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2025 The World Ahead

Contents

Introduction

It is accurate to describe the previous twelve months, which have included the continuation of two wars, record-breaking climate disasters, and the return of unpredictable characters to positions of considerable power, as unstable. Regional conflicts have endured, yes. Climate disasters have impacted millions, yes. Volatile individuals have regained positions of power, also yes. However, focusing on pockets of conflict or unique sources of instability do not provide the entire picture.

When Axco's Global Risk Team carried out this exercise late last year, economic weakness in Germany and China threatened to throw millions into poverty. Conflicts in the Middle East and Eastern Europe were on escalation ladders that would have enmeshed numerous other nations into open conflict.

We analysed and revisited most of these trends in our Mid-Year Review published in June 2024. We also launched our own forecast model to allow our partners to track these trends as they develop. What is clear in revisiting these analyses and continuing to work with these tools, as well as setting the stage for 2025, is that despite the elevated risk environment we are traversing, opportunities still abound.

Amid economic volatility in Germany and China, the US and other developed markets remained resilient. S&P 500 year-to-date returns hover at around 24%. The UK's FTSE 100, which traversed an election year, returned 8% annually. Inflation, which tore through purchasing power and upended living standards through 2022-2023, has maintained a downward trajectory and entered acceptable ranges across numerous countries.

Despite enduring conflicts in Eastern Europe and the Middle East, numerous companies have also proven to have a sturdier-than-expected complexion. Tech firms in Ukraine have developed conflict-tested technology that will be among the most important building blocks of the country's future economy. Climate disasters across the globe also impacted millions. However, global investment in clean energy technologies in 2024 will reach USD 2 trillion for the first time, almost doubling the amount spent on fossil fuels. The point we would like to stress is that there is a dialectic between instability and opportunities. While an unstable world may lead to social and political uncertainty, it also creates avenues for different stakeholders to generate more returns.

The following report describes our forecast for 10 global trends and, for the first time, the risk perception of many of our partners collected through a global survey. We hope that the analysis provided is insightful but, most importantly, useful in setting expectations for the upcoming twelve months.

Konrad Petraitis Alfaro - Head of Global Risk

Jihadist groups set to further extend their influence in West Africa

Concentrated in the three junta-controlled states of Mali, Burkina Faso and Niger, the al Qaeda coalition Jama'at Nusrat al Islam wal Muslimin (JNIM) and its rival, Islamic State – Sahel Province (ISSP), doubled their rate of attacks in the western Sahel in 2024. Together, they continue to pose a formidable regional security threat that local governments and their foreign allies have struggled to answer. They are likely to further expand their operations in the coming year with large-scale, sophisticated attacks and new sources of recruitment and arms, strengthening their efforts to destabilise the wider region. The growing violence will further weaken governance and security in West Africa and increasingly threatens to spill over into previously secure littoral states.

JNIM and ISSP are thought to have a combined fighting strength of between 7,000 and 9,000 members. Despite being dwarfed in size by the region's national armies, the militants gained ground in all three of their host countries in 2024, bolstered by the expulsion of Western security forces by the ruling juntas and their replacement with ineffective Russian military contractors. Misconduct against civilians by the latter has served to drive militant recruitment, while the absence of US surveillance and counterterrorism capabilities has allowed jihadists to target cities once thought to be relatively secure.

A JNIM attack on government sites in Bamako in September 2024, for example, was the first assault on the Malian capital in eight years. It followed a joint Tuareg rebel and JNIM attack on the Russian Wagner Group in July that constituted the largest loss of personnel ever sustained by the company in Africa, with at least 40 contractors thought to have been killed in the encounter. In Burkina Faso, where the government is now estimated to control only half of its national territory, a JNIM attack on a military base killed approximately 100 soldiers in June. Two months later, in the single deadliest militant attack on the continent in decades, the same group massacred over 600 civilians in a village raid.

Both groups have also increasingly crossed south into neighbouring West African coastal states, which have previously been insulated from militant activity. Jihadists' use of Benin's Park W nature reserve as a staging ground for cross-border attacks into Burkina Faso dates to early 2018. But 2024 has seen an acceleration in JNIM-led attacks inside Benin itself, with related fatalities more than doubling from the previous year.

Togo has recorded a smaller but notable escalation, while Ivory Coast has rapidly militarised its border region and implemented social programs to limit jihadist recruitment. Local reporting has likewise identified Ghana as increasingly at risk due to a growing influx of JNIM fighters using the country's north as a secure rear base, with the apparent acquiescence of the authorities. The security forces' reluctance to confront JNIM has also allowed the group to loot the mining sector for explosives and related materials that have since been used in attacks in Mali. There is scant evidence to suggest that the rate of attacks by these groups will decelerate in the near term.

This has set the conditions for a further deterioration in West African security in 2025, which could also lead to an uptick in political instability. The insurgency in Burkina Faso, which alone accounted for a quarter of all terrorism-related deaths globally in 2024, has raised the risk of another coup, with credible reports of a foiled mutiny in the army emerging over the summer.

The unprofessionalism of Russian mercenaries has likewise fed growing dissatisfaction among military officers in Mali. Ghana's alleged reluctance to address militant activity in its territory mirrors the onset of al Qaeda's influence in Mali in the early 2010s, which developed into an insurgency that now occupies much of the country's north. 2024 has seen militants display an increased capacity to attack the governments of their host countries more directly and on a greater scale than in previous years. It is likely that the West African security and political environment will grow increasingly precarious in 2025.

Israel pursues maximalist goals in the Middle East

Israeli strategic thinking has long been dependent on the ability of its armed forces to achieve security and maintain territory in a hostile neighbourhood. Central to this has been the concept of deterrence, presenting or reminding any potential adversary of the overwhelming price they would face in the event of aggression. Similarly, Israel has also historically sought strategic depth, controlling foreign territory to provide a bulwark against any foreign invasion. The 7 October attack by Hamas was seen as a profound shock to Israel's previous assumptions about its security environment, and a failure to establish both deterrence and strategic depth against Hamas.

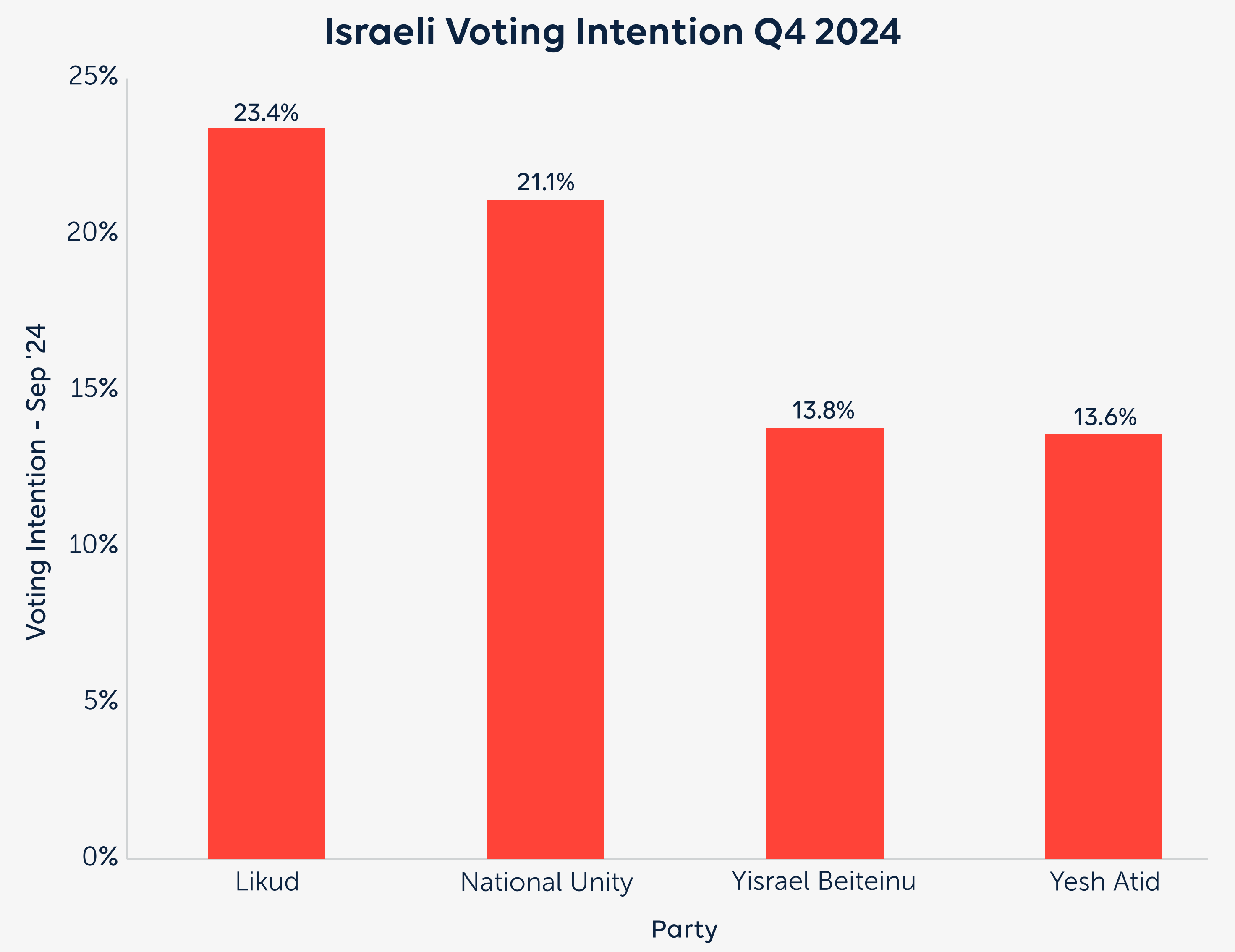
Heading into 2025, Israel's strategic landscape has been transformed from a year prior. In the Gaza Strip, despite failing to achieve the return of many Israeli hostages and the destruction of Hamas, the Palestinian militant group has been eliminated as an effective military force capable of threatening Israeli territory. On Israel's northern flank, the threat posed by the Lebanese-based Hezbollah has also been significantly degraded. This includes the elimination of much of Hezbollah's senior leadership and the establishment of a ceasefire which displaces the group from prized territory.

All of this has been achieved without significant casualties for the Israel Defence Forces (IDF) and with the economy remaining reasonably stable. Despite questions over Israel's long-term plan on both fronts, Israel has, by most conventional metrics, reestablished deterrence and a buffer zone against the hostile non-state actors on its borders.

Nevertheless, there are few signs pointing to a significant wind-down of operations. In part, this is due to the sheer extent of Israeli successes, wherein talk of tangibly reshaping the Middle East, including the elimination of Hezbollah or the overthrow of the Islamic Republic in Iran, has seemingly taken on a new feasibility. Similarly, previous iron-clad constraints it once faced on the international stage appear to have evaporated. Indeed, the incoming Trump administration is likely to put less pressure on Israel to moderate its ambitions and actions in comparison to its predecessor.

The clearest rationale, however, for the continued expansion of Israeli military operations is domestic politics. A key driver of Israeli's increasingly hawkish stance and willingness to use force is its clear popularity with the Israeli electorate. This is demonstrated by the remarkable recovery of Benjamin Netanyahu's position since 7 October (see Likud standing in polling results), when his political demise appeared inevitable. Given this powerful incentive, the rationale for Netanyahu to continue expanding Israel's war goals and take advantage of the situation is clear.

The feasibility of such new and expanded objectives, however, remains questionable. In Lebanon, the historical record of Israel attempting to establish a buffer zone south of the Litani River or regime change is poor, raising the risk of a near-indefinite commitment of Israeli boots on the ground. Further, while the Israeli government reportedly views Iran as comparable to a late-era USSR, the assumption it will collapse under the weight of ethnic divisions or popular revolt appears misplaced in the medium term. While shaken, the Iranian regime retains options and a willingness to bet on its ability to outlast Israel in a conflict of attrition, irrespective of its military and economic inferiority.

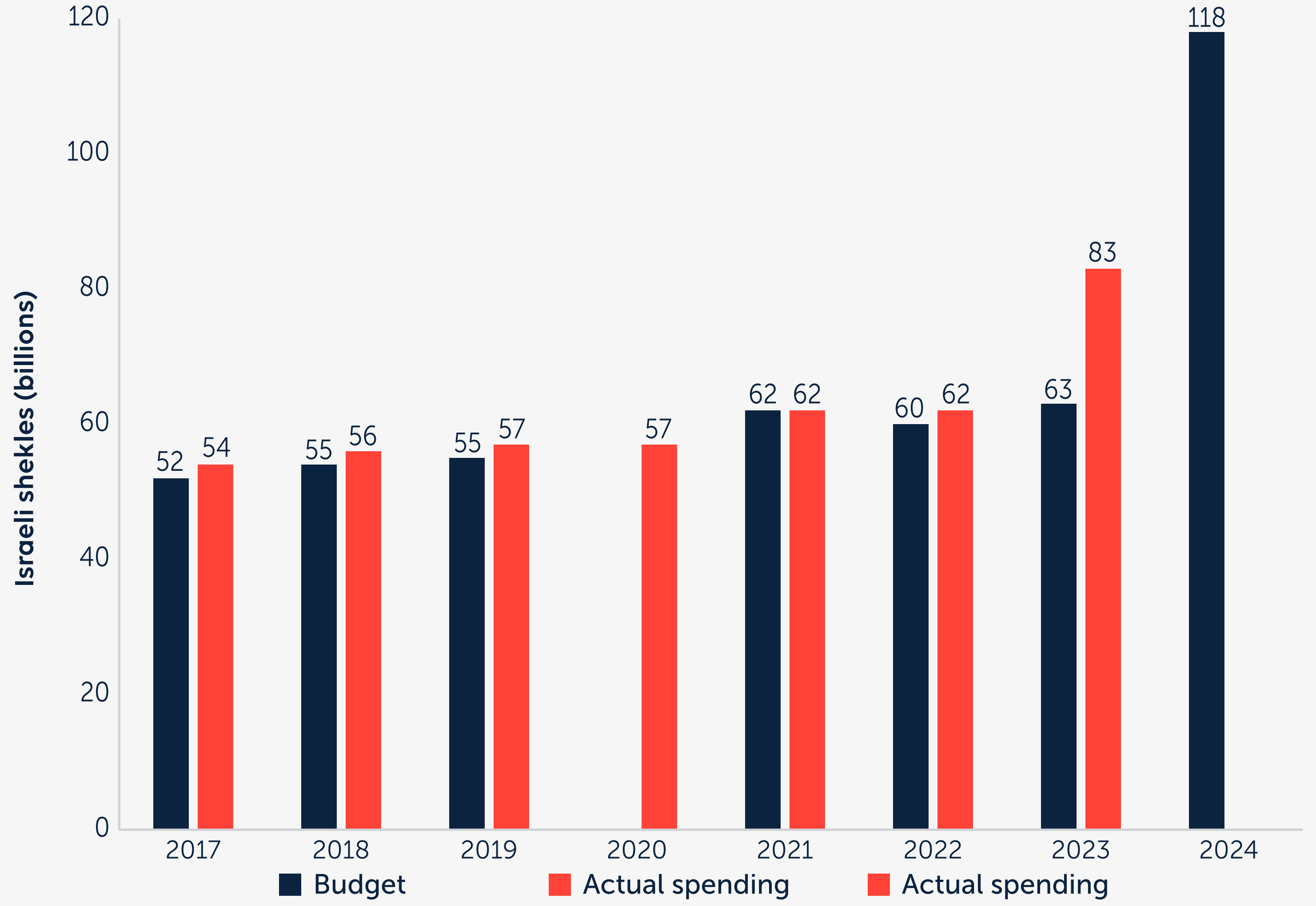


Source: Lazar polling, 19 September 2024

Iran will not allow the vulnerabilities created by Israel's aerial strikes to endure. Reporting indicates that Tehran is trying to obtain more advanced S-400 missile defence systems and Su-35 fighter jets from Moscow. While this would not achieve parity with Israel, it would make Iran a more difficult target in the future. Furthermore, Iran retains the option to pursue nuclear breakout and could produce enough fissile material for a nuclear deterrent in a matter of weeks, though a further 6-12 months would likely be required to build the delivery systems necessary to deploy it. Tehran will also seek to rebuild Hezbollah, which, despite the generational damage Israel has inflicted on its leadership, is likely to remain the dominant political and military force in Lebanon. Israel may sense a historic moment to reorder the region, given its perceptions of Iranian weakness and Washington's continued backing, however, its very attempt to achieve this is likely to drive the emergence of future threats to it.

