



**GeoQuant**  
a FitchSolutions Company

# Along with AI, U.S. Political Risk Still Dominates Global Markets

Q1/2026 Update

[fitchsolutions.com/bmi/geoquant](https://fitchsolutions.com/bmi/geoquant)

## Key Points:

- GeoQuant’s 2025 macro-political calls were largely validated (notably higher U.S. political risk boosting gold, weakening the dollar and supporting EM assets; 13/17 national election predictions), with a few key misses on equity sensitivity, the timing on the Israel-Iran war, and a few elections.
- As it has since 2018, developed-market political risk continues to rise (driven by the U.S.) while emerging-market risk has generally fallen (including China), and on faster-moving “Pulse” measures DM political event risk now exceeds EM political event risk. Relatedly, U.S.’s level of political risk is now rising above China.
- In Q1, U.S. Political Risk will continue to dominate markets, with domestic U.S. risks (i.e. sovereign and social instability risks) outweighing (still-elevated) geopolitical risks.
- Market linkages show U.S. political risk remains strongly supportive of gold and will continue to pressure the dollar, while equities are increasingly sensitive to political event risk and the curve reflects growth/political pressure lowering 10Y yields even as sovereign-risk dynamics keep upward pressure on the long end.

---

## At the onset of 2025, GeoQuant data suggested the following macro-political forecasts for the year ahead:

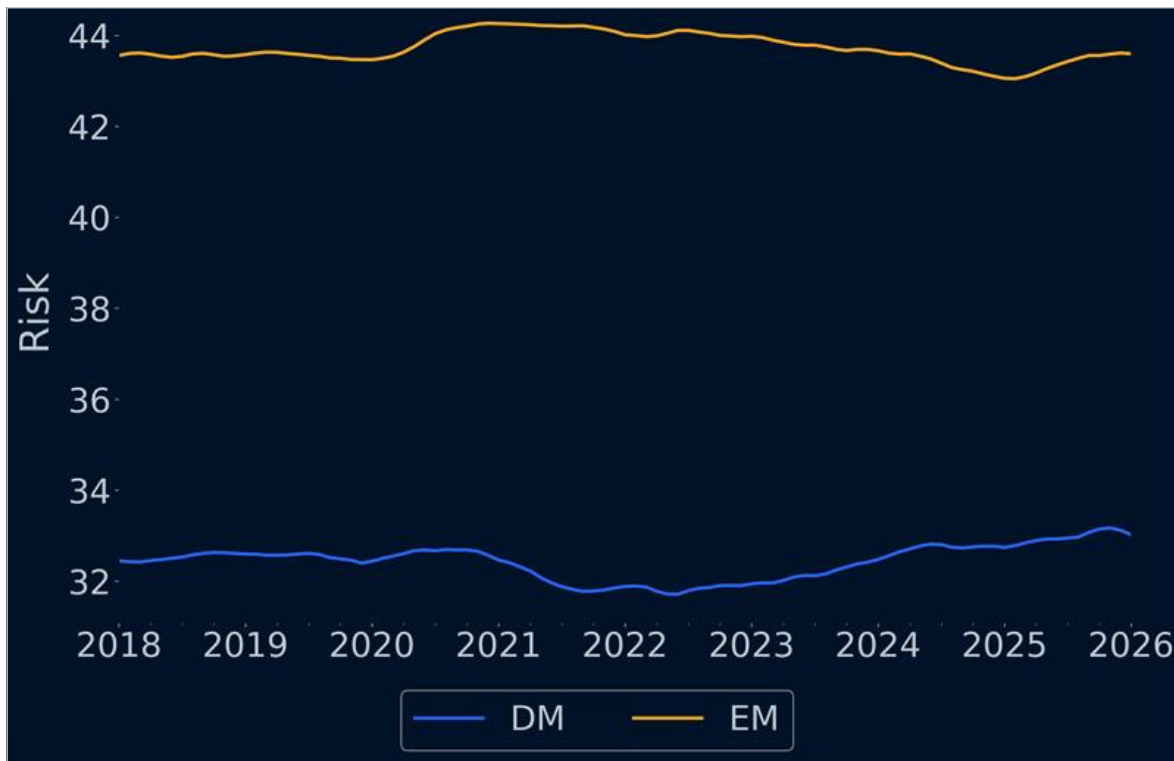
1. U.S. Political Risk would continue increasing toward emerging market levels, pushing gold prices to new highs, weakening the value and reserve status of the U.S. dollar, and – and else being equal – putting upward pressure on Treasury yields, especially at the long end of the curve.
2. Higher Political Risk would also weigh on U.S. equity markets, though the longer-run correlation between Risk and the S&P 500 would remain very positive.
3. While the U.S. would generate higher global investment/trade policy risks under Trump 2.0, most other bilateral/multilateral trade relationships would continue to improve, especially among emerging markets (EMs).
4. Together with a relatively light election calendar, the trends above would broadly support EM assets.
5. The geopolitical tail risk of a Chinese invasion of Taiwan would increase slightly while the risk of an all-out regional war in the Middle East would decrease slightly. Prospects for either a decisive outcome or a negotiated settlement in the Russia-Ukraine conflict remained very poor.
6. As in 2024, anti-incumbency would have an outsized impact on 17 national elections predicted by our model.

