

# Geopolitical Risk Premium: Pricing Volatility in 2026

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Geopolitical tensions are increasing the risk premium across energy, shipping, and defense-linked supply chains in 2026. Elevated uncertainty is reshaping volatility regimes, capital allocation, and hedging behavior across global portfolios.

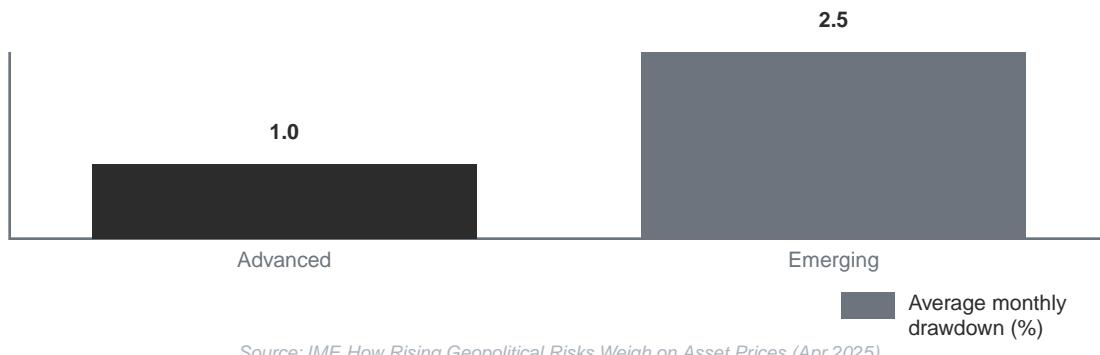
## Executive Summary

The geopolitical risk premium is rising as conflict flashpoints, trade frictions, and strategic competition intensify. This environment supports defense and energy complex beneficiaries while increasing volatility in shipping, FX, and commodity markets. Investors should balance protection against shocks with selective exposure to beneficiaries of elevated risk budgets.

Key Takeaways:

- Geopolitical risk lifts volatility and risk premia across energy, shipping, and EM assets.
- Defense, cybersecurity, and energy security capex are structural beneficiaries.
- Hedging and diversification matter more as event risk rises.

## Equity Drawdown After Major Geopolitical Events



## Energy and Shipping Transmission

Disruptions to critical shipping lanes and energy infrastructure can rapidly raise freight costs, extend delivery times, and tighten commodity balances. The resulting pass-through effects elevate inflation sensitivity and increase dispersion across regions.

## Defense and Security Capex

Defense spending remains elevated as governments prioritize deterrence, supply chain security, and strategic stockpiles. Cybersecurity and intelligence infrastructure are gaining priority alongside conventional defense budgets.

## Evidence from Recent Research

IMF analysis finds that geopolitical shocks tend to widen sovereign risk premiums and hit equity returns more sharply in emerging markets than in advanced economies. This indicates a higher sensitivity of EM assets to geopolitical stress and helps explain the persistence of risk premia during sustained tensions.

Boston Fed research shows that firms reduce capital investment when perceived geopolitical risk rises, especially those with limited liquidity buffers. This channel reinforces the macro impact through weaker capex and delayed capacity expansion.

ECB analysis of recent European shocks highlights the inflation and investment drag from disrupted energy and trade flows, emphasizing how regional exposure drives asymmetric outcomes across countries.

### Sovereign Risk Premium Widening After Geopolitical Shocks



Source: IMF, *How Rising Geopolitical Risks Weigh on Asset Prices* (Apr 2025)

## Investment Implications

Energy security, defense, and select industrials are direct beneficiaries. Shipping and insurance costs remain volatile, while EM assets face higher risk premiums where exposure to trade corridors or energy imports is concentrated.

## Portfolio Allocation Considerations

Maintain diversification across regions and sectors, with selective hedges in energy and defensive exposures. Favor balance sheet resilience and pricing power in sectors vulnerable to cost shocks.