Israel military spending likely to continue boosting defence contractors

Annual military budget allocation and actual expenditure in Israel from 2017 to 2024 (in billion Israeli shekles)

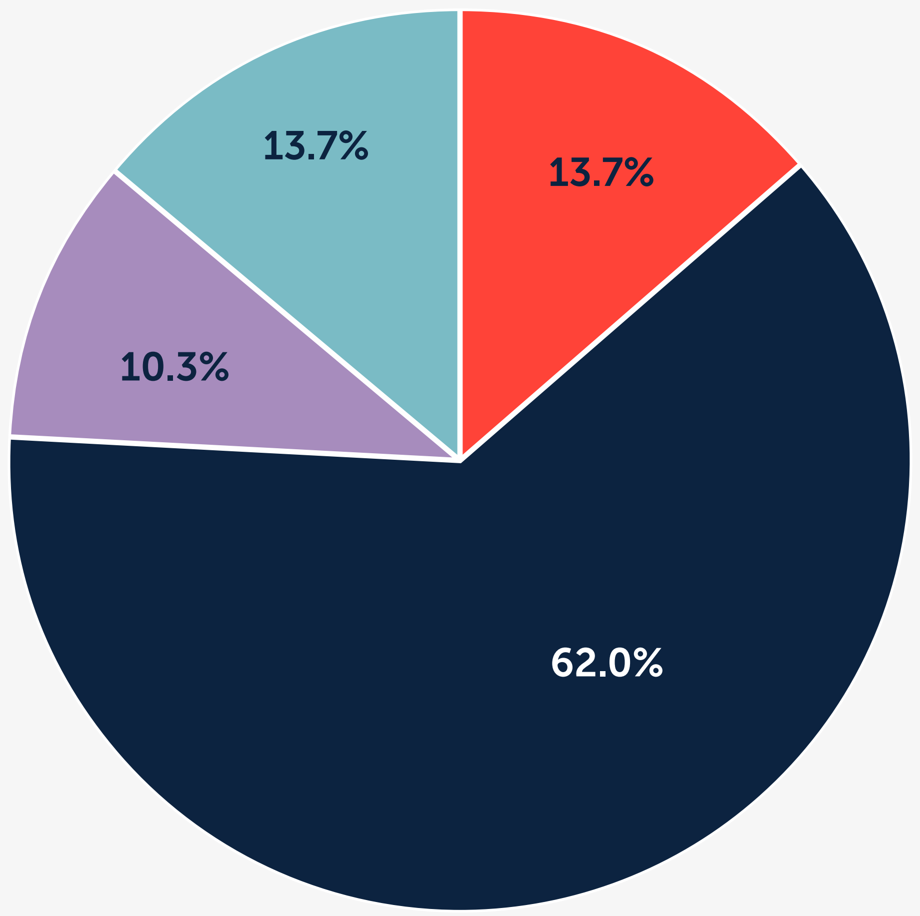


Source: Statista Research Department, October 2024

Global Risk Survey Result

What is the likely trajectory of the Middle Easy Conflict in 2025?

Not Known	0.0%
Greatly increasing	13.7%
Increasing	62.0%
Stable	10.3%
Reducing	13.7%
Greatly reducing	0.0%



Sinaloa cartel collapse to increase risks across Mexico

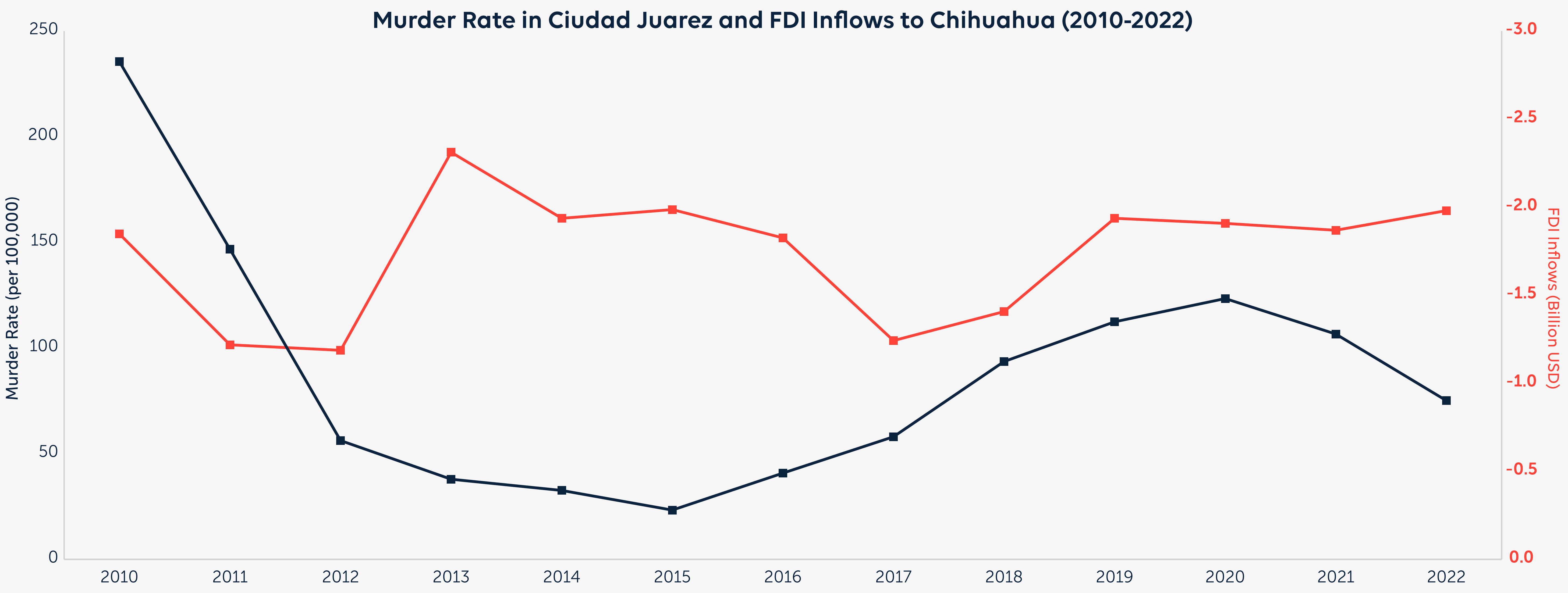
The Sinaloa Cartel was born in the 1960s as a loose affiliation of families able to exploit the rural areas of the state and its microclimate, which made it the centre of marijuana and opium poppy cultivation in Mexico. Roughly six decades later, the grouping became the largest and most powerful drug trafficking organisation in the Western Hemisphere. The future of that status, however, has been thrown into doubt following the rift between its two largest factions: Los Chapitos, led by the sons of Joaquin Guzman, and La Mayiza, led by Ismael Zambada, which has led to an explosion in violence across Sinaloa. In this conflict, we are likely experiencing the unwinding of the continent's largest criminal group, akin to an Enron or Lehman Brothers in scale.

Although low-level conflicts between the two groups date back to 2017, the current spike in violence comes after the alleged kidnapping and extrajudicial surrender to the US of Ismael Zambada by a son of Joaquin Guzman in August 2024. Since the incident, there have been 330 murders recorded between September and October, surpassing the state's historical record.

The likelihood that this current trend of escalating violence decelerates is low. This is in part because the violence has targeted members of each faction as well as perceived allies. These allies, born out of relationships that are measured in decades, are numerous, well known and largely unable to easily change sides without incurring retaliation.

The turf war has also had political repercussions. Following his arraignment in a US court, Ismael Zambada implicated Sinaloa Governor Ruben Rocha in his kidnapping. Citizen groups have already begun a process to remove Rocha, and the newly appointed and still highly popular government of Claudia Sheinbaum has distanced itself from him, seeking to insulate itself from the scandal. However, there is a high likelihood that other influential politicians will be implicated in misconduct allegations stemming from Zambada, in part because the previous government was known to favour negotiations as opposed to direct confrontations with large criminal groups. This would dent the political capital of the current government, increasing the risk of policy stagnation.

Economically, in the epicentre of the fighting, the city of Culiacan, numerous public services such as public transport and schools have been suspended. There is also reason to believe that investment in the area is likely to be severely impacted. In 2010, at the peak of the cartel turf war in Ciudad Juarez – then deemed 'the most dangerous city on earth' – FDI inflows saw a significant decline across the area.



Source: Statista Research Department 2022, Mexican Federal Government, National Security Commission 2023

Source: Mexico's Secretariat of State

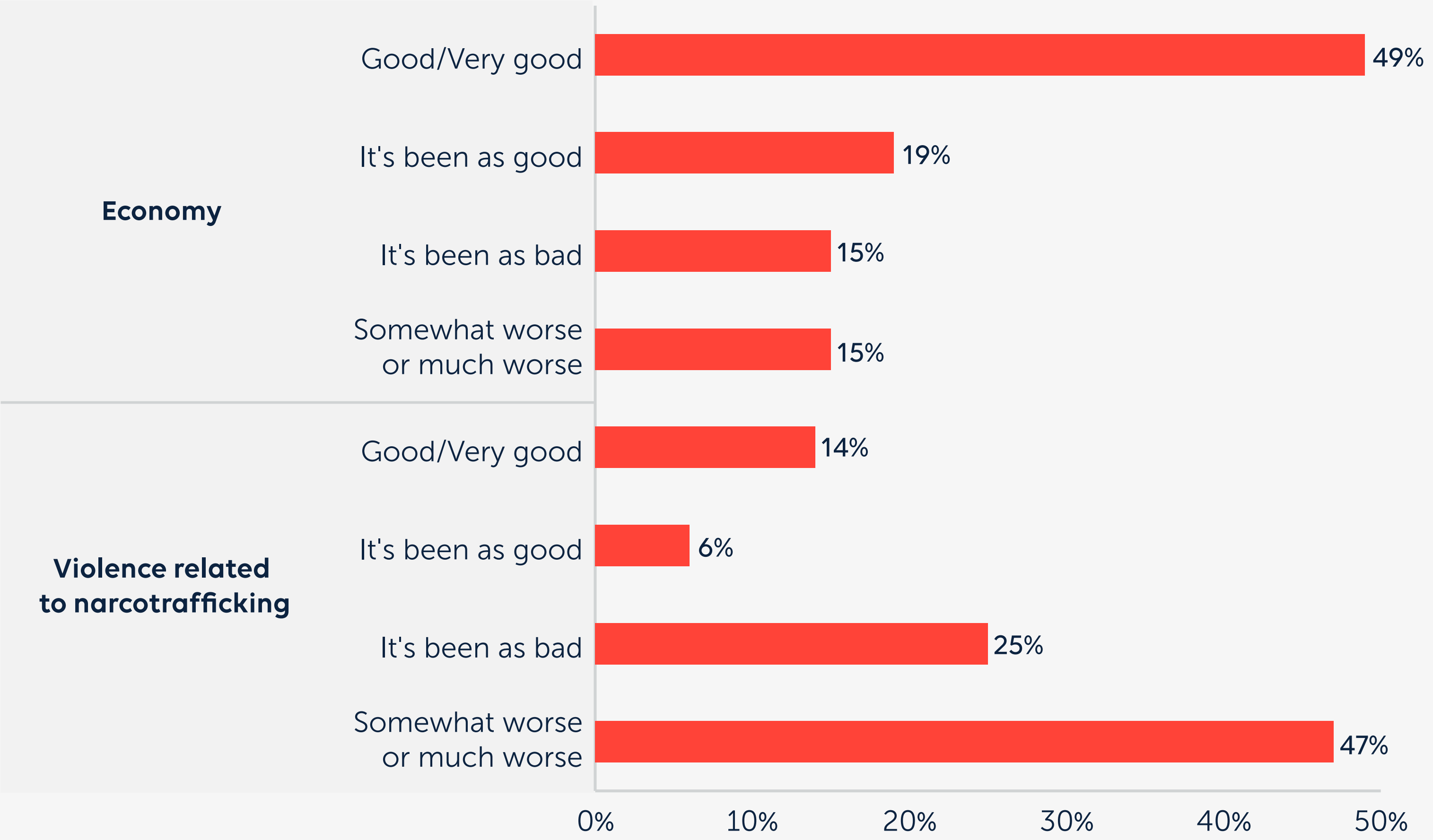
The violence and overall operational impact are unlikely to be contained in Sinaloa. Much like Enron or Lehman, the impact of their unwinding was felt well outside of Texas or New York. Cartel operatives own significant stakes in domestic businesses operating in the agriculture, real estate, logistics and tourism sectors. Infighting in the cartel is likely to impact these sectors, increasing risks to personnel and assets which may be targeted by criminal operatives seeking to target rivals.

