

Geopolitics Coalesce at Market Speed

Portfolios held on to substantial gains through September, but the third quarter made the cost of capital harder to ignore. The central theme from recent conversations with geopolitical strategists, a former U.S. Army general, former cabinet members, investment managers and fellow CIOs, is that issues which once moved independently—elections, wars, inflation, interest rates and the AI buildout—now overlap and magnify one another’s economic and market consequences. Each has its own causes, but they are increasingly tied together by how governments, markets and companies respond.

That reinforces our nearly five-year-old thesis of a generational regime change. Many investors are still waiting for a return to low inflation, low rates and geopolitics as a background consideration. Governments and companies, meanwhile, are building the lessons learned since the pandemic into their long-term plans.

Looking Past November

Most participants expect Democrats to take the House, with a growing outside chance of both chambers. A populist base that has absorbed higher costs from tariffs and war may look across the aisle for economic answers. A Democratic Congress would likely bring sustained oversight of the AI industry beginning in 2027, which could modestly reduce expected growth at a time of elevated valuations.

History favors the third year of the presidential cycle, particularly after the president’s party loses both chambers. However, markets could spend 2027 anticipating a higher-tax regime in 2028. Given unsustainable deficits and U.S. taxes on goods and services near the low end of developed peers, higher taxes may come regardless of which party governs. Nimble tax management, including harvesting fixed income losses in 2026, will only grow more important.

Wars at Different Temperatures

The Iran conflict has cooled from a boil to a simmer, but the Hormuz disruption is accelerating supply-chain reengineering and investment in alternative energy. Russia and Ukraine appear to be entering a more dangerous phase, with gray-zone pressure on Europe likely to increase before any ceasefire. Neither conflict has an obvious off-ramp, and decisions made today are already shaping capital flows.

A Tug of War Around Inflation

Supply shocks tend to destroy demand, suggesting the Fed should be more concerned about slower growth in 2027–2028 than about energy-driven inflation. Yet resilience and redundancy spending, rising defense budgets in countries that once relied on the U.S., and immigration limits are creating multiyear demand for labor and materials. That is consistent with our view since early 2022 of a higher steady state for inflation and rates, and it may support earnings abroad where valuations remain lower.

AI Debt and the Global Price of Capital

The AI buildout is now large enough to affect the price of capital. Roughly \$320 billion of 2026 debt issuance from the major hyperscalers and Nvidia equals about 70% of net new long-maturity Treasury borrowing in 10-year equivalents, arriving as governments borrow heavily for resilience and defense. Japanese savings are increasingly staying home, and France illustrates how fiscal concerns can quickly move to the foreground.

Still, long-term yields are doing some of the Fed’s work, and a further sustained rise would likely require materially worse inflation news. Meanwhile, yields above 5% offer something largely missing since 2008: a meaningful prospective return from high-quality fixed income.

Portfolio Positioning: Diversify Across the Connections

Because oil, rates, election odds and tax policy now feed into one another, portfolio risks do not stay in separate buckets for long. Our approach is to diversify across those connections: infrastructure and real assets to participate in the physical buildout, international equities for exposure to different policy cycles, and high-quality fixed income with modestly short duration. Short-term fixed income provides liquidity to rebalance when markets move quickly, and diversifiers such as hedge funds can take advantage of pricing gaps created by policy and geopolitical shocks. We also continue to pull the levers within our control: tax management, exposure to the global capex cycle, inflation mitigation and return drivers that do not all depend on the same U.S. equity outcome.

Concluding Remarks

The prior regime developed over decades, and the current one will take time to evolve. Governments and companies are unlikely to forget the lessons of recent years simply because a ceasefire is reached or an election passes. The years ahead will still include periods of strong growth and falling inflation, but the foundation beneath them is changing.

Portfolios need enough flexibility to participate in the buildout while remaining prepared for the volatility around it.