Our analytics missed the timing (if not the intensity) of the 12-day Israel-Iran war in the Middle East; overestimated the impact of U.S. Political Risk on U.S. equity markets; and incorrectly predicted election outcomes in Ecuador, Poland, Moldova, and Honduras. Otherwise, our analysis was remarkably prescient, including long-standing forecasts on gold price; a (then) counter-consensus view on the U.S. dollar and emerging markets; the endurance of globalization amid greater and more erratic U.S. protectionism; the path of the China-Taiwan and Russia-Ukraine conflicts amid high uncertainty; and correct election predictions in Germany, South Korea, Japan, Australia, Canada, Netherlands, Chile, and the Netherlands.

Now just over a month into Q1 2026 – amid **another bout** of “Sell America” uncertainty in global markets – GeoQuant data continues to emphasize the convergence in political risk between developed and emerging markets, led by a stark increase in the U.S. political risk and a more measured decline in China. Along with the fate of the technological and financial (if not yet “real economic”) boom in artificial intelligence, we believe this theme – especially the impact of higher U.S. Political Risk – will once again dominate global markets in 2026. Below we provide a brief Q1 update.

First, let's level set. Per Figure 1, the average level of Political Risk in developed markets (DMs)<sup>1</sup> is still structurally lower than that for EMs.<sup>2</sup> But as detailed in our previous note for Citi Velocity (see: [U.S.: EM-ification Revisited](#)), average DM Political Risk has increased on net since 2018, led by much higher Risk in the United States. Meanwhile, average EM Political Risk has decreased, including an overall decline in China, the largest EM – and of course the U.S. main geopolitical rival.

