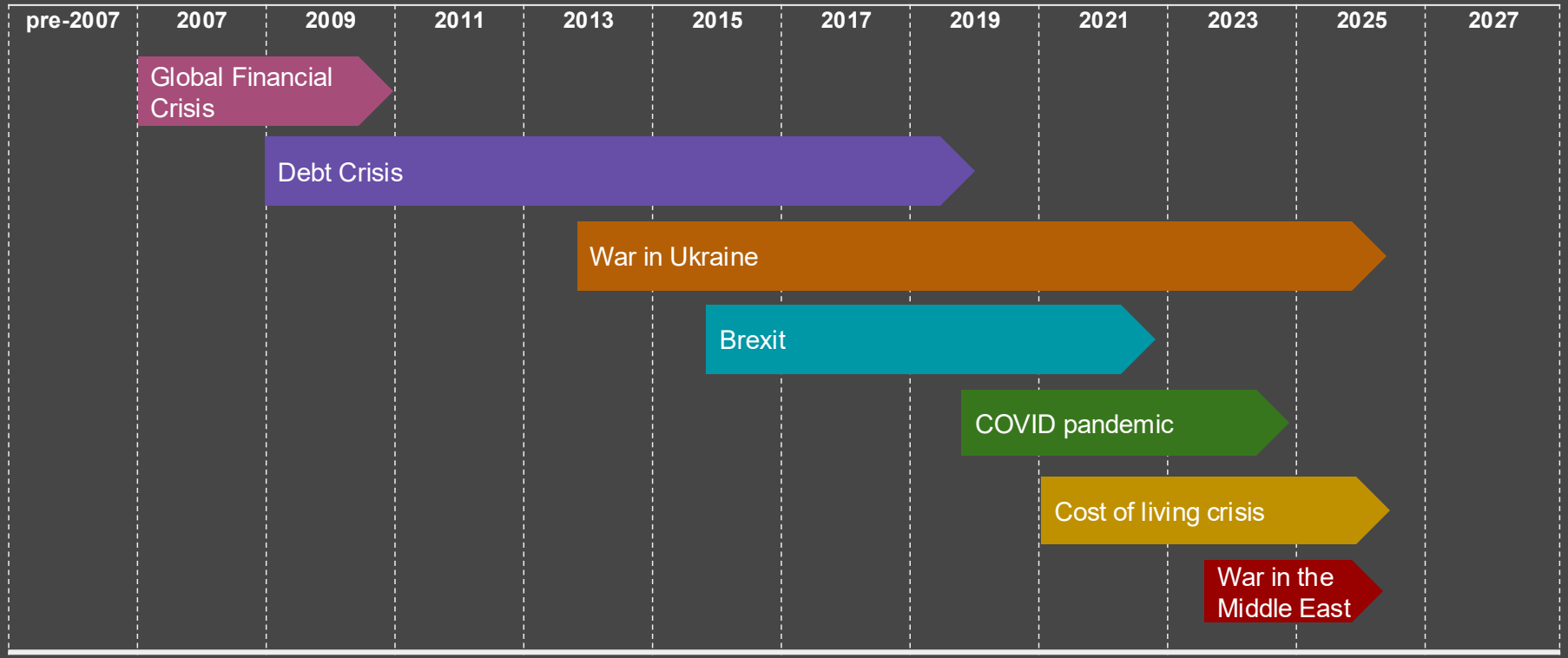
Geopolitical outlook

Lord Gavin Barwell PC
17 September 2026

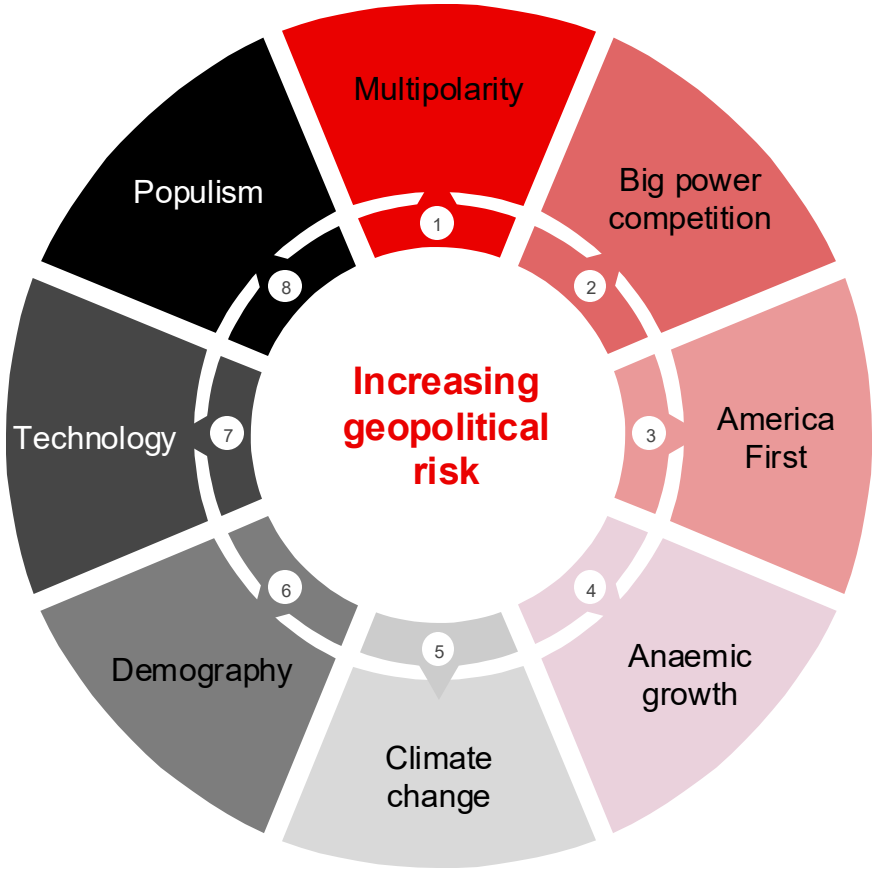
NorthStar

Overall picture

We're living in a polycrisis world



This polycrisis has been caused by the interaction of eight megatrends…



...and in the short term amplified by Donald Trump's return to the White House

- Since returning to the White House, President Trump has upended US policy on trade, the promotion of liberal democracy, support for multilateral institutions, net zero, DEI and development assistance. **The recently published National Security Strategy succinctly sets out the scale of the change**

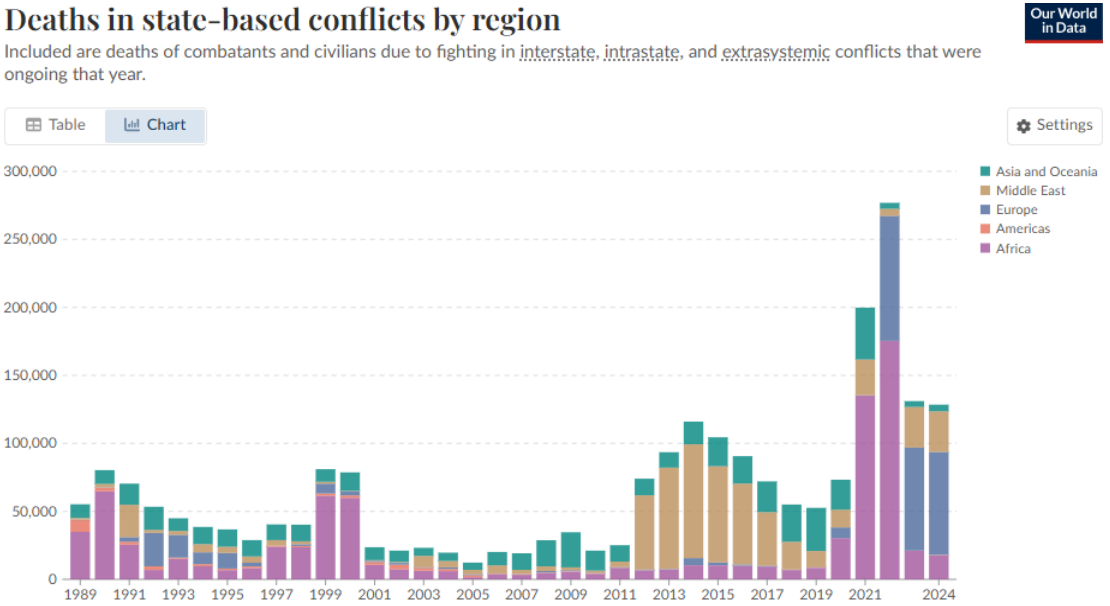
- But as well as being the **cause** of much of the disruption we are experiencing, Trump is also an **effect** of the polycrisis world in which we live. **He won the election because of the cost of living crisis (caused by restarting the economy after the pandemic and the war in Ukraine) and the inability of the Biden Administration to stop large numbers of people entering the US via the southern border**

- And whilst it's natural to focus on what's different about Trump, it is important not to miss the underlying trends. **The US has been becoming more protectionist and more focused on Asia/Pacific under successive Presidents**

What does this mean in practice?

