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Executive Summary

Military intervention materializes in Venezuela, with risk of spillovers to neighboring countries

The direct military intervention by the United States in Venezuela represents an unprecedented rupture in Latin America, triggering a broad-based increase in perceived political risk across economies characterized by strategic resources and fragile institutional frameworks. At the same time, the controlled escalation in the Taiwan Strait, the protracted nature of the conflict in Ukraine, and the persistent fragility of the ceasefire in Gaza are shaping an environment of “unstable peace,” in which tail risks are becoming increasingly likely. The net result is a sustained rise in global uncertainty, with cumulative effects on investment, trade flows, and risk premia, even in the absence of large-scale open conflicts.

Tensions in metal prices—particularly copper—are amplifying input cost volatility at the start of 2026.

Oil and gas, by contrast, are acting as disinflationary anchors. Crude prices remain around USD 60 per barrel, reflecting ample supply conditions and demand that has become less sensitive to global growth dynamics. Meanwhile, natural gas prices in Europe have consolidated a deep normalization following the energy crisis, improving competitiveness and reducing inflation volatility. Against this backdrop, copper stands out as the main source of structural tension. Elevated prices are not the result of speculative episodes, but rather of a combination of low inventories, insufficient supply, and demand driven by electrification, digitalization, and rising defense expenditure. This divergence helps contain short-term inflationary pressures, but introduces medium- to long-term risks related to costs and strategic dependence.

Monetary policy continuity is the most likely scenario for 2026.

The disinflation process has allowed central banks to conclude restrictive cycles and move toward easing or extended pauses, albeit in a cautious and highly data-dependent manner. The Federal Reserve and the ECB face their first meetings of the year with a broadly neutral bias, prioritizing incoming data on inflation and labor markets over explicit commitments to further rate cuts. The Bank of England maintains a prudent stance amid weak growth, while Japan remains the notable exception, continuing its normalization process after decades of ultra-accommodative policy. In this environment, policy rates are stabilizing, the Euribor is consolidating at relatively low levels, and the US dollar shows a gradual depreciation trend against both the euro and the pound.

The global economy enters 2026 with low growth and pronounced cross-country divergences, with Spain and the United States expected to outperform.

The central scenario points to subdued but positive growth. The United States maintains a relatively solid trajectory; China faces a delicate balance between stimulus and financial stability; and the United Kingdom advances with very modest growth. Within the euro area, Germany remains the main source of weakness, France shows a gradual recovery constrained by political uncertainty, and Spain stands out as the most dynamic economy, albeit with a persistent inflation differential linked to electricity prices. Overall, the balance of risks remains tilted to the downside—driven by trade, energy, and geopolitical factors—shaping a 2026 characterized by fragile stability rather than cyclical expansion.

Geopolitical risks

Venezuela: Reconfiguration of Political Risk in Latin America

As highlighted in our previous bulletins, the most disruptive event at the start of 2026 has undoubtedly been the direct intervention by the United States in Venezuela and the capture of Nicolás Maduro on January 3, 2026, as part of the so-called *Operation Absolute Resolution*. This episode marks a historic turning point: it represents a direct military intervention in Latin America without prior multilateral authorization, breaking with decades of formal restraint in the region. As a result, its implications extend well beyond Venezuela itself:

- **Regional political risk:** A precedent is set that materially increases perceptions of institutional vulnerability across Latin America, particularly in countries with high dependence on strategic resources or with latent internal political tensions.
- **Energy reordering:** Venezuela holds approximately 17% of global oil reserves, currently largely underutilized. Effective U.S. control over their commercialization introduces a structural downward bias to medium-term oil prices, reinforcing an already prevailing environment of supply abundance.
- **Geopolitical realignment:** The operation weakens non-Western alliance networks, particularly the links between Caracas, Tehran, and Moscow, forcing these actors to reconfigure financial, logistical, and diplomatic channels. For Iran, in particular, this represents a significant loss of strategic depth in the Western Hemisphere.