**Figure 1: Average (log GDP-weighted) Political Risk in Developed and Emerging Markets, 1 January 2018-present**



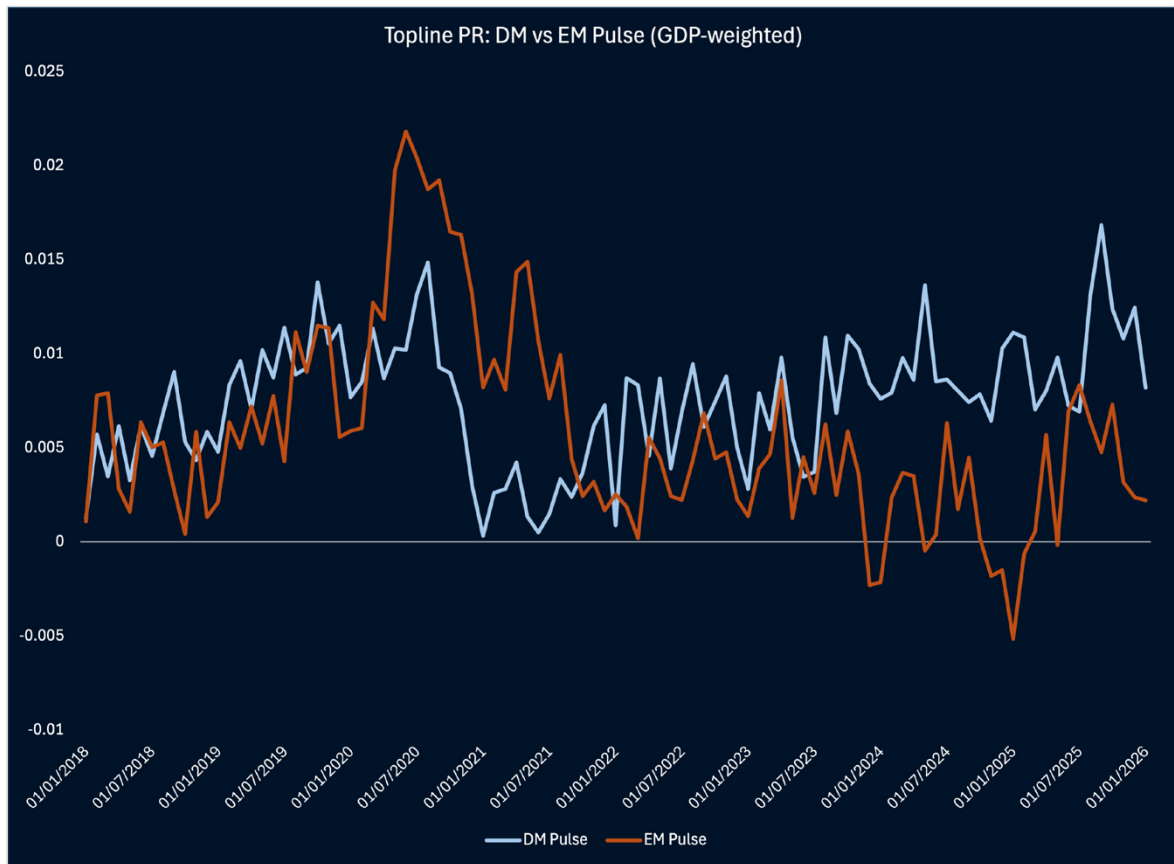
Source: GeoQuant

Note that the above aggregates are derived from our 'Composite' risk indicators, which combines hundreds of mostly annual country risk inputs with tens of thousands of news articles pulled daily into the GeoQuant system (for more information on GeoQuant's methodology, see [here](#)). If we strip out the slower-moving structural inputs from this assessment – as represented by our more dynamic set of "Pulse" risk indicators – we see that average DM Political Risk is now consistently higher than average EM Political Risk (Figure 2). As such, if we disregard longer-run structural differences, we find that daily Political Risk is now higher in DMs than EMs. In other words, there is now more political event risk in DMs than EMs. This is a striking and important shift in the way markets have generally thought about political risk.

<sup>1</sup>Average topline Political Risk across the 24 DMs in the GeoQuant system, weighted by log GDP.

<sup>2</sup>Average topline Political Risk across the 27 EMs in the GeoQuant system, weighted by log GDP.