The Sinaloa Cartel also has criminal operations in numerous states, including Sonora, Baja California, Nayarit, Jalisco, and Chiapas. There is no evidence to suggest that the ongoing war in Culiacan won't impact cartel cells in these states. Indeed, violence has already spread outside of the state's largest city to tourist hotspots in the area, such as Mazatlan, which have traditionally been no-go zones for criminals due to their large economic interest in tourist infrastructure.

A significant uptick in violence in other states is likely to depress investment, impacting Mexico's current status as a near-shoring hub positioned to receive businesses de-risking from Asian political volatility. For firms already committed to entering the country, the change in operational environment may lead to a significant recalibration of risk appetites. In other words, many businesses may be about to trade political instability in Asia to insecurity in Latin America.

Mexican opposition set to make gains, as government loses voters' confidence on violence

% of respondents who say they are better or worse position after previous presidential mandate

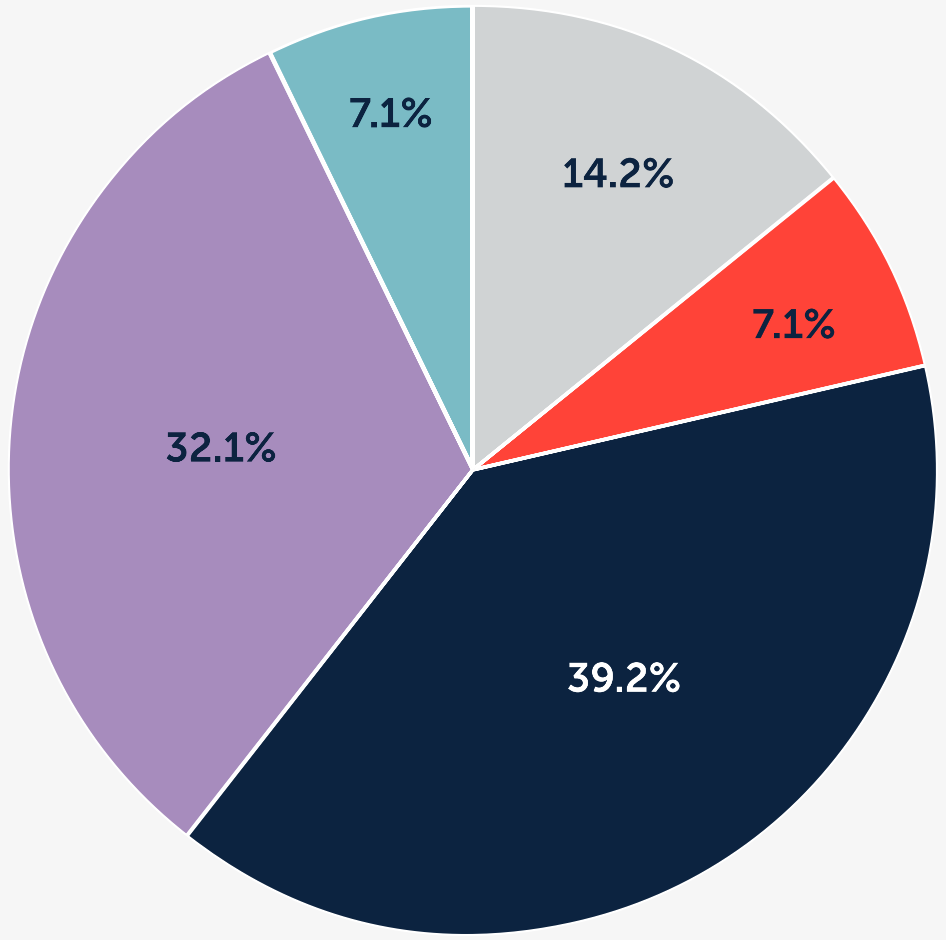


Source: Americas Society/Council of the Americas, August 2024

Global Risk Survey Result

What is the likely trajectory of Latin American Criminal Violence in 2025?

Not Known	14.2%
Greatly increasing	7.1%
Increasing	39.2%
Stable	32.1%
Reducing	7.1%
Greatly reducing	0.0%



Getting the house in order: China's economic outlook in 2025

Second only to the US in size and responsible for over 15% of world output, China's economy is extremely important to the global economic outlook. In 2024, as signs of a deflationary spiral in the East Asian giant strengthened, markets eagerly awaited a so-called fiscal "bazooka" by the country's Communist leadership. Stopping short of deploying such a policy weapon in favour of a more measured response, Beijing has reinforced concerns of a persistent growth slowdown. However, to feel wholly pessimistic about China's 2025 growth prospects would be to only acknowledge the downsides of the country's complex medium-term outlook.

Since we last took stock of China's economic performance, several of the country's emerging macroeconomic issues have intensified. The price and total sales of new homes, once almost universally perceived as a safe-haven asset, fell at an accelerating rate through most of 2024. Similarly, after contracting by 3.5% in the first nine months of 2024, year-on-year industrial profits amongst China's large companies fell by over 27% in September. These trends, combined with an annualised inflation rate that has roughly centred on 0% since early 2023, added to the notion that the economy has already entered a deflationary spiral.

Beijing's rollout of policy packages in the second half of 2024 has led to early signs of a reversal of the economy's downward trajectory. Following the People's Bank of China's (PBOC) broad monetary stimulus package in September, designed to support the property sector and capital markets, property sales began to rise, with first-time buyers in major cities demonstrating a renewed appetite for second-hand homes. Factory activity also expanded for the first time in six months in October, whilst services activity grew at its fastest pace since July. All promising signs for business and consumer confidence.

Since August 2024, Axco's Global Risk Tracker has forecast an above 50% likelihood of increasing US tariffs targeting China in a 12-month span. As of December 2024, our model forecasts a 73% chance that president-elect Donald Trump escalates US trade tariffs against China. For information on the Global Risk Tracker, visit www.axcoinfo.com/global-risk-tracker

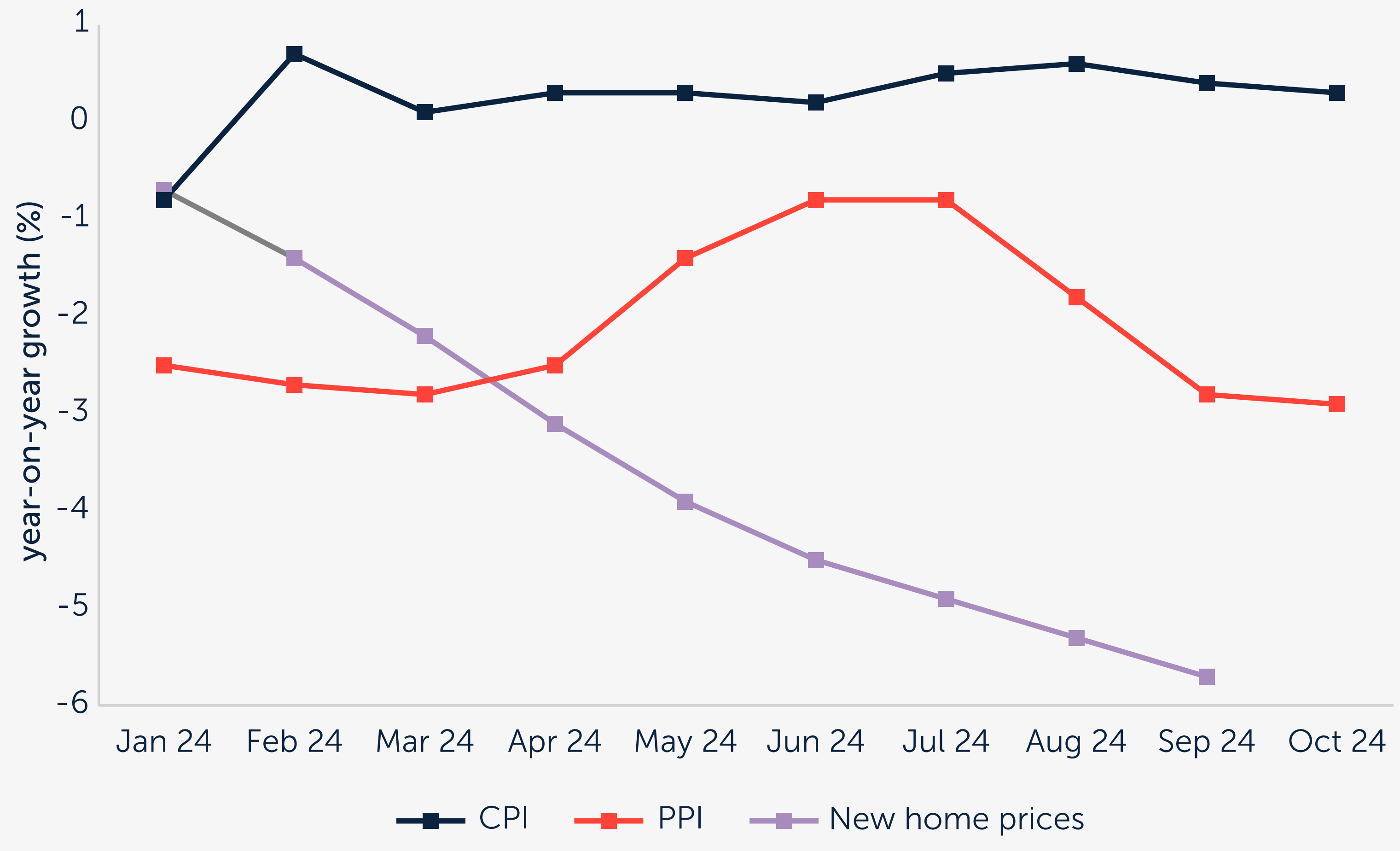
Despite the early signs of a change of fortunes, emerging risks threaten to disrupt Beijing's efforts to strengthen the domestic economy. Having pledged to apply a universal tariff as high as 60% on goods from China, Donald Trump's imminent return to the White House threatens to restart the trade dispute between the world's two largest economies. The Chinese economy, which has converged towards the "two-speed" model by offsetting weak domestic consumption with strong exports, could suffer greatly from a tit-for-tat tariff escalation with its largest trading partner.

Facing a mix of emerging risks and opportunities, 2025 will by no means be a straightforward year for the Chinese economy. With expansionary monetary policy already underway and a 1.4 trillion-dollar local government debt restructuring plan taking shape, we expect Beijing to add a third prong to its economic policy response in 2025, the long-awaited fiscal "bazooka".

Whilst exact policy details are currently unclear, the objectives of this fiscal package would be to make households' pockets feel heavier and restore faith in the ruling Communist party as the guarantor of economic prosperity, in turn boosting spending.

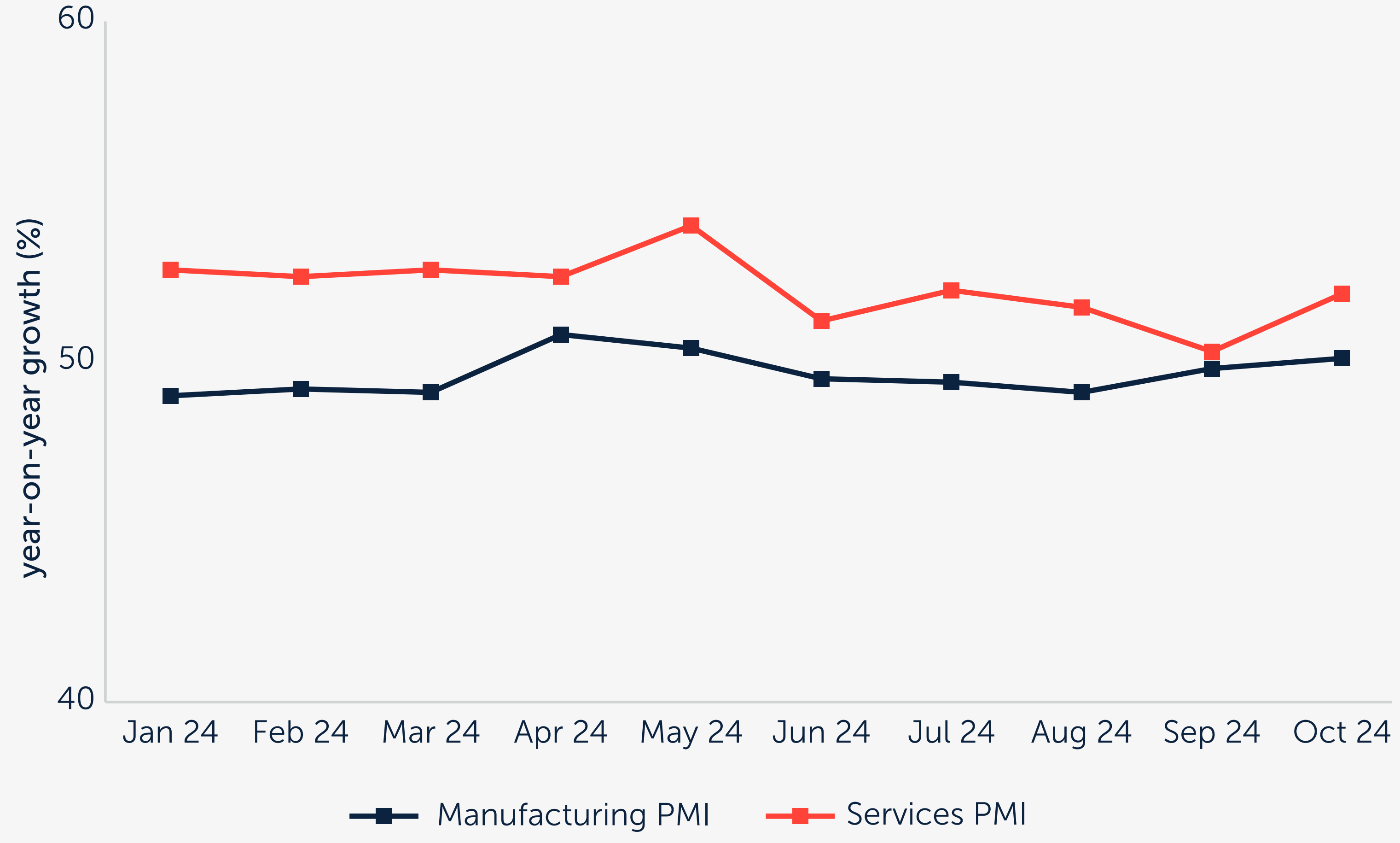
To put China's growth challenges into perspective, a 4% expansion of the Chinese economy in 2025, modest according to the projections of mainstream institutions, would create additional output greater than the size of the entire Belgian economy. The extent to which China can exceed this 4% mark and move closer to previous highs will depend on Beijing's success in offsetting the effects of a possible export slowdown with improved household and business spending. Our expectation that the party will announce the fiscal stimulus package in early 2025 to get ahead of Trump's White House return contributes to our prediction that China's aggregate growth will exceed 4.5% in 2025.