Taiwan: Controlled Escalation with Elevated Systemic Risk

In the Asia-Pacific region, the Taiwan Strait has entered 2026 at its highest level of tension in recent years. China began the year with large-scale military exercises involving live fire, including naval deployments, air operations, and missile launches—an unambiguous demonstration of both capability and deterrent intent. This is not an accidental escalation, but a deliberate strategy of sustained pressure:

- Beijing seeks to demonstrate its ability to concentrate military assets within very short timeframes and to maintain prolonged pressure, particularly in response to arms sales to Taiwan and explicit statements of support from the United States and Japan.
- The commitment by Taiwan’s new leadership to raise defense spending to 5% of GDP over an eight-year horizon reflects a structural shift in the island’s fiscal and strategic posture, with medium-term implications for public debt dynamics and budgetary allocation.

We can increasingly interpret 2026 as a year of preparation, with 2027 emerging as a potential horizon in which China may assess that it has accumulated sufficient military capabilities for more aggressive scenarios. While our baseline scenario does not envisage an open conflict in the near term, the probability of tail events has risen clearly and persistently.

Ukraine: Political Negotiation Without Strategic Resolution

The Russia–Ukraine conflict enters 2026 with a notable change in form, but not in substance. Negotiations are taking place, but they remain strictly political in nature and do not alter the Kremlin’s strategic red lines. Russia’s objectives remain unchanged: territorial control over occupied regions and, critically, the permanent exclusion of Ukraine from NATO.

From a military standpoint, the Russian deployment—estimated at around 710,000 personnel—signals a strategy of defensive consolidation rather than rapid territorial expansion. Advances have slowed but not reversed. This points to a prolonged war of attrition, with the implicit objective of eroding the political and fiscal cohesion of the European bloc over the medium term.

Our central scenario does not contemplate a direct NATO–Russia escalation in 2026, but the risk of incidents in grey zones (the Baltics, Poland, Moldova) remains elevated. Ukraine therefore continues to act as a source of persistent geopolitical noise rather than a one-off catalyst, albeit with cumulative adverse effects on Europe’s potential growth.

Gaza: Fragile Ceasefire and Structural Humanitarian Crisis

In the Middle East, the conflict in Gaza enters 2026 under a formally active ceasefire that is systematically breached. From our perspective, this does not constitute de-escalation, but rather a violent freezing of the conflict, characterized by recurring episodes of bombardment, incursions, and restrictions on humanitarian access.

Greenland: A New Front in the Global Risk Agenda

Greenland has shifted from a secondary strategic issue to an explicit focal point of geopolitical tension at the start of 2026. The hardening of rhetoric by the Trump Administration—framing a potential acquisition of the island on grounds of "national security"—represents a meaningful qualitative change. For the first time in decades, a long-standing NATO ally, Denmark, finds itself directly challenged, introducing a new source of friction within the transatlantic alliance itself.

U.S. interest reflects a combination of critical resources and strategic positioning. Greenland hosts significant reserves of rare earth elements and potential energy resources, key to reducing Western dependence on China, and occupies a central position in the Arctic for the control of emerging maritime routes as well as for U.S. defense and early-warning architecture. However, the short-term economic viability of exploiting these resources remains limited, reinforcing the interpretation that the primary motivation is geopolitical rather than commercial..

Commodities

Oil: The oil market enters 2026 without clear signs of structural stress.

Following a 2025 marked by a price correction, Brent crude stands at around USD 60 per barrel in early January, posting a significant year-on-year decline. This trajectory does not reflect a one-off shock, but rather a persistent combination of moderate demand growth and expanding supply, both from OPEC+ and non-OPEC producers.
From our perspective, the key takeaway is that geopolitics has ceased to be the dominant trend driver in oil markets. Episodes of tension—such as the recent developments in Venezuela—generate short-lived price movements, but do not alter the underlying equilibrium. On the contrary, the potential gradual reintegration of Venezuelan volumes into international markets reinforces the medium-term downside bias, in a context where global oil consumption continues to grow, albeit with diminishing elasticity to economic activity. This environment carries relevant macroeconomic implications. On the one hand, it acts as a disinflationary anchor for importing economies, easing energy costs and supporting disposable income. On the other, it compresses upstream profitability, constraining investment in exploration and production and extending a cycle of moderate prices that, paradoxically, increases future vulnerability to potential supply shocks.

Electricity & Natural Gas

If oil prices signal containment, natural gas in Europe confirms a much deeper disinflationary dynamic. At the start of 2026, gas prices stand well below the levels observed during the energy crisis, reflecting a structural transformation of the market. The global expansion of liquefied natural gas and Europe's enhanced ability to diversify supply sources have significantly reduced the geographic premium that once characterized the European gas market.