More regional conflicts (and so more disruption to supply chains)

- The risk of World War III is very low...
- ...but the neutering of the UN Security Council by great power competition and the US's withdrawal from a 'global police officer' role has normalised inter-state conflict. **Expect more Ukraines, Gazas etc**



Source: OurWorldinData

More grey zone conflict

- The risk of World War III may be very low, but we are seeing increased grey zone conflict (cyber attacks, interference in elections, sabotage and even attempted assassinations) particularly from Russia
- **Cyber attacks are increasingly targeting organisations' critical systems, not just their data - think *M&S*, *JLR***
- **Agentic AI is significantly increasing the threat**

"We are now operating in a space between peace and war. Cyberattacks on critical infrastructure. Drones buzzing airports and bases. Aggressive activity in our seas, above and below the waves. State-sponsored arson and sabotage. Propaganda and influence operations that crack open and exploit fractures within societies"

Blaise Metreweli, Chief of the UK Secret Intelligence Service

Less free trade…

- Trump increased the average effective US tariff rate to levels last seen in the early 1900s. **The Supreme Court ruling has temporarily reduced the rate, but the Administration is working to build it back up**

- And in the wake of the pandemic, the Ukraine War and the Iran War, many governments are giving thought to how they ensure that they are not overly dependent on countries the other side of the world for key commodities e.g. rare earths, energy, semi-conductor chips

"Elites placed hugely misguided and destructive bets on globalism and so-called 'free trade'… We will no longer tolerate free-riding trade imbalances, predatory economic practices and other impositions on our nation's historic goodwill"

US National Security Strategy

"We need to safeguard sovereign manufacturing and production capability across the country in critical sectors like steel, defence, energy, food and farming"

Andy Burnham

…but this is not the end of globalisation

- The combination of de-escalation with China and political pressure ahead of the midterms mean we are probably past peak US tariffs. **The Administration learnt the hard way that it can't escalate vis-a-vis China because of China's near-monopoly in rare earths**

- Many countries are trying to mitigate the damage to their trade with the US by improving their trade with others e.g. the recent EU/Mercosur and EU/India deals

"This is a significant victory for China. So far, no other country has reached such equal negotiation terms with the US"

Hu Xijin, former editor of Chinese Communist Party tabloid *Global Times*

"This is not just a trade agreement; it is a new blueprint for shared prosperity. This agreement represents 25% of the global GDP and nearly one-third of global trade."

India Prime Minister Narendra Modi commenting on trade deal with the EU

Liberal democracy in retreat

- A recent *Freedom House* report highlighted that global freedom declined for the 20th consecutive year in 2025, with 54 countries seeing a deterioration in their political rights and civil liberties

- The US is no longer interested in exporting liberal democracy (it's in no hurry to hold elections in in Venezuela). **It now it exports nationalist populism**

"We seek peaceful commercial relations with the nations of the world without imposing on them democratic or other social changes that differs widely from their traditions and histories"

US National Security Strategy

"The growing influence of patriotic European parties gives cause for great optimism. Policy for Europe should prioritise cultivating resistance to Europe's current trajectory within European nations"

US National Security Strategy

A world of hard power

- The US has withdrawn from some multilateral institutions and agreements, and is undermining others (e.g. the enforcement mechanisms of the WTO, the attempts of the IMO to reach an agreement on decarbonising shipping). **China, India and others have long tried to change a system designed by the US and its allies after the Second World War; now its leading architect is doing it for them**

- **The (imperfect) 'rules-based international order' is being replaced by a world of hard power**

"Our elites lashed American policy to a network of international institutions some of which are driven by outright anti-Americanism and many by a transnationalism that seeks to dissolve state sovereignty"