**Figure 2: Average (GDP-weighted) Political Risk Pulse in Developed and Emerging Markets, 1 January 2018-present**

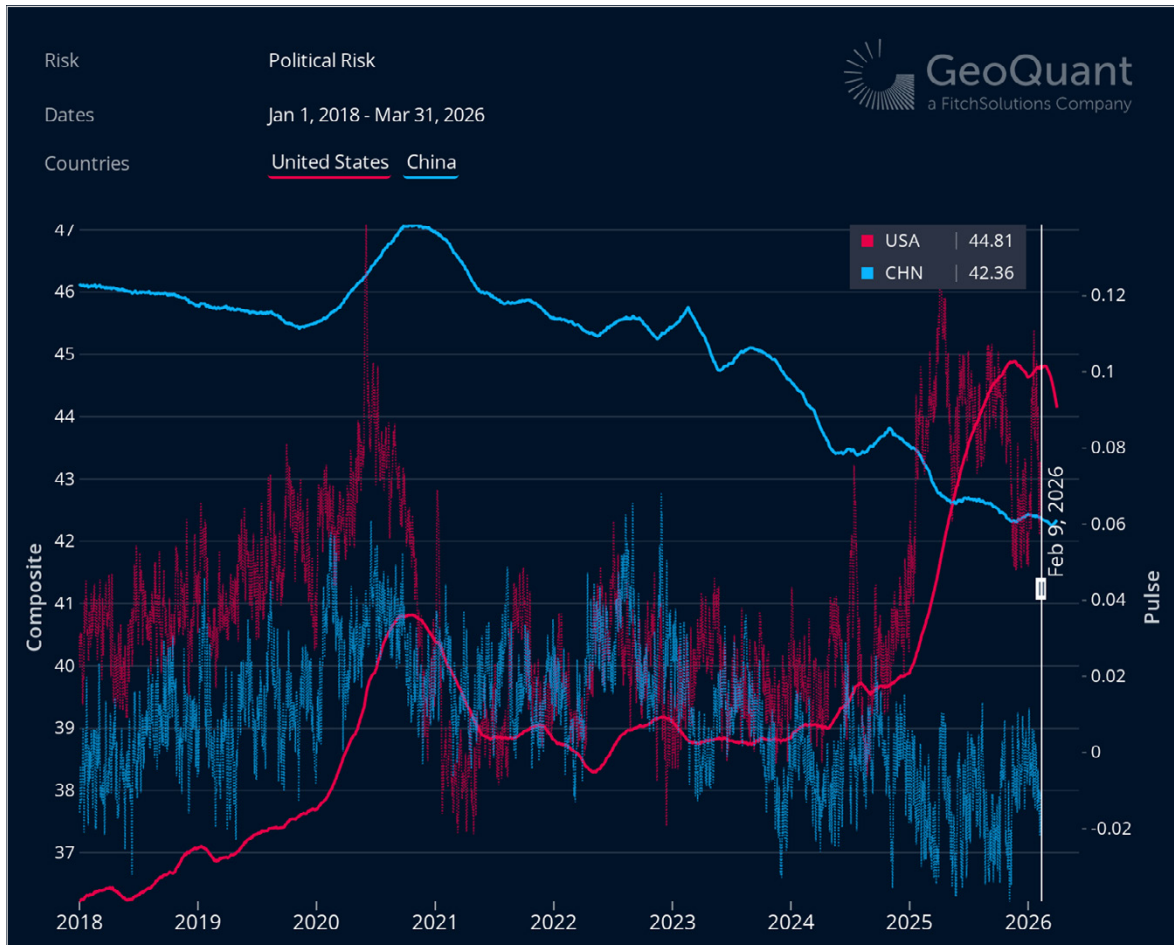


Source: GeoQuant

Whether we are looking at Pulse or Composite, these Political Risk aggregates combine our 25 fundamental indicators for 24 DMs and 27 EMs, all of which are generated by thousands of daily inputs. As such, there are many factors driving these overall trends.

Still, as alluded to above, the most striking driver – and the most significant one for global markets – is the stark rise in U.S. Political Risk amid a relative stabilization in Chinese Political Risk. Indeed, and per Figure 3 below, last year’s stark acceleration has now pushed U.S. Political Risk higher than China, for both the Composite and Pulse versions of the indicators. This trend is itself driven primarily by a rapid increase in U.S. Social Risk, though Governance and Security Risks have risen as well. Along with related (if slower moving) changes in structural data, the flow of event risk has recently become so skewed toward the U.S. that the level of U.S. Political Risk is now higher than China in our system.