New Home Prices Reflect China's Deflationary Spiral



Source: National Statistics Bureau

Factory And Services Activity Hints At Post-Stimulus Boost



Source: National Statistics Bureau

Stringent ESG regulations in the EU to continue

Despite the ongoing war between Russia and Ukraine that has impacted much of the continent's energy supply, since 2022 the EU has yet to abandon many of its commitments to clean energy and associated ESG priorities. Indeed, it has accelerated many of them, effectively intertwining its politico-security concerns and ESG objectives. In the last year, bloc-level policies that have mounted pressure on firms to increase compliance include the 2024 enforcement of the Corporate Sustainability Reporting Directive (CSRD), which requires 50,000 companies to report on sustainability, and the Budapest Declaration in November 2024, which will maintain key reporting requirements.

One of the main avenues of regulatory expansion is the EU's crackdown on greenwashing. The practice – the deceptive marketing of products or services to seem more environmentally friendly – carries significant reputational fallout and can lead to hefty fines.

Recent examples of the bloc or member states targeting firms for greenwashing behaviour include the issuing of a EUR 5 million fine to the Italian oil giant Eni for falsely claiming its palm oil diesel fuel was "green". This fine was issued before the even more stringent EU measures came into force.

Moving forward, fines could easily be more severe for significantly less intense infractions of greenwashing. This is in part because regulation appears to be consolidating. Indeed, due to the lack of a centralised legal protocol, the EU adopted the Greenwashing Directive in January 2024 which primarily authorises the fining of inaccurate sustainability claims as well as transparency around the process. The EU Parliament is considering further punitive measures for violations, including fines worth at least 4% of the annual revenue of offenders.

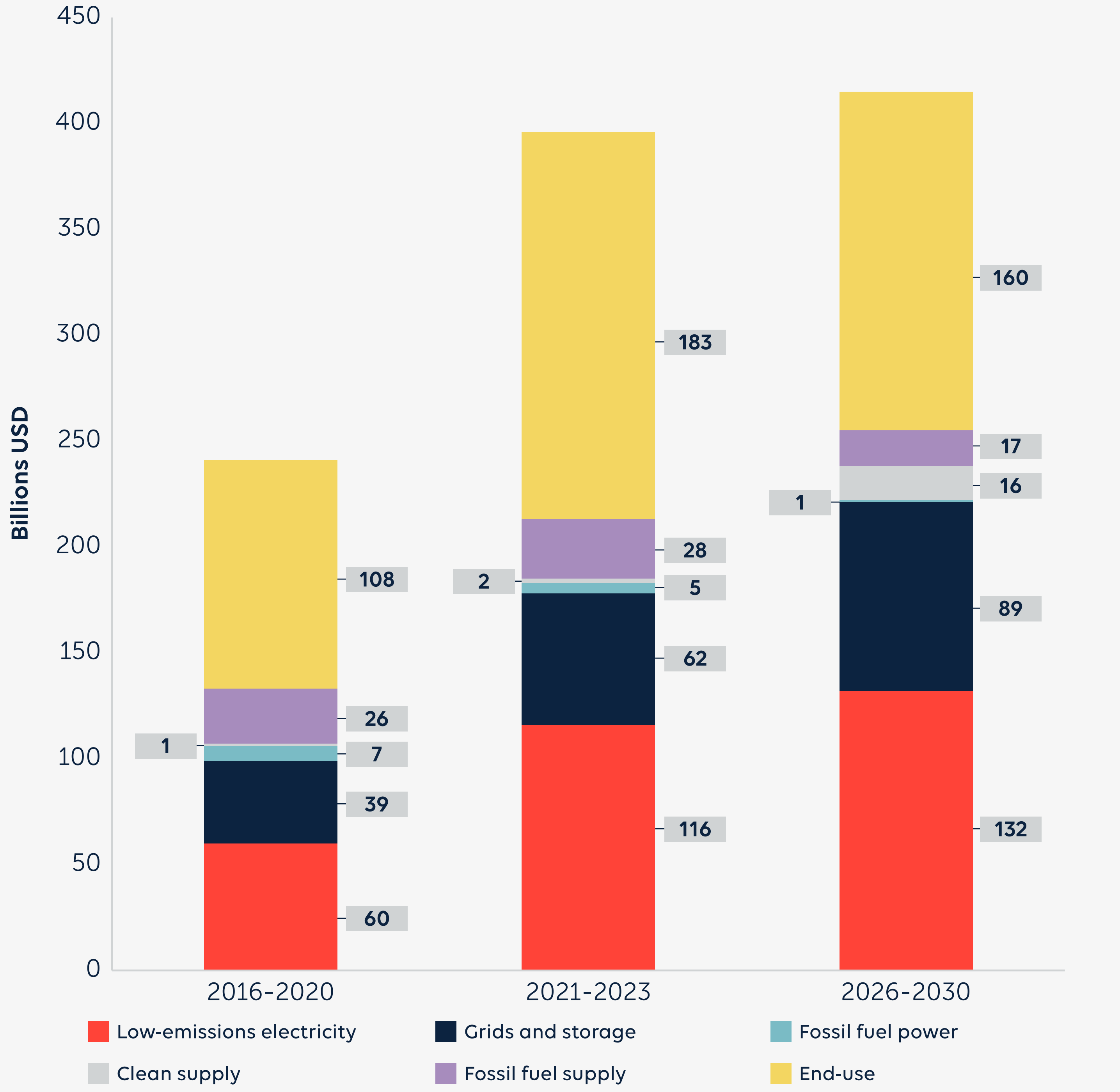
Looking forward, the EU is likely to continue adopting additional pro-ESG and anti-greenwashing regulations. The growing political power of Europe's far right, including in the European Parliament, may see increased opposition at a bloc level to such efforts. However, polling consistently shows that over two-thirds of the EU public want better information about the environmental and social impacts of their products. In other words, the momentum towards greener investments and stricter associated regulations is unlikely to slow, much less be halted.

The EU will likely roll out further developments to its Ecodesign and Green Claims schemes, which are categorisation and labelling programmes for goods that tell consumers the sustainability and durability of goods for sale. This will mean further regulatory hurdles for firms and importers, who will need to prove that input components are compliant or face poor scores and potential reputational risks. Expect some form of standardisation of ESG scores, increased transparency of procurement practices and the inclusion of more goods that were previously exempt from regulations.

Challenges that firms will face in the bloc's future regulatory environment include compliance costs, lack of data accessibility and integration with other jurisdictions. For example, import partners have complained about the EU's incoming deforestation-free regulations which will require proof that products do not contain materials procured from deforested wood sources. Even with significant and numerous complaints, the EU simply temporarily delayed the enforcement of these rules.

Investment into green energy not slowing down

Energy investment in the European Union (billion USD)



Source: International Energy Agency, 2024

Greater risks to the bloc would be presented by retaliatory action by rival powers, as indicated by past threats, including retaliatory tariffs, by the US and India over the EU's Carbon Border Adjustment Mechanism (CBAM). However, we do not expect any immediate and sustained easing of scrutiny as the EU attempts to achieve its net-zero goal by 2050, maintain and increase its biodiversity and prevent noncompliance with human labour regulations. Even though in other jurisdictions like the US, the appetite for more stringent ESG regulations has stalled or declined, the EU will continue to increase transparency, ensure compliance and standardise ratings.

Russia's sabotage campaign against the West to persist in 2025

Throughout 2024, Russia's GRU military intelligence directorate has carried out a series of sabotage operations against Western countries as Moscow seeks to deter continued US and EU support for Ukraine. Deploying multiple hybrid warfare tactics, the attacks follow little discernable pattern and are, by design, difficult to predict and prevent. There is significant evidence to suggest that Moscow sees 2025 as a critical year for its war effort in Ukraine when it will seek to build on recent gains before its current rate of battlefield attrition and available stocks of materiel become less sustainable, most likely by early 2026. To that end, Moscow will maintain or increase its sabotage campaign against the West, steadily increasing the risk of escalation, whether by intent or miscalculation.

To date, Moscow's tactics have ranged from petty acts of vandalism and arson to industrial sabotage and assassination plots. These are conducted alongside influence operations designed to manipulate the information space, deepening social divisions using disinformation, smear campaigns and AI-generated deep fakes. Sabotage operations have largely but not exclusively focused on industries and individuals linked to Western support for Ukraine, such as a plot to assassinate the CEO of a German arms manufacturer known for his vocal support of Kyiv. The GRU's common practice of using local criminal agents of questionable professionalism to preserve deniability has, moreover, heightened fears of unintended escalation.

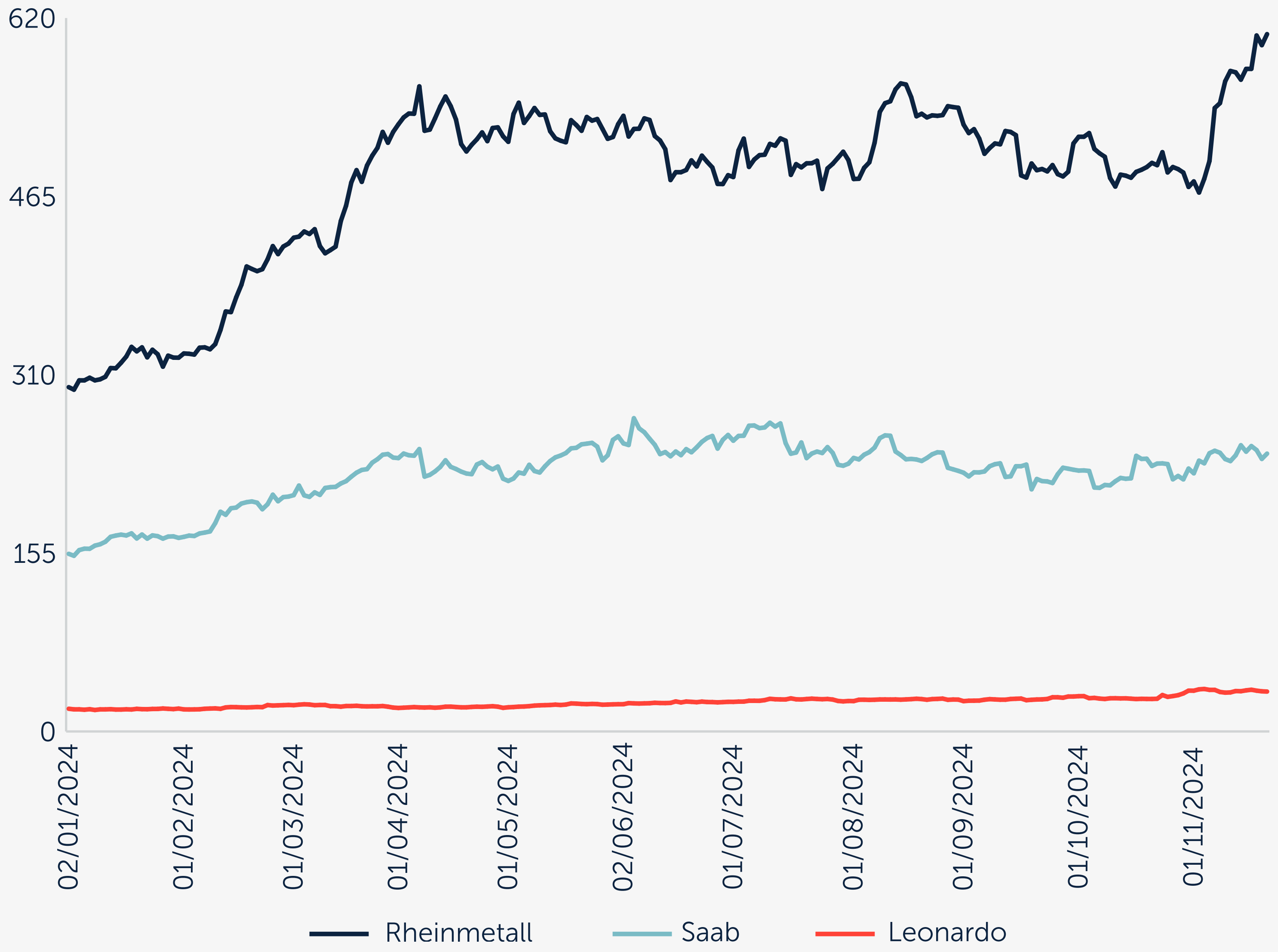
Such concerns peaked in November 2024 when two innocuously disguised incendiary devices ignited at DHL logistics hubs in the UK and Germany, shortly before they were due to be shipped to the US and Canada. The fact that both devices ignited at storage sites could indicate that they were always intended to serve as a warning of how easily explosives could be placed onto planes, rather than an active attempt to detonate them mid-flight.

The chances of two such devices malfunctioning at the same point of transit would be relatively low. To say nothing of the risks of escalation if Russia were found to be responsible for the destruction of an aircraft potentially carrying American citizens en route to the US. Assuming both devices were intended to malfunction, Russia is likely seeking to alter the political calculations in Western capitals of the costs involved in supporting Ukraine through a strategy of horizontal escalation. This is achieved through intimidating displays of its clandestine capabilities while theoretically avoiding a counterproductive expansion into overt acts of war.

In the absence of a coherent Western policy response, Russia's campaign will continue in 2025. A tacit restoration of ties between Moscow and Washington under President Donald Trump could see some easing of hybrid operations targeting the US, although Russia's use of online propaganda to manipulate the American political climate will likely continue in any event. Sabotage operations in Europe will likely persist in 2025, irrespective of any Russian rapprochement with Washington. Moscow seeks to permanently weaken European political cohesion to advance its own geopolitical interests, and its efforts to do so long predate the invasion of Ukraine. Operations targeting Europe will potentially become more pronounced in the event of a significant policy divergence between Europe and the US over support for Kyiv, an increasingly likely prospect as Trump returns to the White House.