US National Security Strategy

"Middle powers must act together because if we're not at the table, we're on the menu"

Canadian Prime Minister Mark Carney

Competing visions of the future of the global energy system

- China is investing in the energy transition at home and wants to export its clean tech
- The Trump Administration wants to maintain demand for fossil fuels both at home and abroad. **It doesn't just oppose net zero; it sees it as a threat to US security**
- **China and the US are making different bets on the future energy system. They can co-exist for a while, but long-term someone is going to lose**

"The disastrous 'climate change' and 'net zero' ideologies threaten the United States and subsidise our adversaries"

US National Security Strategy

Little chance of a global agreement on AI

- Companies like *Anthropic* and *Open AI* are issuing increasingly dire warnings about the risks AI poses in the hands of bad actors or if it achieves superintelligence before we achieve alignment
- There is rising public opposition to AI (and to data centres in particular)
- **However, President Trump has set his face against regulation because he wants to stay ahead of China**
- **Unless we have a Cuban Missile Crisis style near miss, a global agreement to regulate AI is highly improbable**

"We really do earnestly believe AI could kill all humans! I personally think it is >10% within the next decade"

Evan Hubinger, *Anthropic*'s Alignment Science lead

"We're leading China in AI and frankly I want to keep it that way because whoever wins AI wins"

President Trump

Two painful lessons for Europe...

- The US National Security Strategy sets out the Trump Administration's:
  - opposition to NATO expansion;
  - disdain for Europe's position on Ukraine;
  - hostility to the EU;
  - opposition to European immigration policies; and
  - open support for populist right parties in Europe

- **Putin taught Europe the folly of depending on Russia for energy; Trump has taught it the folly of depending on the US for its security - the EU had to accept a lop-sided tariff deal because their dependency on the US prevented them from standing up for themselves as China did**

"The issues facing Europe include activites of the EU that undermine political liberty and sovereignty [and] migration policies that are transforming the continent"

US National Security Strategy

...which is now seeking to reduce its dependency on the US

- European governments are increasing defence spending as President Trump wanted them to
- But less publicly and less quickly, they are also seeking to reduce their dependency on US defence kit, tech and financial payment systems. **The sanctioning of e.g. Thierry Breton has revealed their vulnerability**
- **This partial decoupling will likey continue whoever wins the next US election**

"My intention is to convince European states that have become accustomed to buying American [to buy European]"

President Macron

"Europeans are trying quietly and gradually to decouple from US financial infrastructure as they question their reliance on Visa and Mastercard. Just a year ago this would have been unthinkable"

Gita Gopineth, former Chief Economist of the IMF

The Middle East

The US has had to abandon many of its objectives in Iran

- A war which President Trump said would last "four or five weeks" has now been going on for over six months

- Trump started the war believing it would be a repeat of Venezuela - that once the Supreme Leader was dead, the regime would capitulate. **However, it's shown no sign of doing so - and unlike last summer, when it sought to de-escalate, it has fought back**

- The US has had to abandon many of its objectives (regime change, ending Iranian support for proxies in the region, limiting Iran's ballistic missile capability). **The war is now about two things - Iran's nuclear programme and control of the Strait of Hormuz - and it is the latter that is the main barrier to an agreement**

It has switched back to a maximum economic pressure strategy

- For the moment, the Trump Administration has switched back to the strategy of maximum economic pressure that it was following before it launched the war. **It appears to have concluded that it cannot achieve its goals via airstrikes and that the only possible route to a military victory - the deployment of significant ground forces for a prolonged period - is politically impossible**

- **This strategy is having some success - Iran is hurting economically** (inflation is above 80% and oil sales have plummeted due to the US blockade) **and there are signs of division within the regime**

- **However, Iran has responded by escalating militarily (the drone attack by its Iraqi militia allies on a key Saudi pipeline and the Houthis threatening the Bab al-Mandab Strait)**

Iran thinks it can take the pain longer than the US and must maintain control of the Strait for its long-term security

- For now, the majority view within the regime appears to be they can endure longer than Trump given low US munitions stocks plus the unpopularity of the war and the resulting high petrol and diesel prices in the run-up to the midterms

