Market volatility shows strains of widespread geopolitical tensions

The U.S. stock market has seesawed in the new year, following a chaotic end to 2018 — its worst annual performance since the Great Recession and worst December performance since the Great Depression. The magnitude of recent swings suggests they are driven less by economic and market conditions than by geopolitical challenges.
in critical geopolitical trends like the rise of illiberalism in Europe, Trump administration trade policies, and China’s Belt and Road initiative.

**Global geopolitical tensions** are already impacting trade and business.

- Russian interference in democracies like the U.S. and the U.K. is diminishing trust in election results, inflaming political rivalries, and distorting economic policy.

- Protracted U.S.–China trade conflicts are straining supply chains essential to sourcing goods and services.

- Unraveling negotiations in the Middle East and the regional influence of Russia, Iran and Saudi Arabia have increased the risk of a hot war and the economic harm it would bring.

- The rise of illiberalism and right-wing populism across Europe is scaling back democratic checks and balances and raising the potential for corruption.

**Together, these trends** are eroding faith in pillars of global governance (NATO, UN, EU, WTO, and more) and social institutions, which contributes to market volatility and unpredictability.

**Meanwhile,** intensified polarization in the U.S. has led to standoffs like a partial government shutdown over a border wall dispute that threaten the economy and national security.

- The economic power of the U.S. could decline as its debt and the associated costs mount, in the absence of effective congressional leadership.

**Yes, but:** In the U.S., some pillars of democracy — the federal judiciary, intelligence and law enforcement communities, a reinvigorated media, and grassroots political movements — have helped counter other risks.

**The bottom line:** These geopolitical trends erode trust, increase market volatility and dampen investment. If the U.S. pulls out of its current malaise, particularly after the 2020 elections, more effective governance could help correct the current course. It could also serve as an example to improve stability elsewhere, especially through international cooperation.

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