Can growth withstand geopolitical tensions?



Geopolitical tensions have moved from the background to the centre of the investment landscape. Energy security, trade disputes and fiscal pressures are raising costs, redirecting investment and widening regional dispersion. Fragmentation matters not only because it affects growth, but because it determines whether capital can continue to move efficiently across economies and support resilience, productivity and long-term investment.

As the opening theme of the Annual Outlook, Multipolar World defines the geopolitical, trade and fiscal conditions under which the capital cycle will unfold.

SANTANDER PRIVATE BANKING VIEW

Our central scenario is that geopolitical tensions remain a meaningful source of economic friction, but not sufficient to derail the global expansion. Growth becomes slower, less synchronised and more uneven across regions, yet the cycle continues.

Higher energy costs, trade frictions and rising sovereign financing needs are weighing on consumers (see graph), businesses and governments. These pressures reduce purchasing power, increase borrowing costs and make the global economy less efficient.

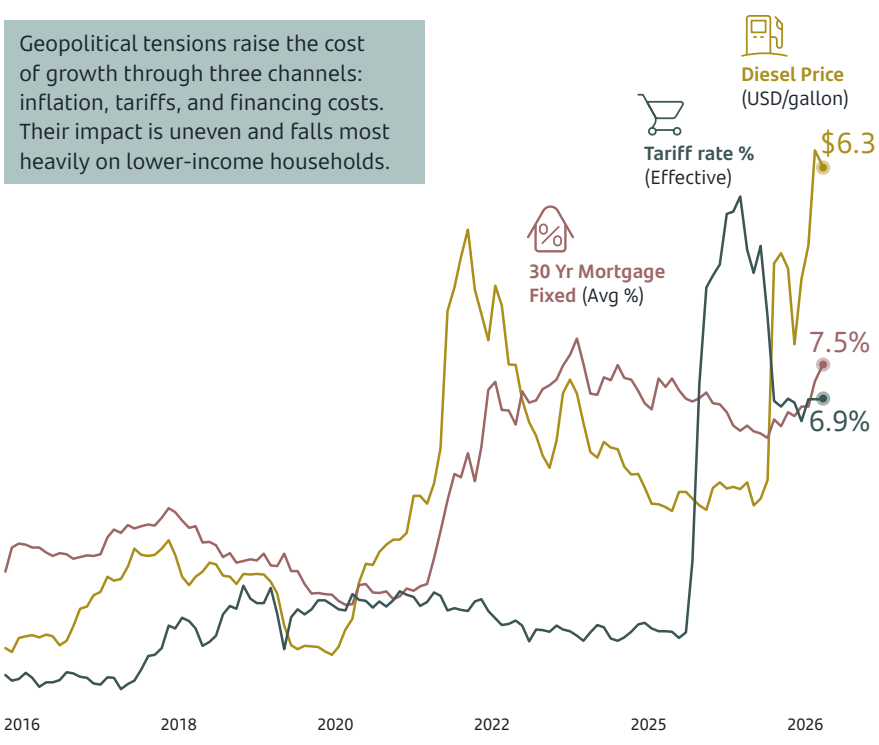
Geopolitical tensions are increasingly shaping trade routes, industrial policy, energy security and public spending priorities. As a result, capital is being redirected toward resilience, infrastructure, strategic industries and supply-chain adaptation. This process raises costs and reduces efficiency, but also creates new investment requirements that sustain capital formation and economic activity. The world is becoming less efficient, but not less investable, as public and private capital adapt to a more fragmented landscape.

Fragmentation also changes the direction and intensity of capital demand. As governments prioritise defence, infrastructure, energy security and strategic autonomy, more capital is required to strengthen resilience. The key question is therefore not whether capital is available today, but whether it can continue to circulate efficiently enough to finance investment, productivity and future growth.

We expect fragmentation to remain manageable rather than disruptive. Capital should continue to circulate through the global economy, although more selectively and with greater regional dispersion. A prolonged energy disruption, escalating trade retaliation or sovereign bond-market stress would impair capital flows and challenge this view.

The economic cost of geopolitical risk: Implications for the U.S. Consumer

Geopolitical tensions raise the cost of growth through three channels: inflation, tariffs, and financing costs. Their impact is uneven and falls most heavily on lower-income households.



Source: Bloomberg. Data as of 10/13/2026

FIVE SIGNALS TO WATCH



Energy Security

The outlook would be supported by a normalisation of energy flows through key Middle East corridors. A recovery in oil and fuel trade would help stabilise prices and financial conditions, while a prolonged disruption would keep inflation elevated and place further pressure on the cost of capital.

INDICATORS

Energy prices, strategic reserves, shipping routes and critical energy flows.

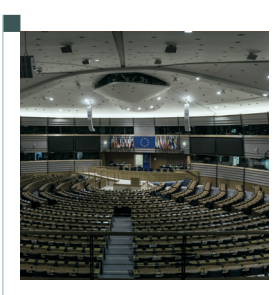


Trade Imbalances

Easing restrictions would support supply-chain adjustment and cross-border investment. Further escalation would raise costs, weigh on growth and weaken investment confidence.

INDICATORS

Trade restrictions, tariffs and cross-border investment trends.

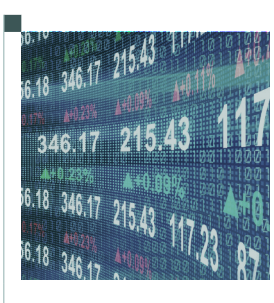


Budgetary Trade-offs

A more fragmented world requires greater public investment in resilience, security and infrastructure. The key test is how governments balance these priorities against other spending commitments and the risk of crowding out private investment.

INDICATORS

Political stability, election calendar and polls, budgetary execution and spending priorities.



Fiscal Credibility

Higher spending needs are colliding with tighter financing conditions. The key test is whether governments can preserve market confidence while funding their strategic priorities.

INDICATORS

Sovereign yields, term premia, spreads between different national debts.



Capital Flows

Geopolitical tensions are reshaping both the direction and composition of cross-border capital flows. The key test is whether exchange rates, external balances and cross-border financing channels remain stable enough to support investment.

INDICATORS

Cross-border capital flows. Treasury auctions and exchange rate tensions.

THREE INVESTMENT CONCLUSIONS

01

Focus on national strategic priorities

Geopolitical fragmentation is increasing investment in infrastructure, energy security, industrial capacity and strategic technologies. We favour areas aligned with these long-term priorities, where governments and companies are committing capital to strengthen resilience and reduce dependence on vulnerable supply chains.

02

Diversify in a more multipolar world

As countries, sectors and markets evolve at different speeds, returns are becoming more dispersed. Diversifying across regions, asset classes and sources of growth can help capture emerging opportunities while reducing reliance on any single economy, sector or policy outcome.

03

Build protection against inflation surprises

Our central scenario does not assume persistently high inflation, but geopolitical tensions can create periodic shocks through energy, trade and supply chains. Maintaining exposure to assets that have historically performed well during inflationary periods can strengthen portfolio resilience and improve diversification.



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Country-specific addenda

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