- They also think control of the Strait is vital to Iran's long-term security interests. **What Iran fears most is the US/Israel adopting a 'mow the lawn' strategy of periodic airstrikes against its nuclear and ballistic missile programmes; with its 'axis of resistance' significantly degraded, it needs to establish an alternative deterrence**

"For us, the Strait of Hormuz is not simply an economic waterway. It is a component of our geographical and strategic power"

General Hossein Mohebbi, Iranian Revolutionary Guards Corps

The war - and therefore significant economic disruption - is likely to continue at least until the midterms

- **The most likely outcome is that the war continues at least until the midterms - Iran wants to inflict the maximum possible economic disruption until then in the hope that Trump loses badly and then has to offer concessions to end the war**
- **It will take time to thrash out the detail of any deal**
- **The key will be whether Iran can be persuaded not to charge a toll on traffic passing through the Strait if it is financially compensated in other ways**

"I think the war's going to end after the [midterm] election... [Iran is] desperate to try and affect the election"

Donald Trump

Long term implications

- **The war has underlined the vulnerability of the Strait of Hormuz.** There will be significant investment in alternatives e.g. pipelines, but these are not invulnerable. Solar, batteries, EVs and non-Middle East oil and gas will all be winners

- **It has revealed that the US cannot provide complete protection to its regional allies.** That realisation - and concern about the regional ambitions of the Netanyahu Government - were behind the recent Saudi Arabia/Pakistan/Turkey defence deal

- **The reduction in US munitions stocks has weakened US deterrence in the western Pacific and elsewhere.** It will take years to build them back up

- **Netanyahu has done long-term damage to Israel's reputation among American voters, which it will be difficult for his successor to undo**

Israeli general election in the balance

- An Israeli general election is due to take place on 27 October
- The 120 seats in the Knesset are elected via an almost pure form of proportional representation, the only caveat being that parties need to get over 3.25% of the vote to win any seats. **The result is lots of parties win seats with no party having a chance of winning an overall majority**
- The parties can be grouped into three loose blocks: a pro-Netanyahu block, an anti-Netanyahu block and an Israeli Arab block. **It looks like the anti-Netanyahu block will win the most seats, but they may not win an overall majority. If they do form a government, the most likely Prime Minister is Gadi Eisenkot**
- **An Eisenkot Government would move Israel back to being a traditional liberal democracy. On Gaza and the West Bank, it would take a less extreme position, albeit Eisenkot still opposes the creation of a Palestinian state**

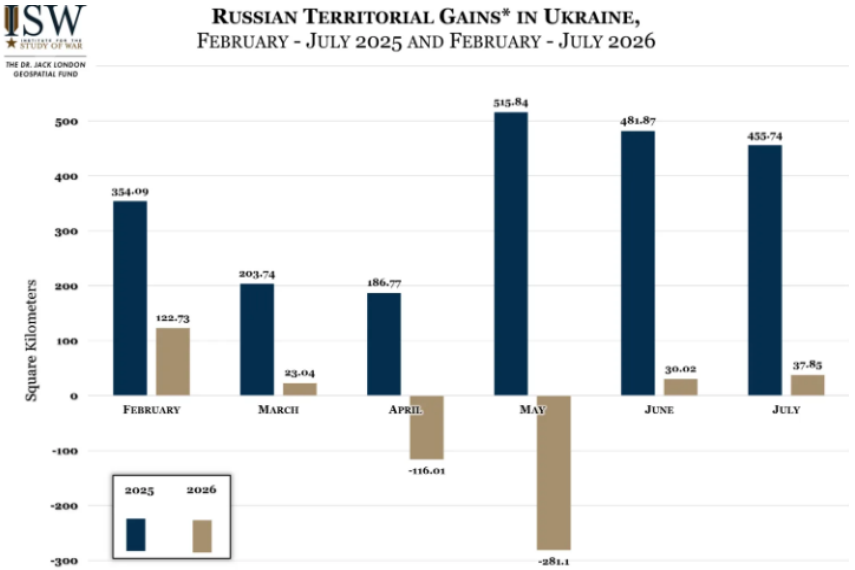
Ukraine

The grinding war in Ukraine looks set to continue

- Ukraine is now mostly holding its own on the frontline and Russia is paying a heavy price both militarily and economically

- However, Ukraine is running critically short of interceptor missiles. Russia will continue to target its energy infrastructure. **Ukraine faces a grim winter**

