INVESTMENT MANAGEMENT

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A multipolar world defined by constraints

For much of the post-financial crisis period, global markets were heavily influenced by developments in the United States. US growth, inflation and policy decisions often shaped financial conditions elsewhere. Inflation stayed subdued, interest rates were predictable and policymakers acted with confidence. That world has shifted.

Market Musings Authors

Joost Van Leenders
Senior Investment Strategist

Follow Joost on LinkedIn

Today's global economy is shaped by several centres of influence pulling in different directions. The forces behind this shift are geopolitical, with economic consequences. Growth, inflation and capital flows no longer move together as neatly as before, and the assumptions that underpinned the last decade are proving less reliable.

Recent escalation in the Middle East is a reminder of global fragmentation, where geopolitical shocks can have a material impact on economic growth, inflation and financial markets.

A defining feature of the current environment is the rise of long-term pressures. These include public finances, supply chains, climate risks, resource availability, demographics and the political constraints facing central banks. They reduce flexibility and suggest the coming decade may be defined more by the forces shaping each region individually than by broad global trends.

The end of the old policy framework

The decade after the financial crisis relied on three expectations: that fiscal and monetary policy support would arrive when needed, that inflation would remain low and predictable and that major regions would broadly move in unison. We believe those expectations have become harder to rely on.

Countries are now responding more to their own imperatives. Energy security, domestic investment priorities, demographic pressures and national politics shape decisions more directly. Capital moves in a more selective way. The global economy in our view can no longer be captured by a single narrative, and regional fundamentals matter more than they have for years.

Themes for the decade ahead

1. Long-term inflation shaped by economic self-reliance

Inflation is increasingly influenced by deliberate choices rather than temporary shocks, particularly where security is prioritised over efficiency. Governments are rebuilding supply chains, strengthening domestic or allied energy systems and protecting access to critical materials and technologies. Security is more often being placed ahead of cost efficiency. This shift creates more persistent cost pressures and makes a return to the low and stable inflation environment of the 2010s less likely.

Inflation today is increasingly shaped by deliberate choices that favour security over efficiency, and those choices carry a lasting cost.

2. Constraints on monetary policy instead of monetary policy rescue

Several constraints now limit monetary policymakers' room to manoeuvre:

- High public debt across major developed economies
- Rising interest burdens reducing fiscal space
- Political pressure on the Federal Reserve can constrain monetary policy
- Policy rates in parts of Europe are already close to the zero interest rate lower bound

Monetary and fiscal policy can still act as stabilisers, but their ability to generate the broad uplift seen in previous cycles appears more limited.

3. A slower and costlier climate and materials transition

The climate transition continues, but not with the speed imagined in earlier policy roadmaps. Emissions remain high and climate-related disruptions are increasingly visible in operations and costs. Political appetite for rapid climate ambition has softened even as adaptation pressures grow.

At the same time, the shift towards more efficient use and recycling of key materials remains in an early stage. Progress in the decade ahead is likely to be real but uneven, bringing periods of friction alongside opportunity.

4. A patchwork growth outlook

A multipolar world produces overlapping cycles rather than a single global one. We believe the United States retains strengths in innovation, energy self-sufficiency and labour flexibility. Europe has scope for productivity gains through competitiveness reforms and deeper integration, although progress is uneven. China remains a major manufacturing force but faces domestic challenges that temper its global influence.

These dynamics do not always align, leading to more varied regional growth paths.

What this means in the short term

Within this environment, in our view the short-term picture looks different from recent years.

- Government debt and deficit levels remain stretched
- Tariffs continue to influence prices and trade flows
- Geopolitical risk premia can re-price quickly through energy markets, even if broader risk assets remain relatively orderly
- Corporate earnings in the US are supported by solid profitability and the strength of technology
- Europe may gradually improve after several subdued years as easier financial conditions feed through
- China is likely to deliver moderate growth, although confidence remains fragile and long-standing economic challenges persist

Taken together, these conditions mark a shift in how economies respond to shocks and policy changes. Many of the assumptions of the last cycle are becoming harder to rely on. Without a single global tide, outcomes depend on where companies can sustain profitability, which firms can manage persistently higher costs and which regions have credible domestic demand. Fundamentals matter more than fiscal and monetary policy support, and differences in performance are likely to remain wide.

A concluding thought

A multipolar world is not necessarily more chaotic, but it is more complex. Several centres of influence now shape outcomes, sometimes reinforcing each other and sometimes pulling apart. This is why inflation may behave differently, why government policy is less predictable and why growth feels uneven.

For investors, the key change is that outcomes are likely to diverge more. With a weaker policy backstop and more persistent constraints, dispersion remains higher. The focus shifts to fundamentals: pricing power, balance sheet strength and credible domestic demand.

VAN LANSCHOT KEMPEN

Beethovenstraat 300, 1088 WZ Amsterdam,
The Netherlands.

vanlanschotkempen.com/investment-management

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