This adjustment is not merely technical. For economies such as Spain's, lower gas prices translate directly into reduced regulated tariffs and, therefore, into an income transfer from the energy sector to households and firms. From a macroeconomic standpoint, gas ceases to be a stress factor and instead becomes a stabilizing force, improving industrial competitiveness and dampening volatility in inflation expectations.

Copper

Copper ended 2025 at historical highs and enters 2026 maintaining elevated levels—not as the result of speculative behavior, but due to genuine tightness in market fundamentals. Visible inventories remain low, while supply growth is insufficient to absorb demand that continues to expand.

Electrification accounts for a substantial share of this pressure: electric vehicles, renewable energy, smart grids, and storage systems are all copper-intensive. This is compounded by a second factor of a geopolitical and industrial nature: rising defense spending and the expansion of digital infrastructure, which add an additional layer of structural demand.

Monetary policy, Interest rates & Currencies

We enter 2026 under a shared framework: central banks are operating in an environment of progressive but fragile disinflation, moderate growth, and geopolitical shocks that retain the potential to reignite volatility in energy markets and inflation expectations. The result is a broadly accommodative bias—either toward easing or extended pauses—with one notable exception: Japan, where the process is one of normalization. Below we outline our institution-by-institution assessment, focusing on the first scheduled meeting of 2026 in each case.

Federal Reserve (United States)

The Federal Reserve ended 2025 after delivering several rate cuts, bringing the policy rate range clearly below the peak of the restrictive cycle. Year-end communication was unambiguous in emphasizing the absence of ex ante commitments and the primacy of a strictly data-dependent approach. Looking ahead to the first meeting of 2026, scheduled for January 27–28, our central scenario is one of rate maintenance, pending greater clarity on inflation dynamics and labor market conditions, in a context where energy-related and geopolitical risks remain present.

European Central Bank (ECB)

The ECB closed 2025 with the deposit facility rate at 2.00%, having completed the easing cycle initiated in 2024. Entering 2026, the institution can be characterized as operating in broadly neutral territory, with headline inflation close to target but clear persistence in services and wage components. Against this backdrop, expectations for the first meeting of the year, scheduled for February 4–5, point to continuity: we do not anticipate immediate policy moves, but rather a communication stance centered on vigilance and strict data dependence, particularly given the fragile growth outlook in the euro area.

Bank of England (BoE)

At the BoE, the final decision of 2025 left Bank Rate at 3.75%, following a meaningful easing process over the course of the year. The UK macroeconomic backdrop—weak growth and early signs of labor market softening—suggests that the underlying bias remains accommodative. While no fixed date is specified here, expectations for the first meeting of 2026, likely in February, are for the BoE to maintain a cautious approach, avoiding firm commitments to an additional rate-cutting path until clearer evidence emerges on inflation and wage developments.

Bank of Japan (BoJ)

The BoJ stands out as the key exception in the global monetary landscape. It closed 2025 with a rate hike that marked a historic milestone after decades of ultra-accommodative policy. This decision reflected persistent domestic inflationary pressures—particularly in services—and strengthening wage dynamics. The first meeting of 2026, scheduled for January 22–23, is best interpreted as a confirmation point: the focus will be less on an immediate additional hike and more on the tone of communication, especially regarding the sustainability of inflation and the outcome of the spring wage negotiations.

Market rates: Euribor and the medium-term signal

With the **12-month Euribor** around 2.25% in early January 2026, the behavior of the euro 5-year interest rate swap (IRS 5Y) provides insight into market expectations beyond the short term. In recent weeks, the IRS 5Y has declined gradually, from levels close to 2.60% in late December to around 2.52%, indicating that investors have moderated their expectations for elevated policy rates over the medium term.

The joint reading of these indicators is clear. Euribor pricing suggests that markets largely assume the ECB will keep rates unchanged through 2026, while the decline in the 5-year IRS points to the possibility of a gradual normalization toward lower levels further out. In other words, the market does not anticipate a renewed phase of monetary tightening.

In the **foreign exchange space**, EUR/USD is trading around 1.17, consolidating a significant appreciation accumulated since 2025. This move is not the result of an exceptional acceleration in euro area fundamentals, but rather reflects a relative loss of attractiveness of the US dollar, as the interest rate differential between the Federal Reserve and the ECB continues to narrow. With the Fed engaged in an easing cycle and the ECB on hold, markets are pricing in a gradual convergence of US policy rates toward levels closer to those prevailing in the euro area.
Against this backdrop, our central scenario for 2026 points to a moderate and orderly appreciation of the euro, potentially toward the 1.20 level, in the absence of abrupt movements. Only the materialization of significant growth or inflation shocks in either economic bloc would be likely to disrupt this gradual trajectory.