- **Putin continues to believe that he is making progress and time works in his favour. He looks more likely to escalate through mobilisation, intensified attacks on Ukraine and greater pressure on NATO than to seek a way out**



Bond markets

Sovereign debt concerns

- The IMF expects global public debt to reach 100% by 2029 with the problem increasingly concentrated in large economies rather than traditional emerging-market borrowers
- **Markets are increasingly concerned and that concern is being concerned about worries about inflation driven by the price of oil and food prices**



The US midterms

The Democrats are likely to retake at least one of the House and the Senate in November, constraining Trump

- The US midterm elections take place on 3 November. Every seat in the House of Representatives is up for election along with just over a third of the seats in the Senate, 36 state governorships, seats in most state legislatures and various other offices

- **Most indicators suggest that the Democrats are likely to do well** (historical precedent, recent election results, they're ahead in the polls, their supporters are more motivated to vote, Trump is unpopular and they have an issue - affordability - that voters are angry about)**, but Republicans have a financial advantage and hope to take advantage of the Democrats selecting some left-wing candidates**

- ***Decision Desk HQ* gives the Democrats a 68% chance of retaking the House, a 51% chance of retaking the Senate - which means there is just over a 70% chance of President Trump being constrained (as a result of the Democrats winning at least one of the two) for the last two years of his Presidency**

Europe

AfD victory in Saxony-Anhalt gives Merz a big problem

- The Alternative für Deutschland (AfD) achieved a historic victory in the Saxony-Anhalt state election, winning 43.8% of the vote and 39 out of the 83 seats, three seats short of an outright majority. It has started discussions with the BSW, a hard-left, anti-immigrant and pro-Moscow party which won five seats

- The only possible anti-AfD majority consists of all five other parties together: CDU, SPD, Greens, Left and BSW. **Such a coalition is all but impossible to imagine - even a minority administration with the Left and BSW outside supporting on individual issues would be hard for some in the CDU to accept**

- **The result is a huge problem for Merz. He faces the challenges of keeping his coalition with the SPD together and preventing his own party splintering over whether to abandon the so-called 'firewall' (the informal bar on cooperation with the AfD) - and the AfD may repeat its success in Mecklenburg-Vorpommern on 20 September**

France: can the centrists organise to stop Le Pen?

- The French Presidential election in the spring 2027 is a key moment
- Polling has the far-right Rassemblement National's Marine Le Pen winning the first round and she is capable of beating her likely second round opponents. **The question is whether the rest of the political system can organise to stop her**
- Former Prime Minister Edouard Philippe looks the strongest option, but his position as lead centrist candidate is far from settled. **The political catastrophe for the centre would be too many candidates split the centrist vote leading to a second round run-off between Le Pen and the far-left Jean-Luc Mélenchon - all but guaranteeing Le Pen's victory**
- **While Le Pen is currently the front runner, previous French elections have generated late consolidation against the far right**

The EU/UK 'reset' is likely to be agreed this autumn

- An autumn summit is likely to agree the bulk of the package Burnham inherited from Starmer:
  - an **agri-food agreement:** UK dynamic alignment with relevant EU rules in return for removing most routine checks on food and agricultural trade;
  - **linkage of UK and EU Emissions Trading Schemes**, avoiding much of the impact of the EU Carbon Border Adjustment Mechanism; and
  - a **youth experience scheme** allowing young people to live, work and study in each other's countries without restoring general free movement

- **The UK wants to go further in aligning in other goods sectors, but the economic value of this will be limited by the UK's continued red lines on customs union and single market membership, and the EU may charge a high price**

- **The big question is whether or not Labour repeats those red lines in its next manifesto**

Climate and energy

The political consensus on net zero is over, but the energy transition will continue

- In the US, President Trump is scrapping lots of Biden's environmental regulations and tax breaks, and making it easier to drill for oil and gas. **The overall effect will be to slow the US transition, but not to halt it**

- The EU and UK are likely to continue on their path to net zero, making tactical retreats where necessary while maintaining the overall direction of travel. **The Iran War reinforces that case.** Businesses are getting contradictory instructions from US and European regulators when it comes to ESG

- Chinese carbon emissions are now roughly flat with renewables meeting all demand growth

- Indian emissions are still growing but it added record new clean-power generation last year

Thank you

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