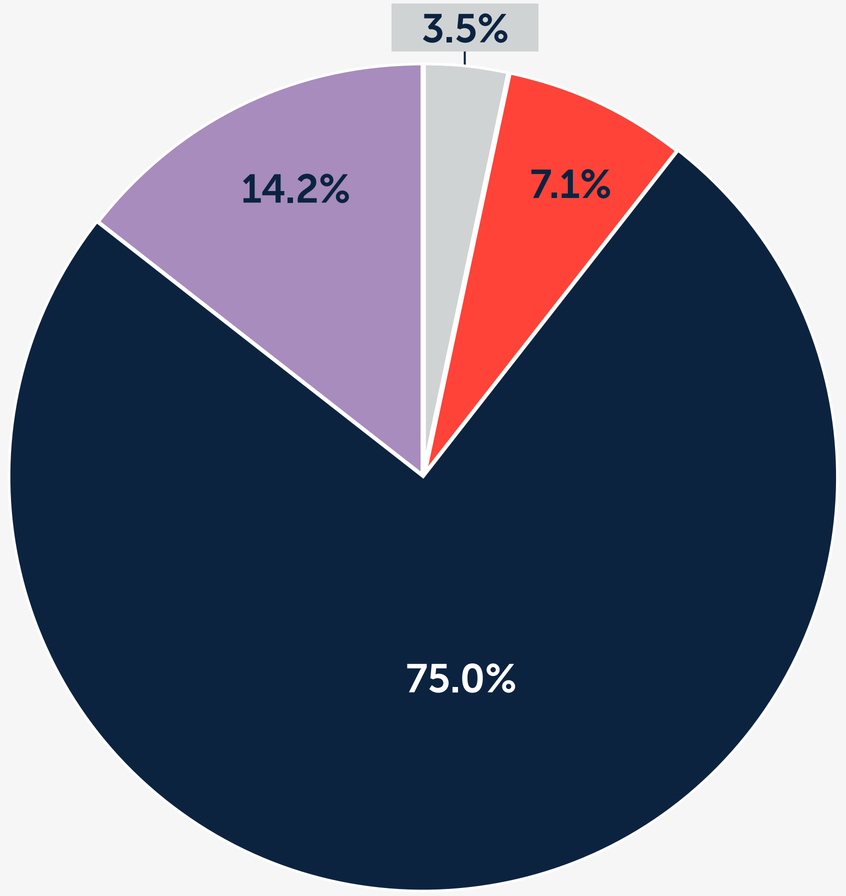
As of December 2024, Axco's Global Risk Tracker forecasts a 55% chance that president-elect Trump significantly escalates US trade tariffs against Europe in the 12-month outlook, likely deepening a rift between allies and increasing opportunities for geopolitical rivals. For information on the Global Risk Tracker, visit www.axcoinfo.com/global-risk-tracker

European defence manufacturers continue to be a safe bet
(Annual stock performance of Rheinmetall, Saab and Leonardo)



Global Risk Survey Result
What is the likely trajectory of Grey Zone Incidents in 2025?

Not Known	3.5%
Greatly increasing	7.1%
Increasing	75.0%
Stable	14.2%
Reducing	0.0%
Greatly reducing	0.0%



US debt burden looms large over the country

The campaign season featuring Donald Trump and Kamala Harris contained references to many common-place political wedge issues between both parties, such as immigration, trade, healthcare and access to abortion. There were merits for the inclusion of all of these in the national debate. However, one issue – able to accelerate or halt the trajectory of several of the policies listed above – was conspicuously missing from most stump speeches: government debt.

The US national debt has maintained an upward trajectory for several decades, accelerated by the 2008 financial crisis and the global pandemic. As it stands, debt to GDP – which gauges a country's ability to pay back its debts – stands at around 123%. For comparison, the ratio peaked after World War II at 119%.

Interest payments for that level of debt currently consume 15% of federal revenue, which is more than the government will spend in defence for 2024. The only two line items in the US federal budget that surpass interest payments are now Medicare and Social Security. When pressed on this issue, the generic phrase "growth will take care of debt" is generally expressed not only by the White House but also by both Republicans and Democrats.

This insistence on economic expansion to control debt burdens, reminiscent of former UK Prime Minister Liz Truss' promise of "growth, growth, growth", is not without trade-offs. Large debt-fuelled spending may temporarily boost economic activity but will not create sustainable growth.

Firstly, because capital allocation by governments often creates so-called 'zombie companies' or boosts non-essential sectors. Secondly, as interest payments grow, there is less room for productive investments in infrastructure and education, areas critical to long-term competitiveness. Thirdly, with higher debt and higher interest payments, a country loses its ability to resist unexpected shocks. In other words, debt-driven growth is generally unsustainable, and the resources expensed reduce competitiveness and leave a country vulnerable to shocks such as a financial crisis or a pandemic.

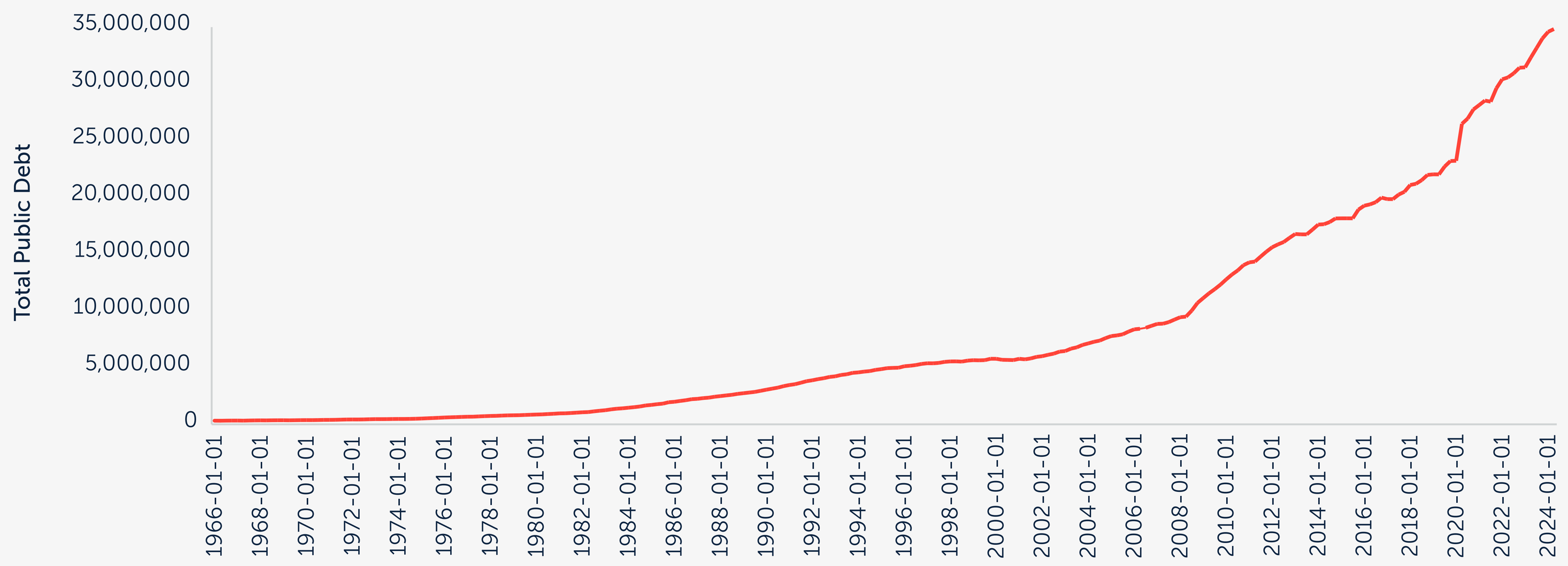
This is not to say that the US debt burden will automatically cripple the economy, even if president-elect Trump - who controls both branches of Congress - decides to continue to print greenbacks. In the near term, the symptoms of the risks outlined above will likely come in the form of a loss of investor confidence, leading to higher yields on US Treasury bonds domestically, and spurring debate about de-dollarisation internationally.

Economic consequences aside, debt-driven spending largely benefits asset holders and high-income earners, as it supports policies such as low interest rates that drive up asset prices. This widens wealth inequality, eroding trust in government. The last time Pew Research polled trust in government, in April 2024, only 22% of Americans said they trust the government to do what is right "just about always" or "most of the time". The number has not surpassed 30% since 2007, before the financial crisis. It is not incorrect to link this to the rise in political candidates promising to deliver populist policies or incidents such as the January 6 riots.

Factors such as low trust in government and widening inequality are essential in explaining the rise of populist rhetoric in both the Democratic and Republican parties. Populism, in short, focuses on quick fixes or redistributive measures as opposed to long-term change.

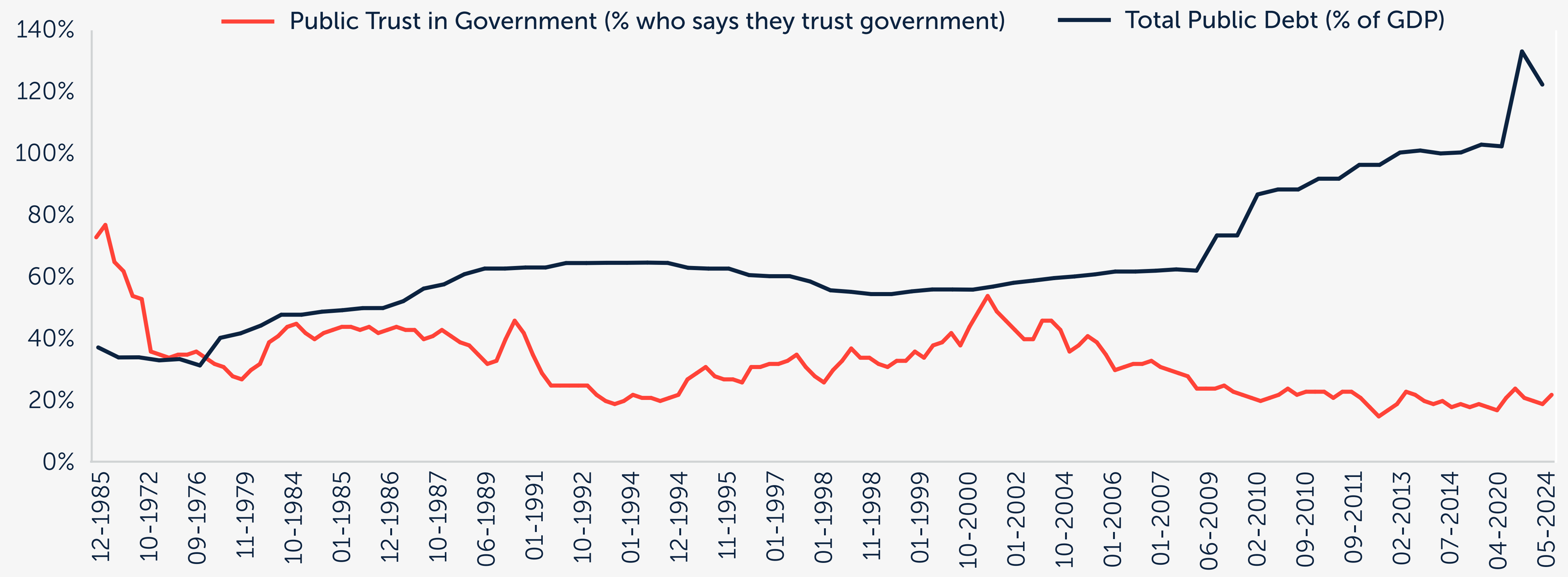
This is why debt control policies were not mentioned throughout the campaign and will likely be the reason they are not mentioned throughout the next four years. Not mentioning the problem, however, is unlikely to alleviate any of the symptoms. In the coming year, the consequences of the growing debt burden will likely be felt in both the economic environment, such as market volatility, and the social climate, increasing the long-term risk of political instability.

Total Public Debt in the US



Source: Federal Reserve Bank of St Louis (2024)

Trust in Government Drops as Debit Grows



Source: Pew Research Centre (2024), Federal Reserve Bank of St Louis (2024)

Ukraine to face deteriorating position on the battlefield

Entering the fourth year of full-scale conflict between Russia and Ukraine, a change in administration in Washington following Donald Trump's election victory will likely change the contours of the conflict. The Biden administration's strategic priorities in Ukraine were largely dictated by two, often competing, priorities: attempting to bleed Russia dry by providing extensive support to Kyiv and avoiding a significant escalation involving NATO.

While frequently criticised as slow-moving and overly cautious, US support has been fundamental in sustaining the Ukrainian war effort. Under Trump, priorities are likely to shift significantly, given support for Ukraine has been perceived as a waste of military and economic resources for a strategically peripheral state in terms of core US interests. Indeed, the Trump administration is much more likely to force Ukraine into rapid negotiations, using the prospect of cutting off military and economic support as leverage.

As of December 2024, Axco's Global Risk Tracker finds there to be a 45%% likelihood that president-elect Donald Trump significantly reduces US military support to Ukraine in the 12-month outlook. For information on the Global Risk team's forecasting methodology, visit www.axcoinfo.com/global-risk-tracker

This shift comes at a time when Ukraine is already facing a deteriorating position on the battlefield. While it has managed to prevent Russian forces from achieving a breakthrough in the Donbas, Ukraine has predominantly remained trapped on the defensive, hoping that Russian forces exhaust themselves for marginal territorial gains and that Soviet-era stockpiles are used up quicker than Ukrainian troops are lost. That Ukraine perceives its strategic position is declining can be seen in its gamble on the Kursk offensive to impose political costs on Moscow and force the redeployment of Russian forces from the Donbas to shift the balance of power. Moreover, if a Trump foreign policy decidedly shifts US funding away from Ukraine, Europe's ability to offset lost support from the US is doubtful at best.