**Figure 3: U.S. Political Risk vs China Political Risk, 1 January 2018-present**



Source: GeoQuant

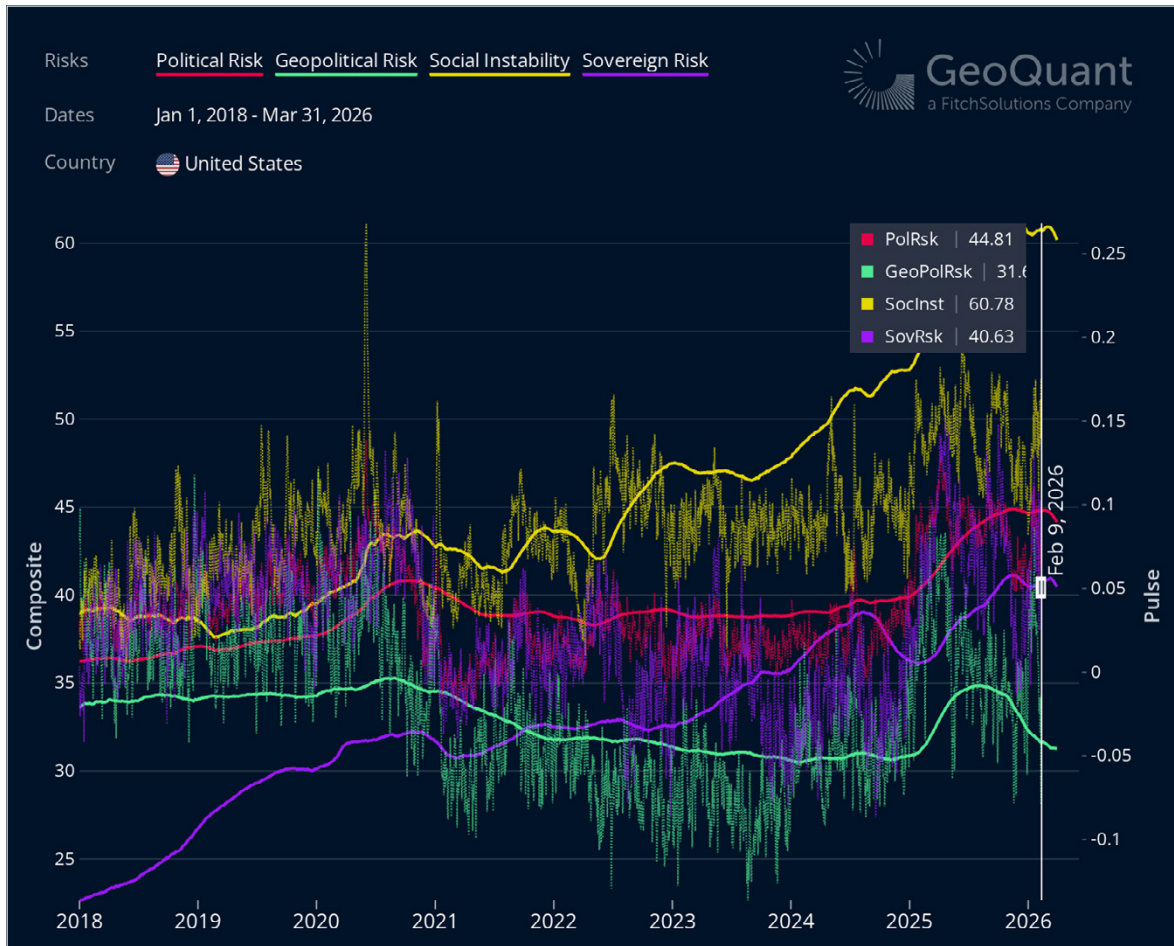
## Q1 Outlook: United States

While the U.S.-China Political Risk gap is forecast to retrace slightly in Q1/2026, it remains higher overall. Below we summarize the underlying drivers in the U.S. and their implications for global markets. A subsequent note will dive deeper into China.

- In the U.S., domestic risks – especially policy risks and social risks – will continue to outweigh U.S. geopolitical risks.** Per Figure 4, this reflects a key path in our data since Q3/2025, when a ramp up in Geopolitical Risk under Trump 2.0 stabilized after the administration (once again) **delayed** “reciprocal” tariffs on China.
- Geopolitical Risk:** The administration’s highly unilateral and unpredictable approach to foreign policy and associated provocative actions in and around Venezuela, Iran, and Greenland will keep Geopolitical Risk high. But given the administration’s pattern on backing down on threats to larger powers (**China, the EU**) while only acting on threats to smaller powers (**Venezuela** and possibly **Iran**), our model remains relatively sanguine on the level of U.S. Geopolitical Risk relative to others potential sources of market disruptions.

3. **Sovereign Risk:** By contrast, Sovereign Risk bumps up again for the remainder of Q1, despite Trump’s recent selection of the ostensibly more hawkish Kevin Warsh as the next Chairman of the Federal Reserve. To be sure, Warsh is a less politically compromised candidate than the previous frontrunner Kevin Hassett, and it’s likely that Warsh was selected to calm markets amid current chairman Jerome Powell’s more **forceful pushback** against attacks on Fed independence and broader “sell America” jitters. But given the highly personalistic and transactional of the (explicitly dovish) Trump administration; the **increasing politicization** of the Treasury department and **statistical agencies**; **high economic uncertainty** from broader erratic policy making; **high polarization** in the legislature; and a set of **fiscally impactful** Supreme Court cases, Warch’s appointment does little to allay the political drivers of higher U.S. Sovereign Risk.
4. **Social Instability Risk:** As stated above, the most significant domestic driver of increasing U.S. Political Risk has been growing Social Risks, reflected below in the trend for Social Instability Risk. Unsurprisingly given recent events in Minneapolis, very high social polarization and ongoing domestic instability associated with the Trump administration’s policy of mass deportations and deployment of the armed services in policing roles will keep Social Instability Risk elevated, despite **recent pull backs**.

