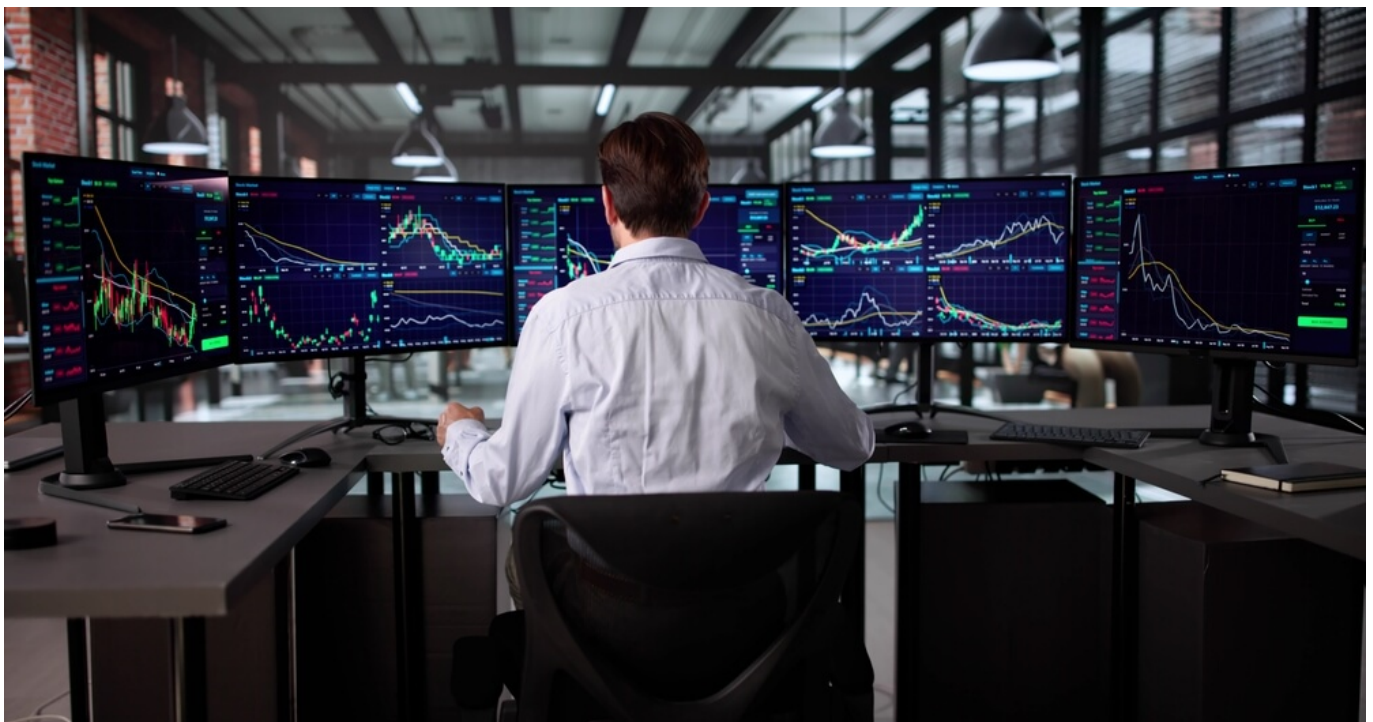




By: **Daniel Lacalle**

Why markets ignore geopolitical risk



The increase in the global geopolitical risk index has not affected global markets. The general tone remains bullish despite a surprising “neutral” view shown in **CNN’s Fear and Greed Index**.

The reality is completely different. Investors may say they are neutral given the elevated valuations and the global uncertainty, but most asset managers’ positioning is exceedingly bullish and concentrated on very cyclical sectors like banks and technology.

The main reason for this striking contrast between explicit concerns and positioning is a clear consensus of central bank easing as the norm. Global money supply is expected to grow much faster than nominal **GDP in 2026**, what I call the monetary tsunami.

Investors should not ignore geopolitical risks and the evident impoverishment of middle classes due to inflationist policies that we have commented on in this column a few times.

Inflating financial asset prices while eroding the real value of fiat currencies generates social discontent, weaker productive investment, and a dangerous sentiment of confidence.

Gold soars as government bonds lose appeal

Risk accumulates gradually but can manifest suddenly, and the current environment is characterised by a perilous sovereign debt bubble that coincides with a decrease in global central banks’ demand for bonds from developed economies.

That is why gold soars. Demand for gold is rising while appetite for government bonds declines.

Global broad money is probably going to rise well above nominal output, with overall money supply growth projected to exceed 12% in 2026 while **global GDP** stalls around 3–3.1%, far below pre-2008 norms.

Furthermore, global capital investment is likely to be flat relative to depreciation in 2026. This enormous difference between liquidity and real activity reflects years of aggressive monetary and fiscal policies, with out-of-control deficits and bloated public balance sheets still driving central bank behaviour.

In Europe, the challenging political and fiscal situation, particularly in countries such as France, makes it very difficult for the ECB to normalise

According to **JP Morgan**, US money supply (M2) rose by 1.7 trillion dollars in 2025, growing at 6.6% and above nominal GDP for a third consecutive year.

This creates a risk of persistent inflation and elevated valuations in financial assets. Even if consumer prices rise at a slower pace than in previous years, the risk of loss of purchasing power remains.

For 2026, JP Morgan expects US money creation to exceed 2 trillion dollars, approaching the 2021 pace, as new liquidity channels—especially Federal Reserve T-bill purchases—replace quantitative tightening and extend the monetary stimulus cycle.

In 2026 the Federal Reserve is likely to remain accommodative, bringing real rates down towards a neutral level and even maybe adding a potential “mini-Quantitative Easing” or hidden easing program of roughly 20 billion dollars a month in Treasury purchases and mortgage-backed securities.

In Europe, the challenging political and fiscal situation, particularly in countries such as France, makes it very difficult for the ECB to normalise, forcing it to persist with instruments such as the anti-fragmentation tools and the monetisation of EU funds as well as a larger EU budget.

Resisting the negative impact of

inflation

The reason why investors remain bullish is also because recent years' events have shown that geopolitical risk plays a diminishing role in market volatility.

However, ongoing inflation and geopolitical risk do impact economic growth, investment, and consumer spending, which results in lower forecasts for economic output, reduced earnings estimates for companies that are more sensitive to the economy and keeps valuations at uncomfortable levels.



Ignoring geopolitical risks may lead to more aggressive investment in financial assets than would be advisable - Daniel Lacalle

Global inflation is expected to moderate but remain above pre-pandemic levels around 3%, with developed economies still above their 2% targets because governments refuse to cut spending or deficits, so CPI stays “artificially” high relative to where it should be and underlying growth.

This leads to social discontent and rising populist measures in developed nations, while protests may bring more unrest in countries like Iran.

The situation never ends well. Central banks stopped being independent years ago, and their main strategy is to maintain unjustified low yields in sovereign bonds at the expense of consumers, who suffer the accumulated impact of inflation and rising taxes.

Ignoring geopolitical risks may lead to more

aggressive investment in financial assets than would be advisable. However, too much fear leads to real losses for investors who decide to stay in cash and therefore suffer the annual erosion of the purchasing power of the currency.

What to do then? Active portfolio management, prudent positioning, and a focus on gold, silver, and developed economies' equities may help investors resist the negative impact of inflation and avoid the risks accumulated due to political uncertainty.