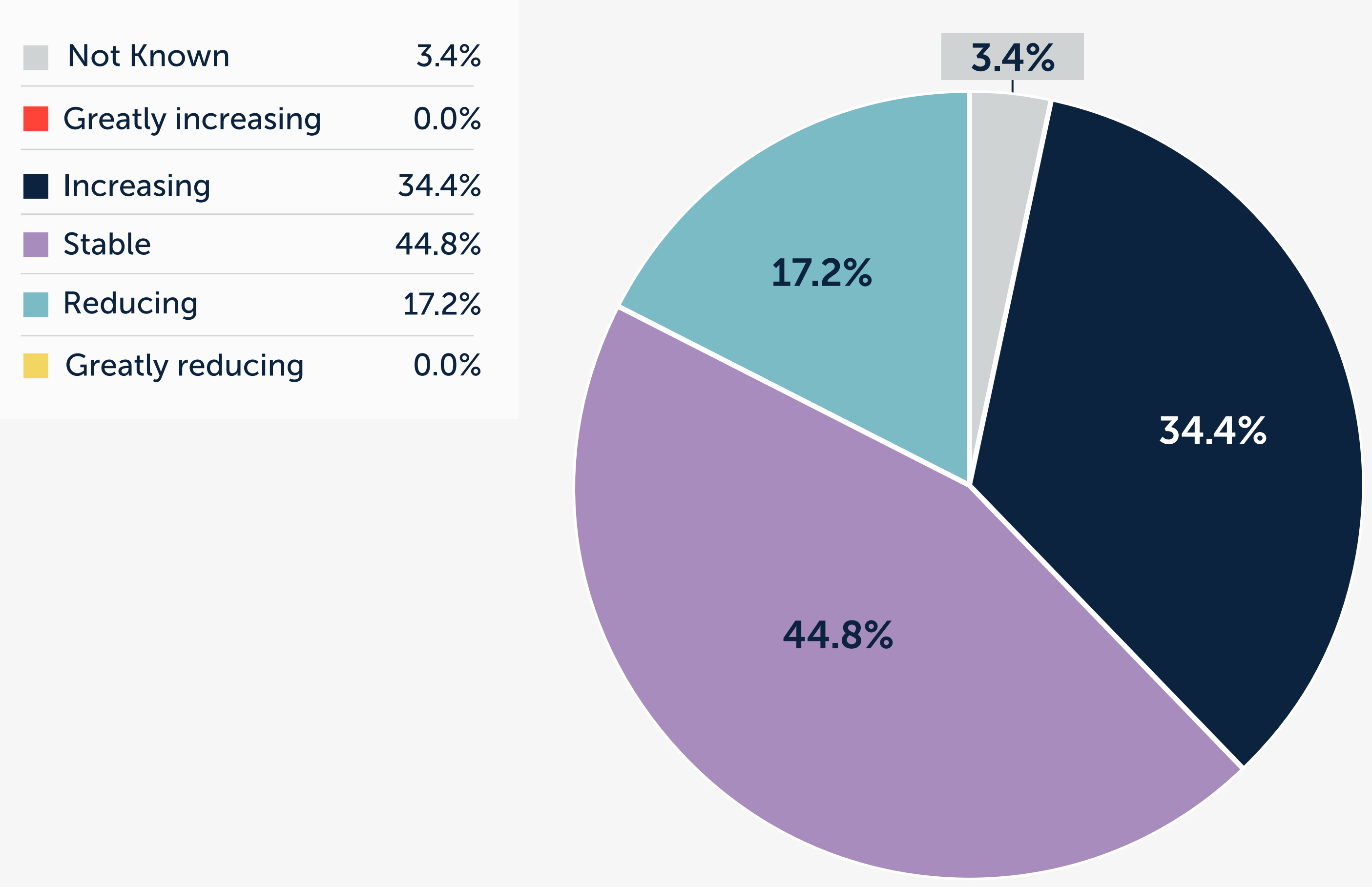
Despite this, we assess that Ukraine will not agree to any tangible peace deal, which would effectively conclude the conflict, in 2025. The conflict with Russia continues to be perceived by Kyiv as a war for national survival. Accepting a deal whereby the current frontlines are frozen would see a Ukrainian rump state shorn of 80% of its coastline, 20% of its territory, including key natural resources in the Donbas, and just over half of its pre-war population. The viability of such a state, likely without any Western security guarantees, is tenuous. The prospect of a second Chechen war-style scenario whereby Russia's reconstituted forces launch an offensive in two to three years after a pause in hostilities remains a clear risk.

While continuing the conflict imposes significant costs and losses on Ukraine, it likely remains Kyiv's only politically acceptable path forward. This is reinforced by the latent threat to Kyiv from ultranationalists and elements of the Ukrainian military if it were to accept a deal short of the restoration of its 1991 borders. It is open to question whether a Zelensky administration could survive or sell such a proposal to the Ukrainian populace. Indeed, escalation, be that in terms of mobilisation or attempting to raise the costs for the Russian home front, appears a more viable path for Kyiv.

Given this, the key question for 2025 will be whether Russian forces finally achieve a major territorial breakthrough in the Donbas before exhausting its military or whether it is willing to accept the total mobilisation of its population and economy to achieve maximalist goals in Ukraine. The costs of the conflict for Russia have been sizable, with casualties estimated at approximately 250,000 dead and 450,00 wounded. However, the conflict that has been waged by Moscow has been limited in key aspects, such as its reliance on volunteers and levels of defence spending.

The latter, at just 8% of GDP, is comparable to Soviet-era spending during the Cold War but far below that committed by Ukraine or other states fighting a perceived existential conflict. Despite critiques from hardliners, Putin has been unwilling to follow such a path due to fears of its impact on his domestic bases of support. Nevertheless, Ukraine is of much strategic and historic importance to the Kremlin. A lack of progress in capturing the remainder of the Donbas in 2025 should be considered a warning sign of a full mobilisation by Russia's president.

Global Risk Survey Result
What is the likely trajectory of the Russia-Ukraine Conflict 2025?



The rise of populism and extremism in European politics

We are all aware of the long history of populism and extremism in European politics. However, their prevalence and influence have ebbed and flowed throughout the years. Since the start of the century, these forces have been galvanised by events like the global financial crisis, waves of migration post-2011, the COVID-19 pandemic and Russia's full-scale invasion of Ukraine. Parties representing both the far-right and far-left, as well as less radical but populist outfits, have seen their vote share increase steadily in European elections since 2008.

The loss of the centre ground to extremes has already occurred in several nations. For example, in France's 2024 legislative elections, Jean-Luc Melenchon's party, the far-left France Unbowed (LFI), increased its seat count and retained its pivotal role within the broader New Popular Front (NFP) left-wing coalition. Notably, so did the far-right National Rally (NR), led by Marine Le Pen, which increased its seat total by 37%. In contrast, President Emmanual Macron's centrist electoral alliance Ensemble lost over 50% of its seats and lost its control of the prime ministership.

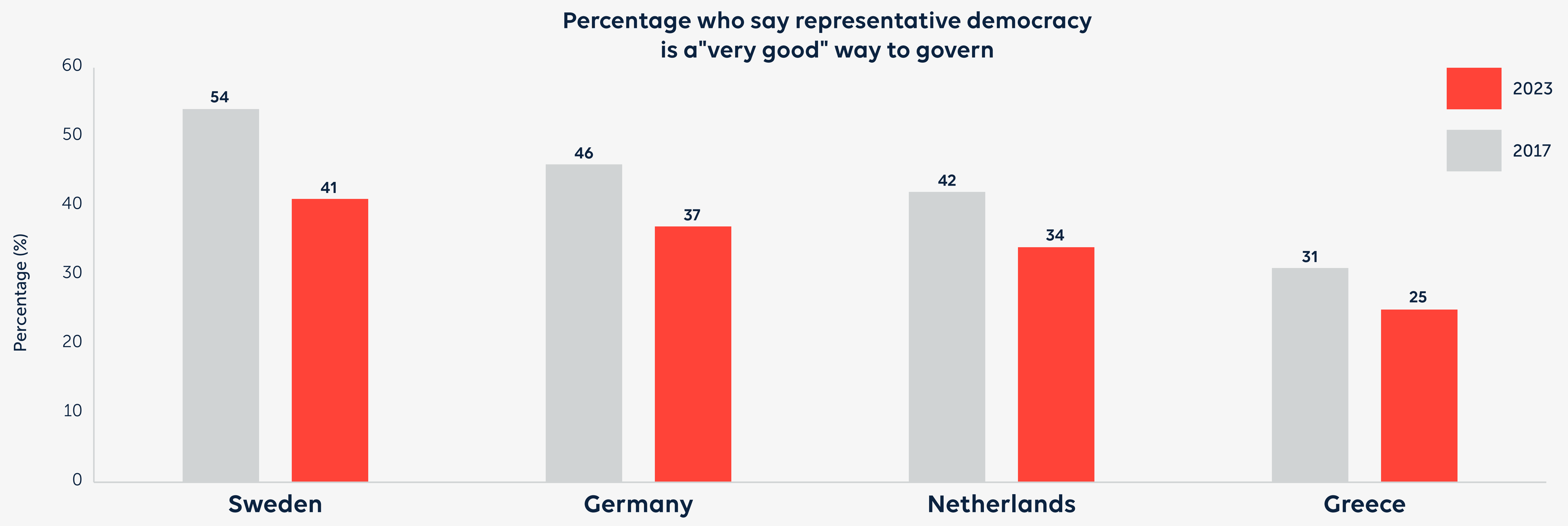
Analysis of voting behaviour reveals that the LFI and NR either gained traditional centrist voters or that moderate parties were unable to convince voters to come out and support them. A clear demonstration that extremist and populist parties siphoned off significant amounts of support for traditional parties.

As a result of this siphoning of votes, Macron's centrist allies were forced to formally cooperate with the centre-right Republicans (LR) and form a minority government that was unstable and unable to survive low-level political challenges. This prognosis is unlikely to change in the medium term. Policy gridlock and stagnation breed instability and force unlikely bedfellows to attempt to cooperate to maintain the centre ground.

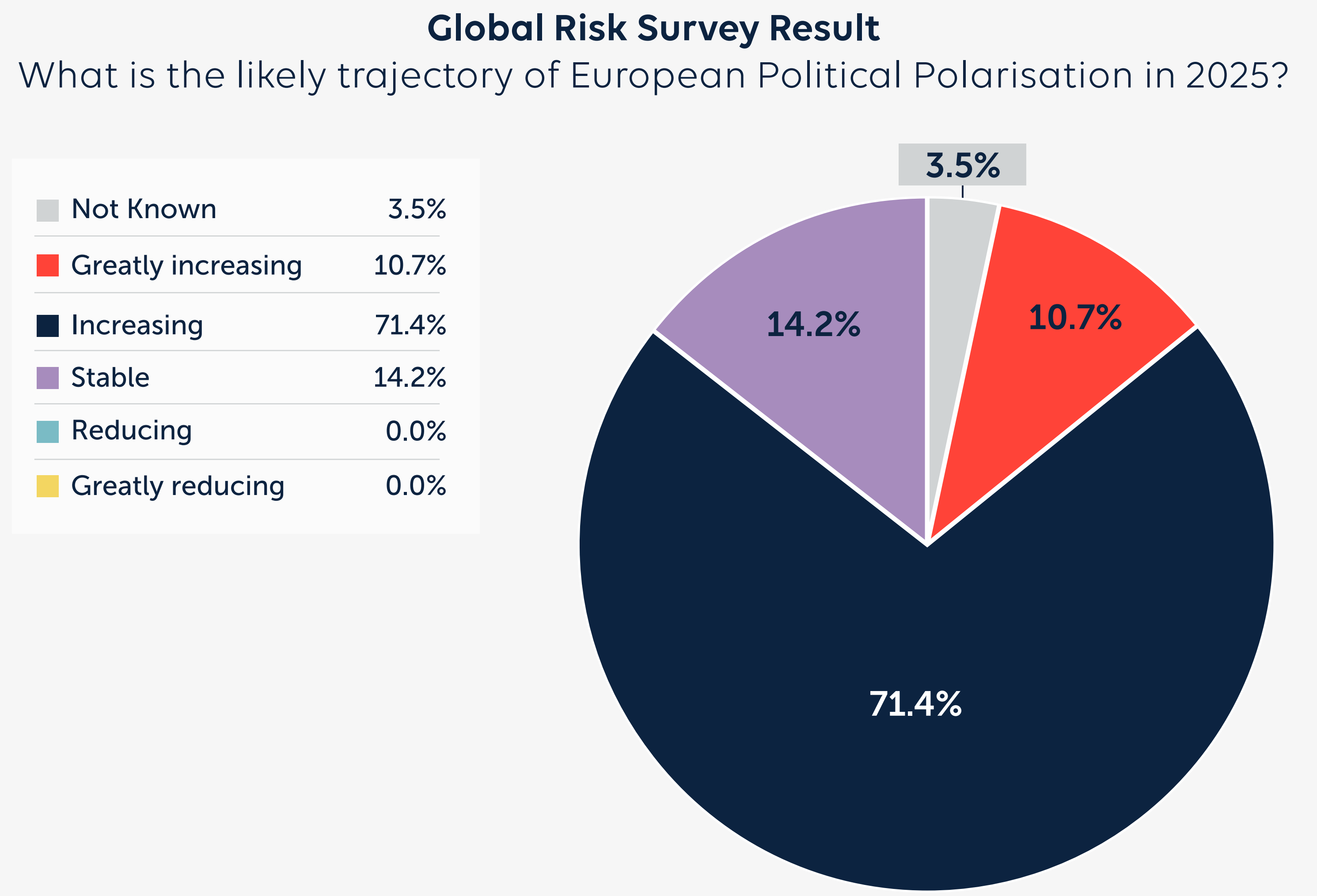
This scenario is likely to play out in Germany, which will go to the polls in early 2025. Europe's largest economy will likely see the centre-right Christian Democratic Union enter government and the far-right Alternative for Germany (AfD) come second. Similarly to France, traditional and more moderate parties have seen an erosion of support to the more extreme AfD and the leftist Sahra Wagenknecht Alliance (BSW).

Already in state-level elections, moderate parties have been forced to enter formal coalition together, even if they would otherwise wish to banish the other to the opposition benches. This is likely to be replicated in national elections where the CDU will have to find another partner, most likely the Social Democrats if they maintain their promise to not cooperate with the AfD.

Several other elections are scheduled in 2025, including in Norway, where this dynamic is also likely to play out. Mainstream European political parties are going to increasingly find themselves between a rock and a hard place if they have not already been subjected to this fate. This status quo is hardly sustainable given that grand coalitions are not designed to take large-scale policy measures or enact unpopular but necessary reforms. In the coming years, when economic and military risks abound across Europe, governments are likely to become less nimble and less capable of moving rapidly due to domestic political concerns.



Source: Pew Research Center, Spring 2023 Global Attitudes Survey



Migration into the US likely to continue despite Trump's election victory

The US is often referred to as a nation of immigrants, which is true. It is also true that the US is a nation of ineffective immigration laws, a fact that both Democrats and Republicans readily admit. This is not necessarily one party's fault, but regardless, it has meant that comprehensive immigration legislation has not been implemented in around two decades.