**Figure 4: U.S. Topline Political Risk vs Geopolitical Risk, Sovereign Risk, and Social Instability Risk**



Source: GeoQuant

**5. Market Implications:** Table 1 summarizes recent historical relationships between U.S. Political Risk and key market outcomes like gold price, the dollar index (DXY), the S&P 500, and yields on U.S. 10 and 30-year bonds. The first two rows show day/day correlations with the more structural version of U.S. Political Risk (USPR) for 2018-present and 2025-present, i.e. roughly the period of Trump 2.0. For this more recent period, the third row shows relationships with the news-only Pulse version of the indicator. Per previous analysis, we note in particular: (i) the extremely strong positive relationships between USPR and gold price; (ii) the striking reversal in USPR’s correlation with the DXY since January 2025, with the dollar now reflecting (rather than helping hedge against) political risk; and (iii) the still very strong positive relationship between USPR and the S&P 500, which keeps powering higher. That said, since 2025 the relationship between the Pulse version of USPR and the S&P 500 have turned solidly negative, highlighting the increasing sensitivity of U.S. equity markets to U.S. political event risks.

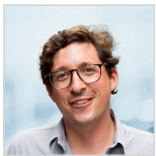
**Table 1: U.S. Political Risk (USPR) vs Key Assets (d/d), through 1 February 2026**

	Gold	DXY	SP 500	UST 10YR	UST 30YR
2018-present	.97	.34	.88	.46	.57
2025-present	.85	-0.89	.79	-0.73	.11
Pulse ('25-pres)	.20	-0.14	-0.44	-0.07	-0.21

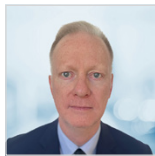
The historically positive relationship between USPR and longer-term Treasury yields has helped undergird our “EM-ification” thesis since 2019. Nonetheless, since 2025 the USPR/10-Year yield relationships has turned negative, while the USPR/30-year relationship has stayed (slightly) positive. While growth concerns and political pressure for lower rates has forced 10-year yields down in the face of higher USPR, higher sovereign risk continues to push 30-year yields higher.

As we proceed through Q1, USPR remains elevated, keeping downward pressure on the U.S. dollar. The fact that domestic U.S. political risk drivers appear more urgent than U.S. Geopolitical Risk could support the recent downward correction in gold price, although elevated overall USPR will continue to provide support to gold, especially given our forecast for U.S. Sovereign Risk amid leadership changes at the Fed. Given the historical pattern, we do not expect U.S. Political Risk to have a material impact on persistent increases in the S&P 500, with the fate of the AI economy clearly a much bigger driver. But the growing sensitivity of the S&P 500 to political risk events does warn of a rockier road ahead.

## Authors



**MARK ROSENBERG, PHD**  
 Founder



**ROSS SCHAAP, PHD**  
 Head of Research



**ADAM LAURETIG, PHD**  
 Political Scientist

## About GeoQuant

GeoQuant is an innovative AI-driven data and technology company, acquired by Fitch and now part of BMI, that is transforming the way the world's leading organizations are quantifying, integrating, and navigating political risk.

By fusing PhD-level political and computer science, GeoQuant generates high-frequency, quantitative measures of risk that are systematic, back-testable, and predictive.

The result is real-time updates for over 40 political risk indicators in more than 140 countries, and analytics that enable you to foresee risk trends and make proactive moves.

GeoQuant data, modelling and advisory services have been used to successfully inform the asset, risk and sovereign ESG strategies of leading institutional partners.

---

## About BMI

In an uncertain macroeconomic environment, BMI's systematic, independent and data-driven market insights, analysis and forecasts enable you to recognize and assess risks and opportunities across 200+ markets and 20+ industries. For more than 40 years, we have provided impartial and transparent analytics, data and research

across themes, countries and sectors, with deep insight into emerging markets. Our detailed intelligence is frequent, consistent and systematic, enabling you to easily make comparisons and interrogate data to support your strategic plans and investment decisions.

Learn more at [fitchsolutions.com/bmi/geoquant](https://fitchsolutions.com/bmi/geoquant)

---

## Client Services

A dedicated team of client services professionals based in New York, London, Hong Kong, Singapore and Tokyo provide client support. You can contact this team by the following email [fscustomersupport@fitchsolutions.com](mailto:fscustomersupport@fitchsolutions.com) or the phone numbers below:

**LONDON**  
+44 20 3530 2400

**NEW YORK**  
+1 212 908 0800

**HONG KONG**  
+852 2263 9999

**SINGAPORE**  
+65 6796 7231

**TOKYO**  
+81 3 6897 8986