Geopolitics have taken center stage

BOK FINANCIAL Q2 2026 MARKET OUTLOOK

For much of the past 30 years, global economic growth rested on a simple assumption—that expanding trade between nations keeps costs down, increases growth and reduces the risk of conflict.

That model delivered meaningful efficiencies—lower inflation, broader access to goods and production networks optimized for speed and cost. However, the same system that made global trade so efficient also made it vulnerable. When supply chains stretch across continents, any disruption—political, logistical or military—reverberates quickly across economies.

Those vulnerabilities became clear during Covid and are being underscored again by the current U.S.–Iran conflict. The issue is not any single event, but rather the steady rise in geopolitical tension that has reshaped the economic assumptions of the last several decades. Trade disputes, shifting alliances and regional conflicts have exposed the national security and supply risks of concentrated production, especially regarding semiconductors, critical minerals, industrial commodities, energy and medical supplies.

As a result, the global economy is deglobalizing. Geopolitics have become a central force shaping growth, inflation and corporate investment. Industrial policy, national security considerations and technological rivalry now influence economic outcomes as much as traditional business cycles. Understanding the outlook for U.S. and global growth requires understanding this new geopolitical reality, and it is with this aim that we write this outlook.

How we got here

In the aftermath of the Cold War, the U.S. pursued a strategy centered on open markets. The logic was that expanding trade and deepening economic ties would reinforce peace and broaden global prosperity. As production migrated to lower-cost regions and shipping and production timelines shortened, global growth strengthened. Companies benefited from cheaper materials, access to new markets and leaner inventories, while consumers enjoyed lower prices and abundant goods. This period became known as the "peace dividend."

Over time, however, the system revealed structural imbalances. The U.S. ran persistent trade deficits while emerging economies built manufacturing dominance and strategic leverage. China's rapid ascent placed critical industries—electronics, pharmaceuticals and rare-earth mineral refining—into the hands of one of the U.S.'s geopolitical competitors. Supply chains grew increasingly efficient but also, as the Covid pandemic made clear, more fragile.

Those lessons have reshaped today's policy direction. Instead of maximizing efficiency, U.S. policymakers are prioritizing resilience, reliability and strategic control. That transition is influencing everything from capital spending to trade flows to inflation trends.

What defines today's new geopolitical economy?

The economic landscape is being reshaped by three powerful forces: a national push to secure advanced technologies, a broad realignment of supply chains and a global surge in defense spending. Together, these shifts are redefining how the U.S. competes, innovates and safeguards its economic future. Here's a closer look at each of these forces:

The renewed race for tech

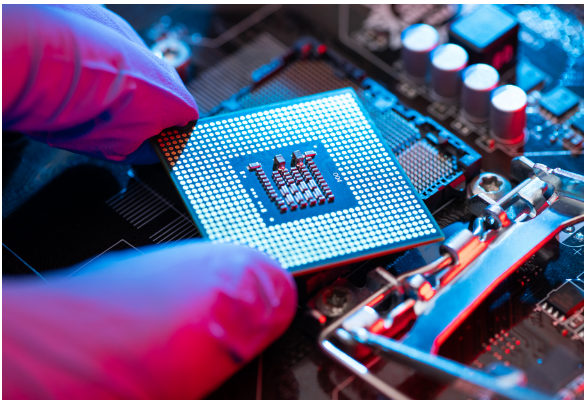
A sweeping federal initiative is accelerating investment in advanced manufacturing, semiconductors, critical minerals, biotech, nuclear innovation and artificial intelligence (AI). The fact that this effort is anchored within the Department of Energy underscores a new reality: the next generation of technology is inseparable from the power infrastructure required to run it. Grid capacity, dependable energy and secure access to specialized materials have become strategic assets fundamental to long-term economic strength.

Rebuilding supply chains for security and resilience

At the same time, after decades of relying on global production networks, the U.S. is reshoring or "friend-shoring" key segments of mining, nuclear development and the fabrication of semiconductors. These industries were once optimized primarily for cost; today, they are being reorganized around reliability and control. The goal is straightforward: reduce exposure to geopolitical adversaries and prevent disruptions in sectors where supply interruptions could carry severe economic or military consequences.