As of 2024, there are 11 million undocumented migrants with no viable legal pathway to citizenship or permanent residence. While 2024 has seen lower numbers of migrant encounters, December 2023 was still a record-breaking month, with the most recorded migrant encounters of all time. The combined level of undocumented migrants and border crossings was a major issue in the contentious 2024 presidential election. In fact, depending on which survey one uses, illegal migration was either the first or second most important policy for voters.

Now with President-elect Trump's second administration imminent, along with his promises for massive levels of deportations and border security policies, one might think that the US will no longer see large levels of illegal migration and deportations will follow suit. However, the federal agencies responsible for policing the US-Mexico border will not be able to completely protect, adjudicate and prevent another migration crisis overnight. Simply put, there are not enough judges to adjudicate, not enough agents to patrol the 2,000 mile border and not enough money allocated to implement several of Trump's key policies, such as increasing border wall construction in some areas. While the administration attempts to shore up these capabilities, migrants will continue to attempt to enter the US before it becomes much harder.

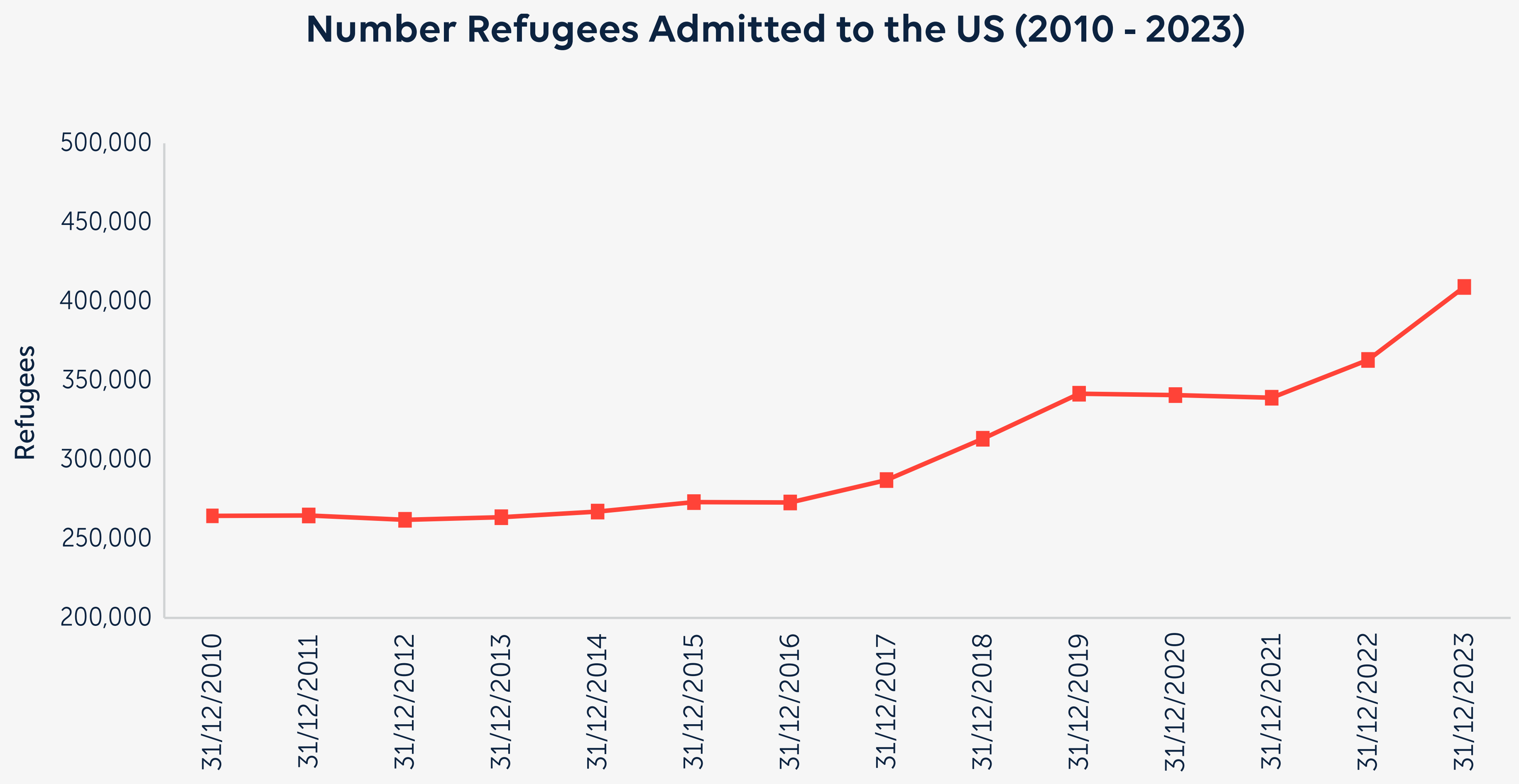
This is not to say that migrant arrivals will decrease in the medium term once controversial Biden-era policies, such as the deployment of CBP One App – which allows the streamlining of migrant arrivals into the US – are reversed. There are some policies that, once instituted, will act as deterrents and likely decrease the number of economic migrants arriving in the US.

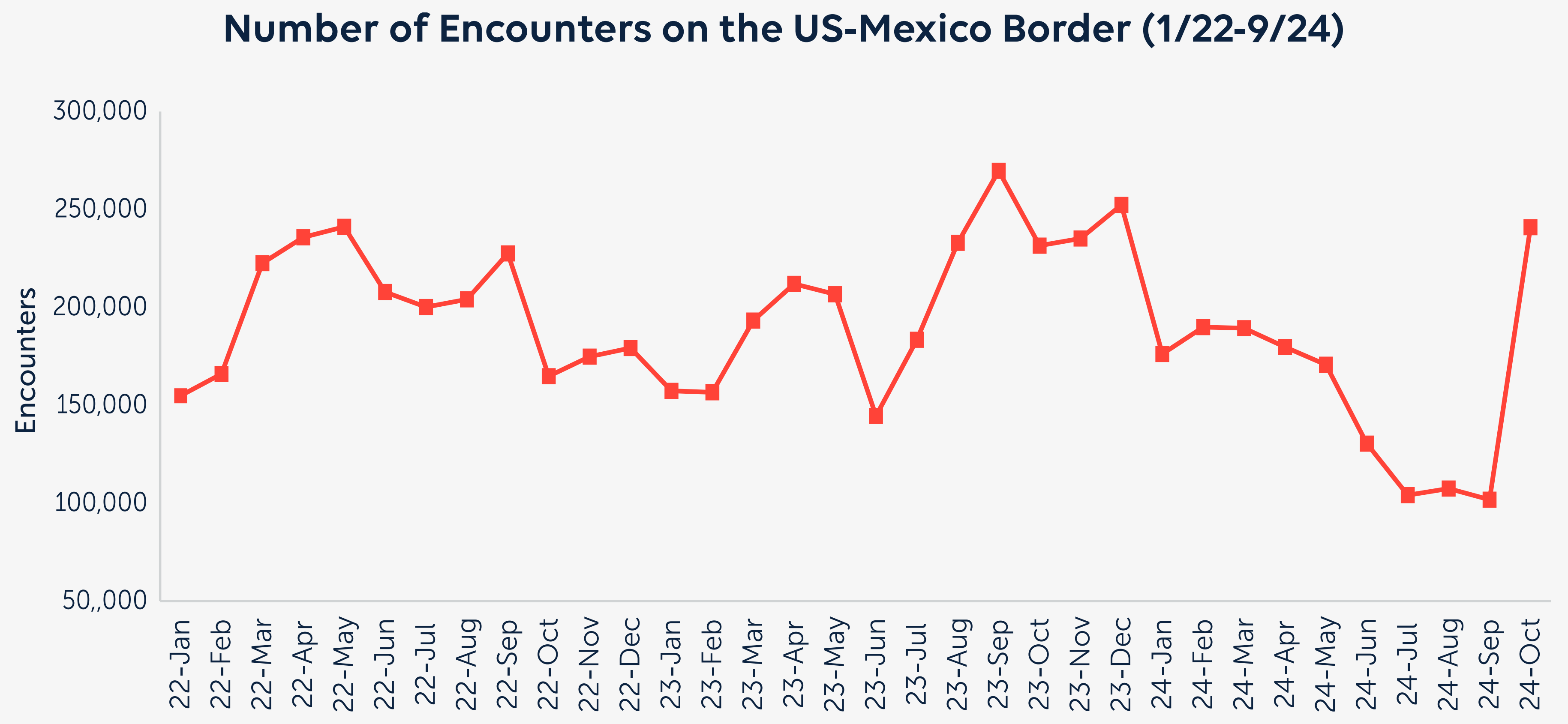
Nevertheless, while President-elect Trump has control of all branches of the US federal government, he does not have control of two powerful forces that will continue to compel people to migrate north. The first force is natural disasters, namely flooding and droughts. These types of disasters displace people by destroying homes and food supplies, forcing waves of populations northwards. Both South and Central America have seen an increase in droughts and flooding, which is expected to accelerate. Federal research consistently proved this phenomenon, which was acknowledged by the Obama administration in a 2016 federal memo.

The second factor is that political instability can send people fleeing their home country in search of safer lands. Countries in significant political distress, such as Venezuela and Haiti, routinely see their citizens migrate northward as the situation within their country deteriorates. In Venezuela alone, a July 2024 poll indicated that over 44% of all citizens would consider migrating from the country if President Maduro was re-elected. Maduro was re-elected days after the poll was published, and his new government is scheduled to be inaugurated in January 2025.

Separately, it would be wrong to suggest that political instability in South America is the sole driver of migration. Between January and March 2024, the US Customs and Border Protection Agency recorded 24,376 encounters with Chinese migrants, a number which surpassed all of 2023. There has also been a surge in migration from Senegal, Mauritania and the wider Middle East.

Policy action in Washington can lead to more border patrol agents, more funding to build sections of the border wall, and more judges to expedite deportations, but it is very unlikely to impact the political systems of unstable countries. While the Trump administration can do its best to discourage and punish those who enter the US illegally, global climate change and political instability are likely to keep accelerating migration trends through 2025.





Axco's Global Risk Survey

How are companies perceiving geopolitical risks?

We have surveyed our partners this year to gauge their risk perceptions of global trends as well as their outlook for the year ahead. The results make it abundantly clear that firms continue to be impacted by conflicts in the Middle East and Eastern Europe and that the general forecast for many of the existing and developing risks is bleak. This places a premium on preparedness across multiple business functions and reaffirms the need to continue to monitor geopolitical events as we enter 2025. Below is a summary of the principal findings. Some of the data regarding specific conflicts can also be found throughout the analysis. Notes on the research can be found on the next page.

We thank the survey respondents for their time and insight.

2024: Global conflicts and associated risks weigh heavily on firms

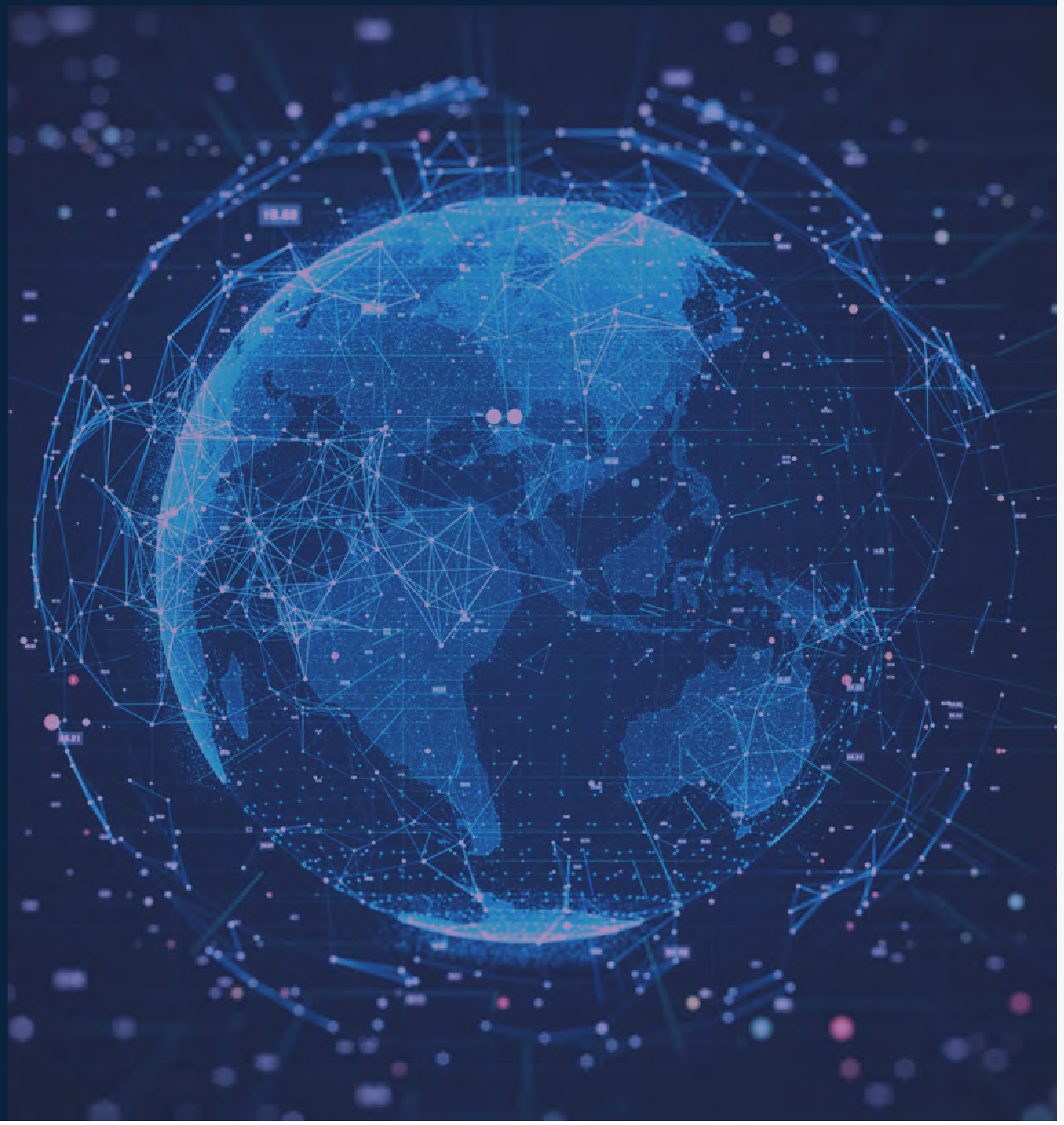
Issues surrounding regional conflicts continue to act as an anchor for firms polled. Around half of respondents reported that conflicts in the Middle East (47%) and Eastern Europe (50%) have had a “moderately negative financial impact” on their operations.