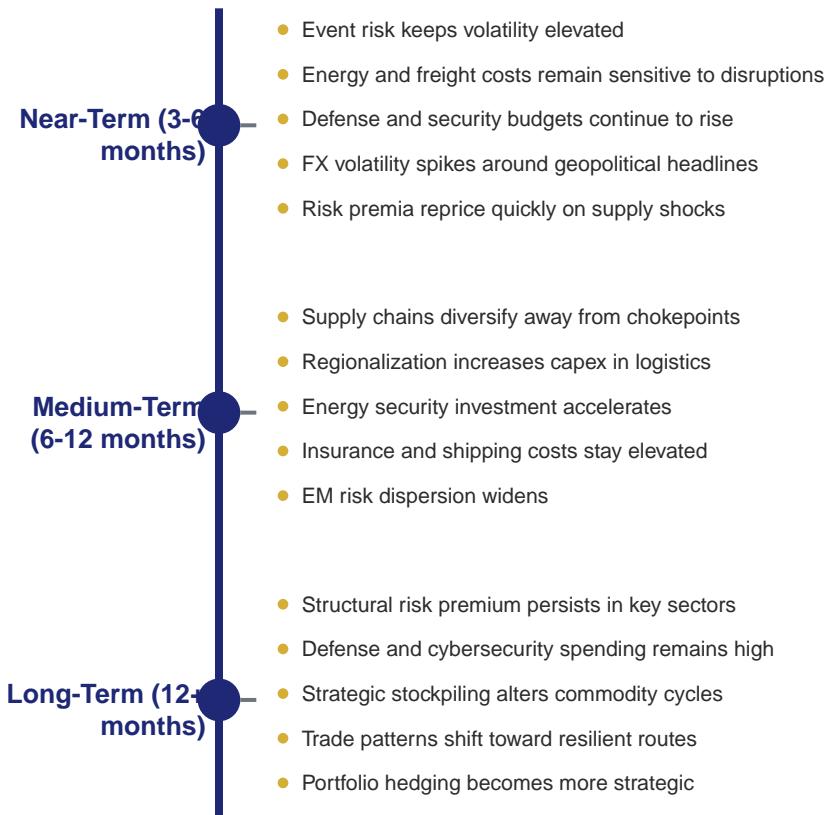
## Timeline and Outlook

**Near-Term Outlook (3-6 months):** Event risk remains elevated, supporting defense and energy security beneficiaries while sustaining volatility.

**Medium-Term Outlook (6-12 months):** Risk premia stay higher as supply chains diversify and regionalization trends continue.

**Long-Term Outlook (12+ months):** A persistent risk premium reshapes capex priorities and trade patterns, favoring resilience over pure efficiency.

## Timeline Overview



*Source: AVANTAS Research Analysis*

## Risk Factors

**Escalation Risk:** Unexpected conflict escalation can trigger sharp commodity spikes and risk-off behavior.

**Policy Risk:** Sanctions or trade restrictions can disrupt supply chains and financial flows.

**Supply Risk:** Concentrated dependencies in energy and critical materials increase vulnerability to shocks.

## Conclusion

Geopolitical risk is now a structural feature of the macro backdrop. Investors should price in higher volatility while selectively allocating to beneficiaries of security-driven spending.

## Asset Class Impact

Defense, cybersecurity, and energy security beneficiaries gain relative strength. Commodities and shipping remain volatile, while EM assets face higher risk premia where exposure is concentrated.

## Asset Class Impact

 Underweight

 Neutral

 Overweight

Asset	View	Commentary
Defense & Aerospace	 +2	Strong overweight. Multi-year budget commitments support revenues.
Energy Security	 +1	Overweight. Infrastructure and supply investments benefit.
Shipping & Logistics	 Neutral	Neutral. Higher rates offset by volatility and disruption risk.
Commodities	 +1	Overweight. Risk premium supports pricing in energy and metals.
Emerging Markets	 -1	Underweight. Higher risk premia for exposed economies.
Gold	 +1	Overweight. Hedging demand supports safe-haven assets.

Source: AVANTAS Research Analysis