Variable	Last Data
ECB Deposit Rate	2.00%
Fed (target range)	3.50–3.75 %
BoE (policy rate)	3.75%
BoJ (policy rate)	>0 %
12-month Euribor	2.26%
IRS EUR 5Y	2.52%
EUR/USD	1.17
GBP/USD	1.35
GBP/EUR	1.15

Economic Outlook

In the **euro area**, the ECB projects GDP growth of +1.4% in 2025 and +1.2% in 2026, with inflation converging to target by the end of 2025 (2.0%). The balance of risks remains tilted to the downside through three main channels: (i) trade, particularly U.S. tariffs and their transmission to European manufacturing; (ii) energy, given the potential for geopolitically driven supply disruptions, including those linked to Venezuela; and (iii) China, specifically its capacity to sustain domestic demand amid an ongoing property-sector adjustment and weak consumption.

In terms of high-frequency indicators, the euro area ends the year with the composite PMI still in expansionary territory but clearly losing momentum (51.5 in December, a three-month low), consistent with a 2026 scenario of moderate growth rather than cyclical acceleration. Our central scenario for 2026 is therefore one of low but positive growth, with inflation converging to levels compatible with a stabilization of policy rates in Europe.

The **U.S. economy** enters 2026 with monetary policy already in a phase of data-dependent easing, after the Fed brought the policy rate range to 3.50–3.75% by end-2025 following cuts during the year. The internal debate points to the possibility of additional easing in 2026, but with a high degree of dependence on inflation dynamics—particularly the risk of a rebound in energy components in the event of supply shocks. Against this backdrop, U.S. growth is expected to close 2025 at around 2.0% year on year, potentially accelerating to around 2.2% in 2026.

China closes 2025 with still solid aggregate growth (5.2% through Q3, above the official 5% target), but with a fragile starting point for 2026. The ongoing real estate crisis, subdued domestic consumption, and elevated youth unemployment remain key structural headwinds. Growth forecasts for 2026 lie in a 4.5–5.0% range, highly dependent on fiscal stimulus and on the authorities' ability to revive domestic demand without undermining financial stability.

In the **United Kingdom**, the end of 2025 is marked by the BoE's latest rate cut, bringing Bank Rate to 3.75% in December 2025 after six cumulative cuts during the year. The macro outlook for 2026 points to very modest growth (0.9%), contained inflation (2.3%), and a gradually cooling labor market. This configuration leaves the door open to further rate cuts, albeit without a pre-committed easing path from the central bank.

Germany remains the primary source of cyclical weakness among the major European economies, with GDP growth expected at around 0.2% in 2025. For 2026, we foresee a modest recovery (around 1.0%), largely driven by fiscal stimulus. External headwinds—stemming from weaker global trade and tariff tensions—together with subdued private investment continue to act as key bottlenecks.

France enters 2026 with a relatively favorable backdrop for consumers—headline inflation stood at 0.8% in December, the lowest in the euro area—but with political constraints weighing on investment and fiscal visibility. Growth in 2025 is estimated at 0.9%, and the Banque de France has improved its outlook for 2026 to around 1.0%, in line with our own projections, supported by external trade (notably aerospace) and a gradual recovery in consumption and corporate investment.

Spain continues to display the most dynamic profile among the large euro area economies. The Banco de España has revised 2025 growth up to 2.9%—in line with the 3% anticipated by EFR—and maintains a 2.0–2.1% growth scenario for 2026, underpinned by robust domestic demand (consumption and investment). Despite this favorable backdrop, second-round risks linked to the inflation differential should not be overlooked. Spain closed 2025 with inflation at 2.9%, compared with 2.0% for the euro area as a whole, with electricity prices acting as a key source of cost divergence. The projected convergence is expected to be gradual (2.5% in 2026; 2.2% in 2027).

Country	GDP 2026 (%)
United States	2.2%
China	4.5–5.0%
United Kingdom	0,9%
Germany	1.0%
France	1.0%
Spain	2.2%
Euro zone	1.2%

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EthiFinance Ratings

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