However, firms appear to be doing much better in slower-moving trends (US-China Tensions), where most firms report no impact. This was also seen when respondents were polled regarding uncertainty in the US Elections.

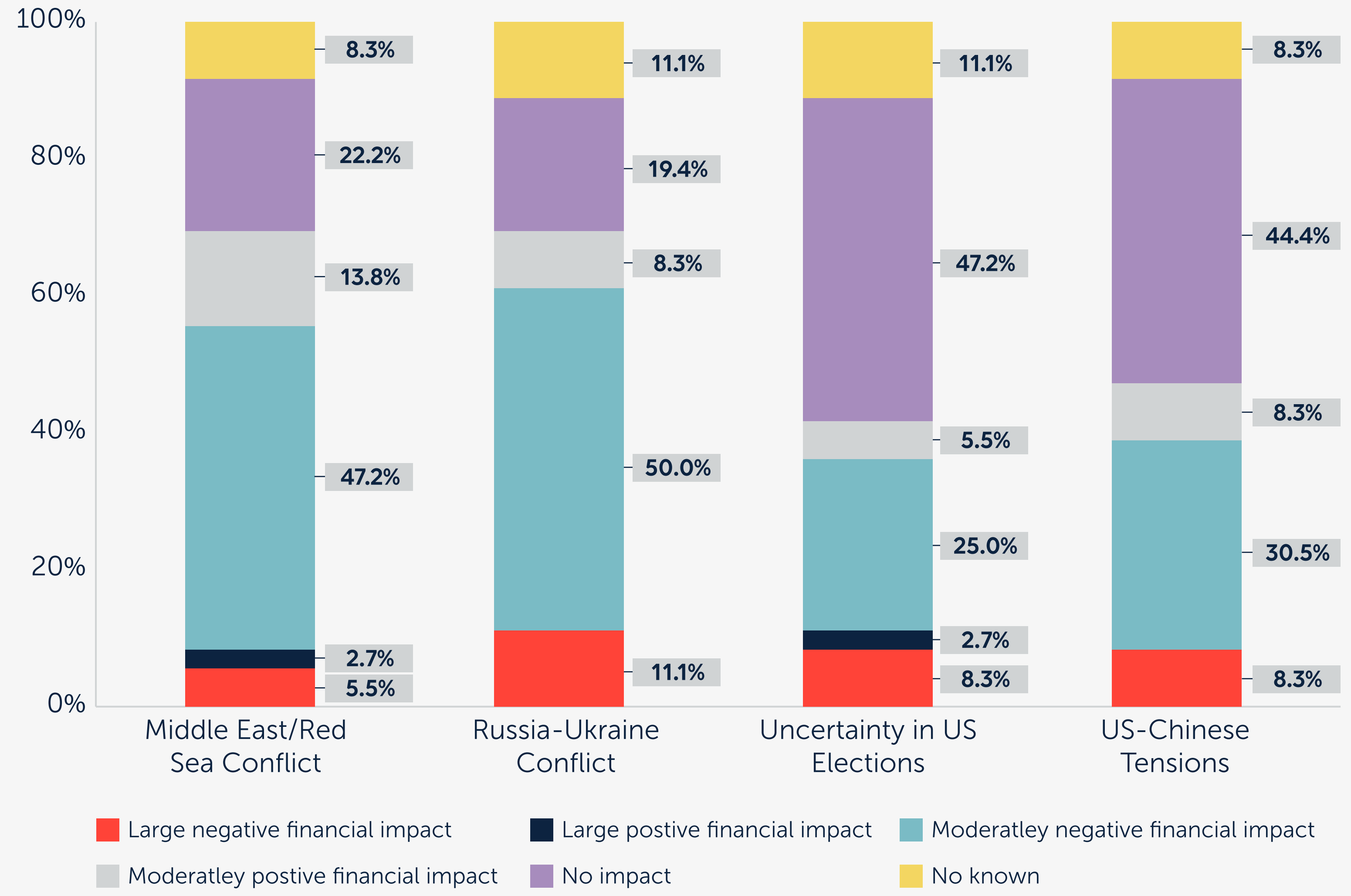
Supply chain disruptions were the most frequent risk impacting organisations (52%). This is not surprising given the ongoing freight disruptions in the Red Sea due to the conflict in the Middle East and Panama Canal transit restrictions caused by adverse weather through early 2024. Regulatory volatility and trade friction follow suit, suggesting that issues such as the crackdown on Russian oil and gas exports by the US and Europe are still impacting firms. Other large regulatory issues include the onset of AI legislation and stricter anti-trust enforcement in developed economies.

2025: Bleak forecast for the year ahead and beyond

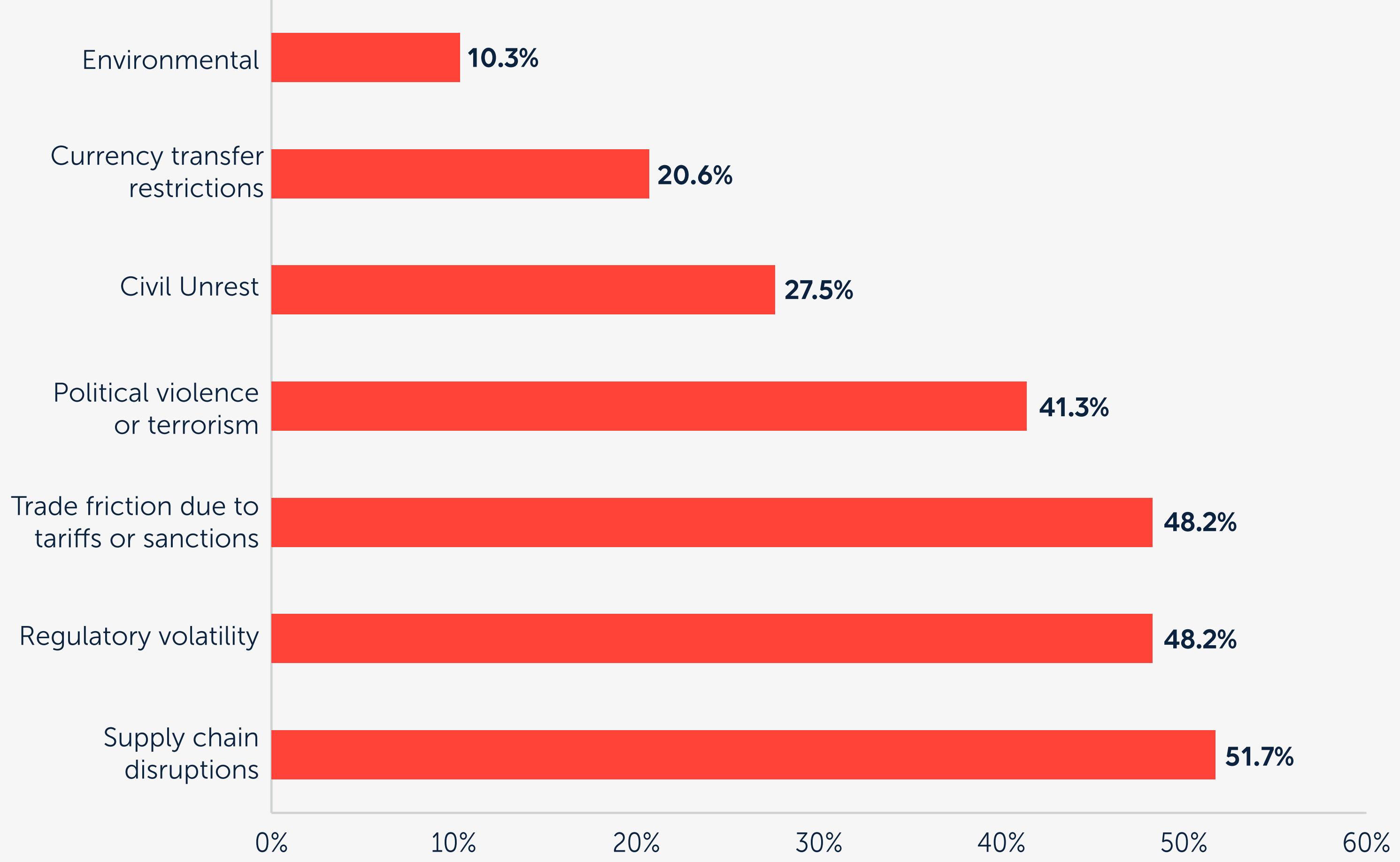
Most respondents indicated that they expect a ‘volatile’ risk outlook to endure through the coming year. Only 10% of respondents indicated that they expect the risk environment to improve in the coming twelve months, and even a lower percentage (7%) indicated that between 2025 and 2028 they expect an amelioration of current risks. There is also a split in respondents’ long-term forecast, with roughly equal numbers stating that the risk environment will either further deteriorate or generally stabilise in the long term. This is not uncommon given the perils associated with long-term forecasting.



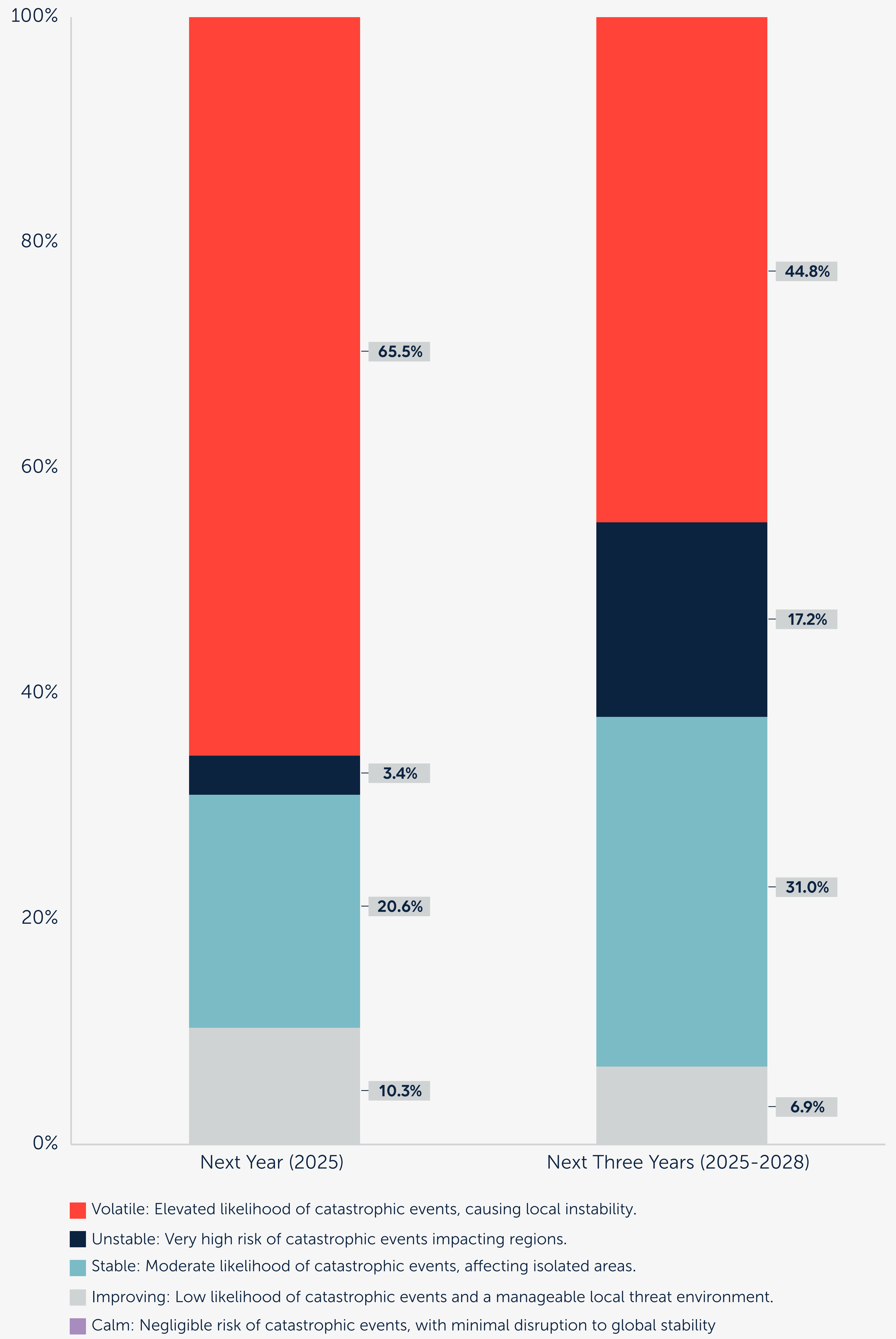
What Has Been The Impact Of The Following Geopolitical Risks On Your Organisation?



Select up to three types of risks that have impacted your organisation in the past 12 months



Which of the following risk outlooks best characterise your expectations over the following time periods



Note on the research

The survey contains a sample of companies operating in several industries and locations. There were 38 respondents in total, polled between 1 and 11 November 2024.

Among respondents to the survey, Europe and the UK are overweight.

The sample is biased towards insurance and multinational firms, which tend to invest in risk management functions and managing geopolitical risks in multiple locations. This is likely to have led to an overestimation of the risk environment in some questions, particularly those polling for political and security trends.

The timing of the poll, between the US election, is also likely to have led to an overrating of some risks associated with key policies forwarded by the US president-elect, such as a negotiated settlement to the Russian-Ukraine conflict.

Due to the limited number of questions polled, a direct correlation between risk perception and risk impact cannot be established.

We thank the survey respondents for their time and insight.

With more than 55 years of experience in researching and publishing essential industry intelligence and comprehensive data sets from global insurance, reinsurance and employee benefits markets, Axco is a specialist information business with a unique global reach. Axco's information solutions empower professionals to balance risk and optimise opportunity in their decision making, transforming thinking and driving results.

Axco's Global Risk Analysts are a specialist team who monitor worldwide emerging risks. This examination of global geopolitical developments, particularly those that affect governments' strategic activities, companies and individuals, informs Axco's core insurance and risk management market.

Contacts

Konrad Petraitis Alfaro
Head of Global Risk

Patrick Grady
Global Risk Senior Analyst

Huw Bufton
Global Risk Analyst

George Smith
Global Risk Analyst

Charles Roth
Global Risk Associate Analyst

WeWork, 77 Leadenhall Street, London, EC3A 3DE
Tel: +44 20 7374 5252
axco@axcoinfo.com | axcoinfo.com

AXCO

AXCB18645