A global rise in defense spending

Meanwhile, defense budgets are climbing after years of contraction. NATO members have committed to significantly higher defense allocations, with many working toward spending 5% of gross domestic product (GDP) on defense by 2035. This increase in defense expenditures is in turn fueling demand for energy, industrial metals, advanced engineering and strategic materials. This renewed military buildup reflects a broader shift, as geopolitical competition, not globalization, is now one of the primary forces shaping economic behavior.



Why all eyes are on the U.S.-Iran conflict

The U.S.–Iran conflict has emerged as one of the most consequential geopolitical events of the year because it affects the Strait of Hormuz, a narrow channel through which nearly one-fifth of the world's oil and liquefied natural gas (LNG) typically flows. Even with strong domestic production, U.S. prices still respond to global benchmarks, making households and businesses vulnerable to overseas disruptions.

The economic impact depends heavily on how long this tension persists. A brief interruption may create short-term volatility, but a multi-month impairment would have broader consequences. Energy costs feed quickly into headline inflation, while higher shipping and fertilizer prices lift food and freight costs. If these pressures persist, they could delay or limit future Federal Reserve rate cuts, tightening financial conditions at a delicate moment for consumers and businesses alike.

The strain is even more acute globally. Economies that rely heavily on imported energy face rising costs and currency pressure, while industrial margins narrow as freight rates climb. If that happens, supply chains may become less predictable, which would compound investor uncertainty. For markets adjusting to a world of more frequent geopolitical shocks, this conflict adds another layer of complexity to an already challenging environment.

Inflation may be back in the spotlight

Despite persistent geopolitical tension, several domestic strengths continue to support U.S. growth, including a relatively stable labor market and sustained investment in AI, data centers and power infrastructure.

However, inflation is a major wildcard and it's being driven by global events. Energy and fertilizer disruptions tied to Middle East instability are placing upward pressure on prices. If these conditions persist, inflation could remain above 3%, complicating the Fed's policy path.

Fortunately for the U.S., its domestic energy production offers a strategic advantage. As one of the world's leading producers and exporters of oil and LNG, the U.S. is relatively less vulnerable when global supply tightens. Higher prices create inflationary pressure but also strengthen domestic energy activity, giving the U.S. a degree of insulation that many countries lack.

What are the major wildcards?

Escalation around Taiwan
Any heightened tension or interruption in Taiwan's semiconductor production would ripple through nearly every sector reliant on advanced chips, from AI infrastructure to defense technologies.

Restrictions on critical minerals
China dominates global rare-earth refining, so even temporary export controls could disrupt supply chains across defense, energy, automotive and technology industries.

New incentives for nuclear proliferation
As military actions target non-nuclear adversaries, other regimes may accelerate nuclear programs as a deterrent, raising long-term geopolitical uncertainty.

How to evaluate risk in this geopolitical climate

Altogether, this means that the frameworks that once relied on stable trade relationships, predictable policy responses and largely domestic indicators are no longer enough to explain today's environment. As geopolitical dynamics become more deeply embedded in supply chains, energy markets and strategic industries, the nature of economic risk increasingly reflects these dynamics and their consequences.

One defining feature of this environment is the need to look beyond moment-to-moment volatility. Short-lived disruptions, such as brief tariff adjustments or isolated military activity, tend to leave limited marks on the underlying economy. The more meaningful forces are those with staying power: the developments that persist long enough to alter supply availability, input costs or policy expectations. This is why the duration of the disruptions in the Strait of Hormuz and the strain they place on global energy and fertilizer flows carry far greater economic weight than any single headline surrounding the conflict.

Sector dynamics further illustrate how uneven the effects of geopolitical stress can be. Industries reliant on global shipping lanes, imported energy or internationally sourced materials face greater exposure to supply disruptions and cost pressures. By contrast, sectors tied more closely to domestic energy production or mining may find support in periods when global supplies tighten. These differences highlight how geopolitics can reorder economic relationships, creating both strain and momentum depending on where a sector sits within global supply networks.

Finally, the current environment requires distinguishing between episodes that merely shift prices and those that fundamentally reshape economic trajectories. While short-term moves in oil or freight costs may fade, long-running disruptions, whether prolonged conflict in the Middle East or sustained strategic rivalry with China, can influence inflation trends, redirect capital expenditures and reshape long-term policy assumptions. These longer-duration forces increasingly define the backdrop against which growth unfolds. Taken together, these dynamics reflect an economy navigating a structural transition, from one shaped primarily by efficiency and open markets to one shaped by resilience, security and strategic competition. Understanding this shift is essential to understanding the path ahead.

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